



Fiscal Year 2014 Annual Report

Office of Internal Audit

November 1, 2014



TEXAS DEPARTMENT OF STATE HEALTH SERVICES

DAVID L. LAKEY, M.D.
COMMISSIONER

P.O. Box 149347
Austin, Texas 78714-9347
1-888-963-7111
TTY: 1-800-735-2989
www.dshs.state.tx.us

November 1, 2014

The Honorable Rick Perry, Governor, State of Texas
The Honorable Jane Nelson, Chairman, Sunset Advisory Commission
The Honorable David Dewhurst, Joint-Chairman, Legislative Budget Board
The Honorable Joe Straus, Joint-Chairman, Legislative Budget Board
Ken Levine, Director, Sunset Advisory Commission
John Keel, CPA, State Auditor

A report on the internal audit activities of the Texas Department of State Health Services (Department) is attached. This report fulfills the requirements set out in the Texas Internal Auditing Act. The report provides historical information on our audit plan for fiscal year 2014, most recent external quality assurance review, internal audits, consulting engagements, nonaudit services completed, key audit findings and recommendations, other internal audit activities, and the audit plan for the agency for fiscal year 2015. Our audit work in fiscal year 2014 focused on the reliability of financial and operational information, management and accounting controls, safeguarding of assets, economy and efficiency of operations, program results, information technology systems, and compliance with federal laws, rules, and regulations.

During the 2014 fiscal year, the Office of Internal Audit conducted various audit and consultative activities. From those audits came significant recommendations that will assist management of this Department in enhancing service delivery while improving both the quality and quantity of service to the citizens of Texas.

For further information about the content of this report, please contact me at (512) 776-7459. To order copies of internal audit reports, contact Carolyn Serrata at (512) 776-7354.

Sincerely,

A handwritten signature in cursive script that reads "Thomas J. Martinec".

Thomas J. Martinec, CIA, Director
Office of Internal Audit

cc: David L. Lakey, M.D., Commissioner, DSHS
Kate McGrath, Governor's Office of Budget, Planning, and Policy
Ed Osner, Performance Review Auditor, Legislative Budget Board
Internal Audit Coordinator, State Auditor's Office
Executive Staff, DSHS

**Department of State Health Services
Office of Internal Audit
Annual Report for the year ended August 31, 2014**

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I. Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site

The Texas Department of State Health Services is committed to compliance with House Bill 16 (83rd Legislature, Regular Session). The Department has organized a section of its internet site to include the annual internal audit report, which includes the internal audit plan. This can be located under “Data and Reports” in the “About Us” section of the Department’s website.

This report will be on the agency internet within 30 days of publication. The web link will be <http://www.dshs.state.tx.us/datareports.shtm>.

Actions taken by the agency to address concerns raised by internal audit reports are identified as part of the internal audit follow-up work.

II. Internal Audit Plan for the year ended August 31, 2014

The internal audits planned for fiscal year 2014 were selected to address the agency’s highest risk areas, based on the risk assessment process during the summer of 2014, which included input from Department of State Health Services (DSHS) management. In addition to the risk-based activities, certain administrative and external audit functions were included.

Audit Projects for Fiscal Year 2014

Audits provide an independent assessment of processes or activities based on evaluation of management controls, testing of transactions, and review of evidence. Internal Audit, in collaboration with management, determines the nature and scope of each audit.

Project-specific risk assessments were further developed and presented to the DSHS leadership as projects were initiated, to ensure that the scope and objectives were appropriately targeted to the highest risks within the activity.

All audits conclude with written reports that provide information to management, detailing the results of the audit, and offer suggestions and recommendations for improvement. The audits conducted during fiscal year 2014 are listed below.

Fiscal Year 2014 Audits

| | |
|--|-------------------------------|
| Internal Audit of DSHS Mental Health Consumer Rights | Report 2014-06 issued 07/2014 |
| Internal Audit of select Human Resource Activities | Report 2014-05 issued 10/2014 |
| Internal Audit of the Telework Initiative | Audit 2014-10 in progress |
| Internal Audit of Reimbursements | Audit 2014-08 in progress |
| Internal Audit of Public Health Preparedness | Audit 2014-09 in progress |
| Internal Audit of Identity and Access Management | Audit 2014-07 in progress |
| Internal Audit of Tuberculosis (TB) Controls | Report 2013-18 issued 06/2014 |
| Application Audit of the Community Transformation Grant (CTG) System | Report 2013-19 issued 03/2014 |
| Internal Audit of Grants Management | Report 2013-17 issued 04/2014 |

Follow-up Audit Work during Fiscal Year 2014

The Office of Internal Audit maintained a database of reported audit findings and periodically requested information about the status of addressing the unresolved audit findings. Status responses by agency management indicate that actions are being taken to address issues reported by Internal Audit. Actions addressing findings reported in fiscal year 2014 are due during fiscal year 2015.

Administrative Activities during Fiscal Year 2014

Auditors participated in office, agency and enterprise administrative activities throughout the year ranging from assessing agency risk to participating in workgroup activities. Details of the typical administrative activities can be seen in the fiscal year 2015 audit plan.

Deviations from the initial Fiscal Year 2014 Audit Plan

The internal audit plan was altered to accommodate staff turnover, external audits, and internal audit staff working around program and administrative staff schedules. This affected the number of internal audit projects commensurately.

- Postponement and ultimate deletion of the Internal Audit of DSHS IT Project Management Office (PMO) to await full implementation of IT Governance protocols. This audit may be included in the fiscal year 2015 or 2016 audit plan.
- The Internal Audit of Technology Patch Management was postponed until fiscal year 2015 in consideration of turnover of key staff.
- The management request for a Consultation of the DSHS Center for Health Statistics was withdrawn.
- Four audits still in progress at year-end will be completed during fiscal year 2015.
 - Internal Audit of the Telework Initiative
 - Internal Audit of Public Health Preparedness
 - Internal Audit of Third Party Reimbursements
 - Internal Audit of Identity and Access Management

III. Consulting Services and Nonaudit Services Completed in Fiscal Year 2014

During fiscal year 2014, Internal Audit did not provide consulting services or nonaudit services.

IV. External Quality Assurance Review (Peer Review)

In accordance with professional standards, and to meet the requirements of the Texas Internal Auditing Act, Internal Audit is required to undergo an external quality assurance review at least once every three years. The DSHS Office of Internal Audit completed the State Agency Internal Audit Forum (SAIAF) peer review self-assessment in fiscal year 2013.

Pass

A rating of “**pass**” indicates that the DSHS Office of Internal Audit fully complies with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and Code of Ethics, the United States Government Accountability Office (GAO) Government Auditing Standards, and the Texas Internal Audit Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

The next review is due in Fiscal Year 2016.

V. Internal Audit Plan for Fiscal Year 2015

The internal audits planned for fiscal year 2015 were selected to address the agency's highest risk areas, based on the systematic risk assessment process. In addition to the risk-based activities, certain administrative and external audit functions are included. This audit plan has been approved by the DSHS Commissioner.

This audit plan may be adjusted if significant changes in risk or operating environments occur. Additional projects, such as management consultations, may be conducted. Sunset recommendations may also affect the audit plan. Adjustments in the audit plan will be communicated to the DSHS Commissioner, and his direct reports, as well as externally, as appropriate.

Although the Internal Audit Plan contains a wide range of audits, it is not intended to cover every risk, and it does not provide coverage for all DSHS divisions, processes, or activities.

Authority

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 section provides the Internal Audit Plan for the Department of State Health Services for fiscal year 2015.

Assessment of Risk

The Office of Internal Audit prepared an annual audit plan based upon a systematic assessment of risk for the Texas Department of State Health Services. The assessment was a collaboration with agency management, using a combination of prior risk discovery management consultations, management interviews, and a web based survey. The assessment also included an evaluation of issues identified during prior audits and consideration of the current operating environment. Agency management provided input to identify and evaluate potential barriers to DSHS success.

Agency management provides input related to risks that could keep DSHS centers, divisions, sections, units, regions, hospitals and programs from achieving their objectives. Questions specifically address operational, environmental, contractual, and technological risks as well as fraud, waste and abuse.

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 areas within programs and business areas. These lists were presented to agency executives for review, combined into a comprehensive list, and then ranked in order to identify those areas that warrant focus by internal audit resources in the current environment.

The audits planned for fiscal year 2015 are listed below, along with a brief description of each. A total of 13,290 direct audit hours have been allocated to audits.

Audits Planned for Fiscal Year 2015

| | |
|------------------------------------|----------------------|
| Internal Audit of DSHS WIC Program | 1,365 budgeted hours |
|------------------------------------|----------------------|

A review of WIC processes to understand program risks related to vendor reimbursement processes, the EBT card program and card security, the cost containment program, equipment and inventory controls, IT applications, or other areas considered as high risk. WIC is one of the larger programs at DSHS and has not been audited by Internal Audit

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| Internal Audit of Hospital Financial Responsibility | 3,985 budgeted hours |
|---|----------------------|

Review of controls over purchase orders, expenditure activity and revenue billing of hospitals, which flow outside of CFO control until time for payment. To determine whether processes are consistent across hospitals and are in accordance with DSHS financial procedures.

| | |
|--|----------------------|
| Internal Audit of Health Services Regions' Organizational Structures and Functions | 1,350 budgeted hours |
|--|----------------------|

An audit of the organizational structure among the regional offices, with the primary objective to identify cross-cutting functions and activities, including jobs and procedures, that can be standardized to maximize efficiencies and economies, and improve coordination and communications with internal and external stakeholders. This would include a review of statutory mandates and responsibilities of regional medical directors, as they relate to managing delivery of services, and how they are impacted by factors, such as business processes and task definitions, complexity of jobs and services provided, reporting and decision-making structures, relationships and influences from internal or external stakeholders, and any other activities that shape the management of regional offices.

| | |
|---|----------------------|
| Internal Audit of Budget Approval Processes and Reporting | 1,265 budgeted hours |
|---|----------------------|

A review of the DSHS budget approval processes, affecting managers' ability to expend funds throughout the fiscal year, and thus the ability to manage unit budgets. To assess whether financial reports and/or budget change notices provide complete information, adequate to support management's ability to make timely financial decisions. To determine how budget changes at the strategy level are allocated by the budget unit between and among the various programs.

| | |
|--|----------------------|
| Post Implementation Internal Audit of Maven Registries in Production | 1,510 budgeted hours |
|--|----------------------|

A post-implementation audit of the Maven Registries currently in production. This would include a review of EMS/Trauma, Birth Defects, Child Adult Blood Lead Epidemiological System (CABLES), and Texas Health Safety Network (TXHSN) registries. The primary objectives of this audit are to determine how technically successful the projects were in terms of satisfying all requirements and the project's main goal; secondly, to determine the business benefits delivered and whether they satisfied the actual intent of sponsors and stakeholders.

Internal Audit of Technology Patch Management 1,190 budgeted hours

Determine whether DSHS and the Data Center Services contractor have established and implemented an effective security patch management process to apply patches on DSHS servers in a timely basis. Most successful computer attacks exploit well-known vulnerabilities, for which patches exist. Hundreds of patches are released each month, many of which apply to operating systems and applications residing in our organization's network.

Completion of Internal Audits in progress at year end 2,625 budgeted hours

- Internal Audit of the Telework Initiative
- Internal Audit of Public Health Preparedness
- Internal Audit of Third Party Reimbursements
- Internal Audit of Identity and Access Management

Follow-up Audit Work planned for Fiscal Year 2015

Internal Audit maintains a database of reported audit findings and periodically request information about the status of addressing the unresolved audit findings. Follow-up audits will be conducted periodically to validate the status of addressing findings and conditions reported in prior Internal Audit reports. Approximately 1,955 direct audit hours have been allocated to follow-up audit work.

- A Follow-up of the Internal Audit of Revenue Generating Contracts issued January 2013
- A Follow-up of the Internal Audit of Institutional Review Boards, issued August 2013
- A Follow-up of internal and external audits of the Vital Statistics Unit issued since 2004

Consulting Services and Nonaudit Services planned for Fiscal Year 2015

Internal Audit offers consulting services for DSHS management, which add value by proactively providing expertise and independent analyses as management controls are being designed. In addition, Internal Audit offers management with the appropriate level and type of service required to address specific situations and needs. These services are defined in the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, including nonaudit services, and defined in Government Auditing Standards, 2011 Revision, Sections 3.33 – 3.58.

All consultations conclude with written management letters that provide information to management, detailing the results of the project, and offer recommendations for improvement. Approximately 3,160 hours have been allocated to these services.

A Management Consultation to consider certain Performance Measures

To conduct a review of performance measures and performance measure documentation.

Additional High Risks Identified but not Scheduled for Audit

Risks identified during the survey and interview process that, while important, are not ranked sufficiently high impact or high probability to warrant focus by limited internal audit resources. The results of the risk assessment were discussed with management. Management understands its responsibilities regarding risk and the importance of mitigating it to the extent possible. Agency management has acknowledged responsibility for the below listed areas and has indicated that controls are in place to assure the day-to-day operations.

Audits in these areas may be considered if the Audit Plan is adjusted or the Office of Internal Audit gains additional resources:

- CMBHS Application
- Software Licensing Controls
- Affordable Care Act (ACA) planning
- IT Project Management Office (PMO)

Enterprise Risks – Those risks identified during the survey and interview process, stemming from support provided by other agencies in the Health and Human Services Enterprise, have been directed to the Enterprise Audit Council for consideration.

Administrative Projects for Fiscal Year 2015

- Conduct annual risk assessment and prepare Annual Internal Audit Report in compliance with the requirements of the Texas Internal Auditing Act.
- Continue improving the database to track all internal and external unresolved audit findings and follow up on the status of unresolved audit findings, recommendations or action plans. Provide systematic status tracking of unresolved audit findings based on management's assertions.
- Participate in various instructor-led or on-line courses in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates in order to meet continuing professional education requirements and enhance auditor's professional proficiency.
- Participate in various executive and senior management team meetings and workgroups within the DSHS and have standing memberships on committees in an advisory capacity to provide management with technical assistance in a variety of areas, and serve as an available resource on risk-related issues.
- Participate in HHS Enterprise Audit Council meetings and audit projects related to enterprise risk mitigation.
- Participate in various workgroups and committees as members of professional organizations, including the State Agency Internal Audit Forum (SAIAF), the Southwest Intergovernmental Audit Forum, the Institute of Internal Auditors (IIA), Internal Audit Forum, and the Information Systems Audit and Control Association (ISACA).

- Participate in the Workplace Improvement Initiative to improve the workplace environment for the DSHS Internal Audit staff.
- Participate in DSHS disaster training and provide support for disaster activities as needed.

External Audit Coordination

Internal Audit serves as the liaison for external audit activities, providing a single point of contact for all audits of the Department of State Health Services (DSHS) by state and federal oversight entities. Internal Audit assists management in coordinating DSHS and external auditor interactions, to ensure both parties receive accurate and timely information and feedback.

VI. External Audit Services Procured in Fiscal Year 2014

The Department of State Health Services did not procure external audit services in fiscal year 2014.

VII. Reporting Suspected Fraud and Abuse

Fraud Reporting

The intranet home page of the Department of State Health Services (DSHS) Office of Internal Audit provides information on how to report suspected fraud waste and abuse involving DSHS programs directly to the State Auditor's Office (SAO).

Since September 1, 2009, the home page of the Health and Human Services (HHS) enterprise internet and the DSHS internet provide information on how to report suspected fraud, waste, and abuse involving health and human services programs directly to SAO. The home pages include the SAO fraud hotline information and a link to the SAO website for fraud reporting.

HHS Circular C-027, Health and Human Services Enterprise Fraud Prevention and Awareness, includes information on how to report suspected fraud involving state funds to the state auditor.

Coordination of Investigations

Chapter 321, Texas Government Code, §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.

The Office of Internal Audit is coordinating with the Health and Human Services Commission (HHSC) to address the responsibilities of the respective enterprise agencies in meeting this requirement.