



TEXAS DEPARTMENT OF STATE HEALTH SERVICES

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COMMISSIONER

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November 1, 2016

The Honorable Greg Abbott, Governor, State of Texas
The Honorable Larry Gonzales, Chairman, Sunset Advisory Commission
The Honorable Dan Patrick, Joint-Chairman, Legislative Budget Board
The Honorable Joe Straus, Joint-Chairman, Legislative Budget Board
Ken Levine, Director, Sunset Advisory Commission
Lisa Collier, CPA, Assistant State Auditor, State Auditor's Office

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 2016, 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 2017. Our audit work in fiscal year 2016 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 2016 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,

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

cc: John Hellerstedt, M.D., Commissioner, DSHS
Drew DeBerry, Director, Governor's Office of Budget and Policy
Julie Ivie, Assistant Director, Legislative Budget Board
Internal Audit Coordinator, State Auditor's Office
Executive Staff, DSHS



Fiscal Year 2016 Annual Report

Office of Internal Audit

November 1, 2016

**Department of State Health Services
Office of Internal Audit
Annual Report for the year ended August 31, 2016**

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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site

The Texas Department of State Health Services (DSHS) is committed to compliance with Texas Government Code, Section 2102.015. DSHS has organized a section of its internet site to include the annual internal audit report, which includes the internal audit plan. This is located on the DSHS website in the “About Us” section, under “Data and Reports”.

This report, including the Fiscal Year 2017 Internal Audit Plan, will be on the agency internet within 30 days of publication. The web link will be <http://www.dshs.texas.gov/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.

The information required by Texas Government Code, Section 2102.015, to be posted on the Web site is included in the discussion of fiscal year 2016 audits in section II, of this report.

II. Internal Audit Plan Results for the year ended August 31, 2016

The internal audits planned for fiscal year 2016 were selected to address the agency’s highest risk areas, based on the risk assessment process during the summer of 2015, 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 During Fiscal Year 2016

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 2016 are listed below.

As required by Texas Government Code, Section 2102.015, the list of completed audits below includes a summary of the weaknesses, deficiencies, wrongdoings, or other concerns identified. DSHS management accepted the audit findings, and agreed to take actions implementing improvements over the next year. Each full report is available from the Office of Internal Audit, for those who wish to see more detailed results.

Internal Audit of DSHS Budget Approval Processes and Reporting
Report 2016-08 issued July 2016

- There were no systematic issues identified in the budget reporting process, however, some divisions indicated they would benefit from more detailed reporting, assistance, and training.

Post-Implementation Information Technology Audit of Maven Registries in Production
Report 2015-13 issued July 2016

- One of the projects reviewed did not achieve some of the expected business outcomes.
- Business requirements were not fully defined and documented.
- The System Security Plans (SSP) were not completely verified and documented.
- Vulnerability scans were not being performed as required.
- DSHS Project Governance documentation requirements were not consistently satisfied.

Internal Audit of Selected State Hospital Expenditures
Report 2015-11 issued January 2016

- The state hospitals generally complied with procurement and contracting rules and regulations, however, similar discrepancies were noted among the hospitals.
- Overall, the state hospitals did not have adequate processes to effectively manage staffing resources, such as scheduling and tracking overtime and compensatory time.

Internal Audit of Hospital Support, Maintenance, and Treatment (SMT) Rates
Report 2016-09 issued May 2016

- The methodology for calculating the SMT rate for each hospital was not well documented, and we noted inconsistencies in the calculation process.

Internal IT Audit of Identity and Access Management
Report 2014-07 issued October 2015

- Database administrators (DBAs) are granted on-going high level privileges in both application and the database.
- Internal user accounts and access level privileges are not reviewed by management.
- Clinical Management for Behavioral Health Services (CMBHS), Regulatory Automation System (RAS), and Harvest password configuration settings do not comply with DSHS Information Security Standards and Guidelines and DSHS Password Guidelines.
- The DSHS Password Guidelines are less stringent than the Health and Human Services Enterprise Information Security Standards and Guidelines (EISSG) password guidelines.
- CMBHS management has not implemented the Mental Health and Substance Abuse Quality Management and Compliance Unit recommendations.

Internal Information Technology (IT) Audit of Vulnerability and Remediation
Report 2015-10 issued October 2015

- DSHS does not have a complete and accurate record of IT assets and status.
- DSHS does not employ a process to identify, analyze, alert, assess performance, or report on status of IT Vulnerabilities.
- DSHS does not have a process for risk classification or acceptance.
- DSHS is not monitoring the vulnerability management of DSHS assets by Xerox.

Audits in Progress at Year End

Internal Audit of Security for Mobile Employees	Project 2016-11 in progress
Internal Audit of Laboratory Information System Billing	Project 2016-13 in progress

Follow-up Audit Work during Fiscal Year 2016

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 2016 are due during the next fiscal year. No follow-up audits were conducted this year.

Administrative Activities during Fiscal Year 2016

Auditors participated in office, agency, and system 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 2017 audit plan.

Deviations from the initial Fiscal Year 2016 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.

- The Internal Audit of Interagency Contracts was cancelled during the scoping phase of the audit in consideration of changes in the current environment within the Health and Human Services System. It was replaced with a management consultation.
- The Internal Audit of Contract Management was postponed as a result of multiple contracting audits being conducted by the State Auditor's Office and the Health and Human Services Commission Internal Audit.
- Changed the name of three planned audits to better reflect the scope of each audit:
 - 2015-11 from Internal Audit of Hospital Costs and Indirect Costs to An Internal Audit of Selected State Hospital Expenditures.
 - 2016-09 from Internal Audit of Hospital Financial Responsibility to Internal Audit of Hospital's Support, Maintenance, and Treatment (SMT) Rates to better reflect the audit focus on financial rates.
 - 2016-13 from Internal Audit of Laboratory Information System Security to Internal Audit of Laboratory Information System Billing to better reflect the audit focus on the security and accuracy of the billing process.
- A Management Consultation of the Vital Statistics Unit was added at the request of management as a result of turnover of key employees in that unit.

- There were two internal audits still in progress at year-end. These two audits will be completed during fiscal year 2017:
 - Internal Audit of Security for Mobile Employees
 - Internal Audit of Laboratory Information System Billing

III. Consulting Services and Nonaudit Services in Fiscal Year 2016

Management Consultation of the Vital Statistics Unit Project 2016-12 in progress

The objective of this consultation is to assist the Associate Commissioner for Program Operations in analyzing select management processes in the Vital Statistics Unit for potential changes, at a time of turnover in key positions in that unit.

An Analysis of Nursing Positions In Health Service Regions Letter 2015-08 issued April 2016

The objective of this consultation was to assist the Assistant Commissioner in analyzing the uses of certain nursing positions across the various health regions

An Analysis of Select Regulatory Inspections Letter 2016-05 issued September 2015

The objective of this consultation was to assist the Assistant Commissioner in a review relating to the unannounced inspection policy and schedules of select facilities.

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 peer review self-assessment in fiscal year 2013. Below is the executive summary from that 2013 report. The next peer review is on-going at the time of this annual report. The review is anticipated to be completed in December 2016.

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.

V. Internal Audit Plan for Fiscal Year 2017

The internal audits planned for fiscal year 2017 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. Implementing recent legislation may also affect the audit plan. Adjustments in the audit plan will be communicated to the DSHS Commissioner 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 2017.

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 management interviews and staff survey responses. The assessment also included an evaluation of issues identified during prior audits, consideration of the current operating environment, as well as consideration of the legislatively mandated transformation and consolidation of some DSHS programs to new agencies.

Agency management provides input related to risks that could keep DSHS centers, divisions, sections, units, regions, hospitals, and programs from achieving their objectives. Survey questions specifically address operational, environmental, contractual, and information technology risks as well as fraud, waste, and abuse. Agency management provided input to identify and evaluate potential barriers to DSHS success.

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.

Audits planned for fiscal year 2017 are listed below, along with a brief description of each. A total of 14,060 direct audit hours have been allocated to audits.

Audits Planned for Fiscal Year 2017

Internal Audit of Controls to Safeguard Vital Statistics Records	1,050 budgeted hours
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An internal audit review of controls over processes relating to the physical security of vital records and related processes to potentially include the management of physical access to original vital records (birth, death, adoption, paternity, etc.), security and accountability of bank note paper, destruction of voided paper or Xeroxed copies, override of the lifetime counter for birth certificates requested, and access to printers/faxes.

Internal Audit of State Oversight of Local Registrars	1,525 budgeted hours
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An internal audit of controls relating to the effectiveness of the State's Vital Statistics Unit's (VSU) oversight of vital statistics functions at the local registrar level. To potentially include a review of monitoring tools, including the desk-review process of the local registrars' annual self-assessment, in accordance with the Health and Safety Code, Ch 191.022(g); birth and death cross-matching procedures, including the notations of cross-matched paper birth certificates; security and accountability of bank note paper; as well as training for local registrars regarding vital statistics records.

Internal Audit of Controls over Administration Functions of the Vital Statistics Unit (VSU)	1,700 budgeted hours
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An internal audit of controls relating to administrative processes, to potentially include the management of authorized background checks of VSU employees, billing for vital records services provided through interagency contracts, accounting for and refunding of fees for services not provided, use of management reports, reporting of document breaches, and records retention requirements.

Pre-Implementation Internal IT Audit of the TXEVER application development project supporting the Vital Statistics Unit (VSU)	1,990 budgeted hours
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An IT internal audit to determine whether all significant risks to successful project delivery have been identified and addressed, through mitigation strategies as of contract signing and the formal project execution. The IT audit will include a review of the current state of development of TXEVER, a comprehensive vital events registration system, intended to replace the current application used by the Vital Statistics Unit. This IT audit will consider assessments of the following areas: Risk Assessment, Deliverables, Functionality, Change Management/Change Control, Communications, Dispute Resolution/Corrective Action, Best Practices, and Errors and Omissions in Contract.

Internal Audit of State Hospital Organization Structure	2,525 budgeted hours
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An internal audit of management structures among the State Hospital offices. The objective is to identify cross-cutting functions and activities, including jobs and procedures that can be standardized to maximize efficiency and economy, and to improve coordination and communications with internal and external stakeholders. This would also include a

review of the statutory mandates and responsibilities of the hospital superintendents as they relate to managing the 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 state hospitals. To identify best practices or benefits of streamlined organization structures, similar use of positions, and similar use of functions across State Hospitals.

Internal Audit of Contract Management and Oversight 1,690 budgeted hours

An internal audit of the DSHS contract management and monitoring processes. To evaluate DSHS' application of laws, rules, policies, and staff roles to determine where the contract management function ensures that contracts fulfill the terms of the agreements and are effectively monitored. Identify whether the controls are in place to manage all DSHS contracts, including contracts for client services, Information Technology and other vendor services.

Completion of projects in progress at year end 3,580 budgeted hours

- Internal Audit of Security for Mobile Employees
- Internal Audit of Laboratory Information System Billing
- Management Consultations

None of the projects included in the Fiscal Year 2017 Audit Plan specifically address benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act. None of the projects address requirements of Senate Bill 20 (84th Legislature)

Follow-up Audit Work Planned for Fiscal Year 2017

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 may be conducted periodically to validate the status of addressing findings and conditions reported in prior Internal Audit reports.

Consulting Services and Nonaudit Services Planned for Fiscal Year 2017

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 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.

All consultations conclude with written management letters that provide information to management, detailing the results of the project, and offer recommendations for improvement. Approximately 4,270 hours have been allocated to these services.

Management Consultations to Assist with Transition

Management Requests to accommodate agency consolidation and transition related information needs of managers.

A Management Consultation to Evaluate Laboratory Costs and Budgets

To evaluate the funding shortfall amounts reported by the State Laboratory for state fiscal years 2014 through 2016. This review will evaluate the reasonableness of the reported amounts and the adequacy of internal controls over the underlying business processes. This review may also include a validation of self-asserted progress in implementing corrective actions to address previously reported audit findings regarding lab funding issues.

A Management Consultation to Analyze Oversight of Certain State Hospital Administrative Internal Control Systems

To conduct a review of the administration of internal control systems over operations of State Hospitals.

A Management Consultation to Analyze the Updated Cancer Registry Security Plan

To conduct an analysis of the improvements made to the cancer registry security plan.

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. Taking action to address these, and all other agency risks, is the responsibility of DSHS management and program staff. Therefore, the Office of Internal Audit has shared the results of the risk assessment with DSHS executive 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. Management descriptions have been provided in *italics*.

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

Training for Certified and Licensed Staff

To identify whether licensed and certified DSHS staff are receiving, documenting, and reporting the necessary professional and medical training to maintain their respective certifications.

Currently, this responsibility is decentralized at DSHS. Each manager has the responsibility to ensure their respective employee's certification. The department will assess the capabilities of the CAPPS system for running comprehensive reports including a notification for supervisors when staff is out of compliance. Over the next year the department will work with the Comptroller's Office on potentially programming features

for the CAPPS system. Department management will begin working on a mechanism to ensure all certified and licensed staff are updated in a centralized location.

Hospital Indirect Cost Efficiencies

An analysis of hospital cost reports to ensure that the provided data are accurate, complete and comprehensive. To consider the impact of the Affordable Care Act, forensic beds, and third party insurance.

Growing demand for access to the State Hospital system is placing great strain on system dollars. Additionally, criminal courts are increasing commitments of persons determined to be incompetent to stand trial and Not Guilty by Reason of Insanity who typically are not eligible for third-party reimbursements. This growing demand on state hospital resources requires that appropriations are used as efficiently and effectively as possible. The department must ensure that overhead and indirect rates are as low as possible while still sufficient to maintain the infrastructure necessary to operate, for this reason the department will review hospital costs and identify all indirect cost efficiencies possible and look to benchmark these across the system. Additionally review of revenue management practices will be conducted to ensure third-party billing is optimized for those with benefits or eligible to receive benefits.

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

- Consolidation and Transformation Concerns
- Consolidated Contracting Process and Structure
- Consolidated IT Application Development
- Oversight fee analysis

External Audit Coordination

The Office Internal Audit serves as the liaison for external audit activities, providing a single point of contact for all audits of the 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.

Administrative Activities for Fiscal Year 2017

- Provide quarterly audit activity updates to executive management.
- 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 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. Conduct ongoing analysis of auditing procedures to promote continuous improvement.
- Participate in various executive and senior management team meetings and workgroups within DSHS, 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 consolidation and transformation efforts across the HHS agencies.
- Participate in various workgroups and committees as members of professional organizations, including the State Agency Internal Audit Forum, the Southwest Intergovernmental Audit Forum, the Institute of Internal Auditors, Internal Audit Forum, and the Information Systems Audit and Control Association.
- Participate in DSHS disaster training and provide support for disaster activities, as needed.
- Participate in transition planning activities for the Health and Human Service agencies.

VI. External Audit Services Procured in Fiscal Year 2016

The Texas Department of State Health Services did not procure external audit services in fiscal year 2016.

VII. Reporting Suspected Fraud and Abuse

Fraud Reporting

The intranet home page of the 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 Commission (HHSC) 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 System Fraud Prevention and Awareness, includes employee information on how to report suspected fraud involving state funds to the state auditor.

To our knowledge, these reports are being made in accordance with Section 7.09, Fraud Reporting, in the General Appropriations Act.

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 HHSC to address the responsibilities of the respective enterprise agencies in meeting this requirement.