



Fiscal Year 2013 Annual Report

Office of Internal Audit

November 1, 2013



TEXAS DEPARTMENT OF STATE HEALTH SERVICES

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COMMISSIONER

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November 1, 2013

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 2013, most recent external quality assurance review, internal audits, consulting engagements, non-audit services completed, key audit findings and recommendations, other internal audit activities, and the audit plan for the agency for fiscal year 2014. Our audit work in fiscal year 2013 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 2013 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, 2013**

Table of Contents

I.	Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site	1
II.	Internal Audit Plan for Fiscal Year 2013.....	1
	Audit Projects	
	Follow-up Audit Work	
	Administrative Activities	
	Deviations from the Fiscal Year 2013 Audit Plan	
III	Consulting Engagements and Non-Audit Services Completed in Fiscal Year 2013	6
IV.	External Quality Assurance Review	8
V	Internal Audit Plan for Fiscal Year 2014.....	9
	Authority	
	Assessment of Risks	
	Audits Planned	
	Follow-up Audit Work	
	Consulting Services	
	Additional High Risks Identified but not Scheduled for Audit	
	Administrative Activities	
	External Audit Coordination	
VI	External Audit Services Procured in Fiscal Year 2013	13
VII	Reporting Suspected Fraud and Abuse.....	13

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). This annual internal audit report, which includes the internal audit plan, will be placed on the agency internet within 30 days of publication. The web link will be <http://www.dshs.state.tx.us/datareports.shtm>.

House Bill 16 was signed by Governor Perry on June 14, 2013, and became effective immediately. House Bill 16 amends Chapter 2102, Texas Government Code, by adding Section 2102.015, which requires state agencies and higher education institutions, as defined in the bill, to post certain information on their Internet Web sites.

II. Internal Audit Plan for the year ended August 31, 2013

The internal audits planned for fiscal year 2013 were selected to address the agency's highest risk areas, based on the risk assessment process during the summer of 2012, 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 2013

Audit projects 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 project.

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 project, and offer suggestions and recommendations for improvement. The audits conducted during fiscal year 2013 are listed below, along with a brief description of each.

Internal Audit of the DSHS Use of Sole Source Contracting	Report 2013-06 issued 2/2013
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An internal audit of DSHS processes for the procurement of sole source and emergency contracts to determine whether sole-source contracts and emergency contracts were procured in accordance with agency policy and other state guidelines. Consider whether the Office of General Counsel is involved in the review and approval of sole source and emergency contract request justifications.

Internal Audit of Institutional Review Boards (IRB)	Report 2013-14 issued 8/2013
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The Texas Department of State Health Services (DSHS) Institutional Review Boards (IRB) are two administrative bodies established to protect the rights and welfare of human research subjects recruited to participate in research activities conducted under the auspices of DSHS

and personal health information requests submitted to DSHS programs needing approval by an independent board.

An internal audit to determine whether the IRBs' review and approval of applications are conducted in compliance with agency policies, state regulations, and federal laws. To determine whether the monitoring, renewal, and closure of research projects are adequately documented. To determine whether current IRB practices ensured that no board member involved with proposed research is allowed to deliberate or vote on issues related to that research, and that all members are aware of the conflict of interest policy. To identify whether DSHS has a process to ensure all data requests are evaluated and referred to an Institutional Review Board when appropriate, and that only authorized data is released.

Internal Audit of the Use of Background Checks Report 2013-16 issued 10/2013

The legislature has provided DSHS specific authority to conduct background checks. An internal audit of the use of background checks will determine whether the agency avails itself of the full authority granted to conduct background checks; whether a process is in place to perform follow-up checks; whether policies define barriers to employment based on the position involved; whether procedures are in place for the appropriate action to be taken based on the results; and whether appropriate procedures are in place for the storage and disposal of related results and documentation.

Internal Audit of Fleet Management Report 2013-07 issued 3/2013

An Internal Audit to assess the current situation of the fleet management system across the agency and how this system affects DSHS regions and hospitals.

Internal Audit of Tuberculosis (TB) Controls Project 2013-18 currently in progress

The TB staff workload varies depending on the number of TB cases in a region at a particular time. An internal audit of the TB program's surveillance process and manual tracking process will include the following considerations:

- Are local and statewide tracking and reporting requirements being met timely?
- Does the agency have tools to identify conditions and analyze situations across the State?
- Are existing processes sufficient to ensure data security and confidentiality in a primarily manual environment?
- Are there technical solutions to track surveillance?
- Are agency resources being used efficiently, and how is the program managed in each region?

Internal Audit of Grants Management Project 2013-17 currently in progress

The Funds Coordination & Management Branch supports the department's federal funds activities. An internal audit of grants management processes and controls will consider whether controls are in place to ensure federal support of DSHS programs is maximized; the grant application review process coordinated across divisions; and whether the grant application development process provides guidance to determine the cost effectiveness of the grant award versus the cost of managing the grant.

To determine whether adequate controls are in place to ensure the data in the CTG system is complete, accurate, valid, and consistently available. The audit scope includes a review of CTG data for the first two years of funding.

Follow-up Audit Work during Fiscal Year 2013

Internal Audit maintained a database of reported audit findings and periodically requested information about the status of addressing the unresolved audit findings.

Internal Audit conducted a follow-up audit to validate the status of addressing findings and conditions reported in prior Internal Audit reports.

State Laboratory Follow-up Audit

Report 2013-15 issued 7/2013

Ascertain the current conditions for all 21 findings and corrective action plans that were included as management responses in the audit reports, as well as subsequent status updates, for the 2009 internal audit of Laboratory Billing Processes and the 2010 internal audit of Laboratory Program Services.

Administrative Activities during Fiscal Year 2013

- Conduct annual risk assessment and prepare Annual Internal Audit Report in compliance with the requirements of the Texas Internal Auditing Act.
- Continued improving the database to track all internal and external reported audit findings and follow up on the status of unresolved audit findings and recommendations. Provide systematic status tracking of unresolved audit issues based on management's assertions. Facilitate scheduling follow-up work to be conducted and subsequent reporting to management.
- 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 various workgroups, committees, and professional organizations so that auditors stay abreast of current trends/activities related to the internal audit profession and issues affecting state government. Groups include the State Agency Internal Audit Forum (SAIAF), the Southwest Intergovernmental Audit Forum, the Institute of Internal Auditors (IIA), Internal Audit Forum, and Information Systems Audit and Control Association (ISACA).
- Participate in DSHS disaster training activities.
- Serve as the agency liaison for external audit activities affecting the DSHS. Coordinated agency and external auditor interactions to ensure both parties receive the information and feedback necessary for accurate and beneficial audit products.
- Complete a self-assessment and take part in a comprehensive external Peer Review as part of the periodic external quality assurance review.
- Participate in HHS Enterprise Audit Council meetings and audit projects related to enterprise risk mitigation. Help frame the most appropriate approaches to enterprise risk associated with administrative functions of the enterprise.

Deviations from the initial Fiscal Year 2013 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 Audit of FCHS Case Management Services because of reorganization of the unit and upcoming process changes. Substituted another audit into the plan, An Audit of the Tuberculosis (TB) Case Management Services.

The Management request for a Consultation of the DSHS Center for Health Statistics was postponed until fiscal year 2014 in consideration of the turnover of the director position.

Because all IT audits included in the plan were completed, we were able to address additional higher risk areas. An Application Audit of the Community Transformation Grant (CTG) System CTG was added.

The addition of three consultations at the request of management.

The Risk Discovery consultation project was expanded and divided into multiple phases and resulted in two separate management letters for the offices of the Chief Financial Officer and Chief Operating Officer.

Assess the progress in addressing recommendations from the SAO Audit of the State Laboratory.

Three audits still in progress at year-end will be completed in fiscal year 2014.

- An Internal Audit of TB Case Management Services
- An Application Audit of Community Transformation Grant System
- An Internal Audit of DSHS Grants Management

III. Consulting Services and Nonaudit Services Completed in Fiscal Year 2013

Internal Audit performs 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 provides 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.

Below is a table of consulting services completed during fiscal year 2013.

Management Letter	High-Level Objective(s)	Observations, Results and Recommendations	Fiscal Impact/ Other Impact
Risk Discovery for the Division of Mental Health and Substance Abuse (MHSA) Project 2013-05 Letter issued February 2013	To assist section and unit managers in identification of risks, which may impact the ability to successfully meet program objectives	Generally, established a standard control and risk language and promoted understanding between administrative staff and RLHS programs in the regions and in central office.	Improves accountability, promotes responsibility, and identifies risk and risk ownership.
A Management Consultation of DSHS printing services and copy center. Project 2013-08 Letter issued February 2013	Evaluate the cost effectiveness and use of this function.	Continue to evaluate and set a course of action to implement external consultant recommendations.	Promote cost effective considerations and actions.
Risk Discovery for the Chief Financial Officer Division (CFO) Project 2013-12 Letter issued April 2013	To assist section and unit managers in identification of risks, which may impact the ability to successfully meet program objectives	Generally, established a standard control and risk language and promoted understanding between administrative staff and RLHS programs in the regions and in central office.	Improves accountability, promotes responsibility, and identifies risk and risk ownership.

Management Letter	High-Level Objective(s)	Observations, Results and Recommendations	Fiscal Impact/ Other Impact
State Laboratory progress in addressing external audit reports Project 2013-09 Letter issued July 2013	Assist the director in assessing progress in addressing recommendations from the Texas State Auditor's Office audit of the State Laboratory.	Not all actions initially reported as implemented were completed.	Promotes further understanding of controls and ensures that appropriate action is taken.
Risk Discovery for Chief Operating Officer Division (COO) Project 2013-13 Letter issued August 2013	To assist section and unit managers in identification of risks, which may impact the ability to successfully meet program objectives	Generally, established a standard control and risk language and promoted understanding between administrative staff and RLHS programs in the regions and in central office.	Improves accountability, promotes responsibility, and identifies risk and risk ownership.
A Management Consultation of WIC WIN Evolution IT project development. Project 2013-11 Letter issued May 2013	To provide management with an understanding of risks to successful project delivery and risk mitigation strategies.	Identified best practices as well as made recommendations to work with the vendor to address deficiencies in project deliverables.	Ensure that the final technical solution meets all expectations of quality and the agency has financial recourse if the vendor fails to perform.

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.

V. Internal Audit Plan for Fiscal Year 2014

The internal audits planned for fiscal year 2014 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 may be adjusted if significant changes in risk or operating environments occur – additional projects, such as management requests, may be conducted or some of the projects included may not be performed. 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 audit projects, 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 2014.

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 performed in collaboration with agency management, using a combination of 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.

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 audit projects planned for fiscal year 2014 are listed below, along with a brief description of each project. A total of 13,560 direct audit hours have been allocated to these projects.

Audits Planned for Fiscal Year 2014

Internal Audit of DSHS Mental Health Consumer Rights 1,465 budgeted hours

A review of the Mental Health Consumer Services and Rights Protection Unit (CSRP), to determine whether the current process/practice for investigating complaints provides the intended results of safeguarding client rights and addressing their concerns.

Internal Audit of select Human Resource Activities 1,460 budgeted hours

An Internal Audit of human resource support services and activities performed by DSHS staff. To assess the development and conduct of employee performance plans and evaluations, and tracking of employee training or certification requirements. To consider including a review of manager to staff ratios, identification of the percentage of managers with CAPPs training, and processes in place to develop managers or staff.

Internal Audit of the Telework Initiative 1,300 budgeted hours

An audit of the Division of Family and Community Services (FCHS) telework initiative to determine compliance with policies and procedures, to assess concerns and successes related to productivity, team relations, communications, and other important business functions.

Internal Audit of Reimbursements 1,680 budgeted hours

To review the MHSA Reimbursement Unit to ensure that all eligible third party reimbursement amounts are properly identified, tracked and collected.

Internal Audit of Public Health Preparedness 1,100 budgeted hours

A review to determine whether DSHS continues to be optimally prepared to coordinate and lead a disaster response that can rely on sufficient equipment, a fully staffed ICS structure, and can marshal volunteers from throughout the area affected by disaster consistent with the DSHS commitment to the ESF-8 services. May also consider the internal continuation of DSHS operations (COOP) aspects of preparedness.

Internal Audit of Identity and Access Management 970 budgeted hours

Determine whether DSHS is effectively managing individual principals (employees, contractors, and vendors), their authentication, authorization, and privileges within or across system and enterprise boundaries, with the goal of increasing security and productivity. May also consider asset management as it impacts access.

Internal Audit of Technology Patch Management 785 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.

Internal Audit of DSHS IT Project Management Office (PMO) 1,060 budgeted hours

An analysis of the IT Project Management Office (PMO) operations, processes and procedures to determine whether changes are having the effect on project management that IT management planned. Determine whether goals are being met to have more projects completed within scope, on time, and on budget.

Completion of Internal Audits in progress at year end 3,740 budgeted hours

- An Internal Audit of Tuberculosis (TB) Case Management Services
- An Application Audit of Community Transformation Grant
- An Internal Audit of DSHS Grants Management

Follow-up Audit Work

Internal Audit maintains a database of reported audit findings and periodically requested 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.

Consulting Services

A Management Consultation for the Center for Health Statistics

To conduct the review postponed in fiscal year 2013. The DSHS Center for Health Statistics (CHS) provides a convenient access point for health-related data for Texas. The CHS objective is to be a source of timely, accurate, and useful information for assessment of community health and for public health planning in Texas. DSHS executive management has requested evaluating the effectiveness of CHS in meeting their stated objectives.

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. Agency management has acknowledged responsibility for these areas and has indicated that controls are in place to assure the day-to-day operations.

Taking action to address risks is the responsibility of agency management and program staff. Therefore, the Office of Internal Audit has shared the results of the risk assessment with DSHS executive management. Audits in these areas may be considered if the Audit Plan is adjusted or the Office of Internal Audit gains additional resources:

- Software Licensing Controls
- WIC Program Controls
- Services provided by Local Health Departments

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, will be directed to the Enterprise Audit Council for consideration.

Administrative Projects for Fiscal Year 2014

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 response activities.

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 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 2013

The DSHS Office of Internal Audit did not procure external audit services in fiscal year 2013.

VII. Reporting Suspected Fraud and Abuse

Reference	Actions Taken
<p>Fraud Reporting The 2012-13 General Appropriation Act (Article IX Section 7.09, 83rd Legislature, Conference Committee Report), includes state agency fraud reporting requirements related to the following:</p> <ul style="list-style-type: none"> • Agency internet website content • SAO fraud hotline information • SAO website link for fraud reporting • Agency policies • Fraud reporting to the SAO 	<p>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).</p> <p>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.</p> <p>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.</p>
<p>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.</p>	<p>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.</p>