



Internal Audit Division

Fiscal Year 2017

Annual Internal Audit Report

October 2017

MISSION

Internal Audit provides independent and objective assurance and consulting services designed to protect and enhance Health and Human Services (HHS) programs and operations through a systematic, disciplined approach to evaluating the effectiveness of risk management, internal control, and governance processes. We strive to provide insightful, proactive, timely, and innovative advice and recommendations to help HHS improve the health and safety of Texans.

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Introduction

The Fiscal Year 2017 Annual Internal Audit Report for the Texas Health and Human Services Commission (HHSC) Internal Audit Division is provided in accordance with the Texas Internal Auditing Act requirements for internal auditors to prepare and distribute an annual report of activities and complies with the guidelines set forth by the State Auditor's Office.

The Internal Audit Division completed audit work and provided management with information and analyses to assist in initiating improvements to operations and to strengthen internal controls. In addition to audit work, Internal Audit provided advice and assistance on governance, risk management and controls, and management actively engages the Internal Audit Division as they continue to work toward more effective and efficient processes in the agency.

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Section 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 Health and Human Services System posts the approved audit plan (as well as subsequent amendments) and the Annual Audit Report to the Reports and Publications page of the HHSC public home page within 30 days of approval as required by statute.

Section II

Internal Audit Plan for Fiscal Year 2017

Report Number	Audit/Project	Report Date
14-02-008	Audit of Oversight and Monitoring of Managed Transportation Services	2/14/2017
16-01-022	HHS System Audit of Salary Overpayments	2/7/2017
16-02-014	Oversight of Statewide Network of Community Partners	11/21/2016
16-02-017	Oversight of Selected Administrative Goods and Services Contracts	12/19/2016
16-02-018	Accounts Receivable Processes	11/9/2016
16-02-023	Inspector General's Investigative Process	1/13/2017
16-02-024	Contract Processing Times for Selected HHSC Contracts	2/7/2017
16-04-027	Audit of Nursing Facility Survey Citations and Remedies	5/4/2017
16-04-028	Audit of Home and Community Support Services Agencies (HCSSA) Licensing	Removed from Plan
17-01-016	HHS System Audit of Information Technology Application Change Management	8/8/2017
17-01-029	HHS System Business Continuity and Disaster Recovery	In Progress Est. Completion 11/2017
17-02-002	Eligibility Operations – Vendor Operations	4/24/2017
17-02-005	HHS Job Audit Process	4/17/2017
17-02-006	Audit of the Blind Children's Program Quality Assurance Plan	5/9/2017
17-02-008	SB 20 Reporting Requirements Compliance	Removed from Plan
17-02-010	Vendor Drug Program	In Progress Est. Completion 10/2017
17-02-011	Texas Administrative Code, Chapter 202 Compliance	4/24/2017
17-02-012	Asset Management Controls This audit was later categorized as a consulting engagement. See Section III.	

Report Number	Audit/Project	Report Date
17-02-013	Contract Monitoring of Mental Health Substance Abuse Local Mental Health Authorities	In Progress Est. Completion 11/2017
17-02-018	Foster Grandparents Program	In Progress Est. Completion 1/2018
17-02-024	Construction and Maintenance Project Management	9/1/2017
17-02-025	Health Informatics Services and Quality (HISQ) Previously "Medicaid Health Information Technology (HIT)"	7/19/2017
17-02-026	Claims Administrator Contract Oversight Previously "Contract Compliance and Performance Management Monitoring"	In Progress Est. Completion 11/2017
17-02-027	Disaster Case Management Process	Removed from Plan
17-02-030	Accuracy of TIERS Data	In Progress Est. Completion 12/2017
17-04-009	Audit of State Supported Living Centers Volunteer Services	5/5/2017
17-04-017	State Supported Living Center Overtime Administration	8/7/2017
17-04-031	Audit of Home and Community Support Services Agencies (HCSSA) Licensing	Removed from Plan

Summary of Completed Projects

14-02-008 Audit of Oversight and Monitoring of Managed Transportation Services

The objective of the audit was to evaluate whether contract monitoring processes, including performance remediation, support:

- Managed transportation service delivery
- Achievement of contract outcomes
- Delivery of transportation services to eligible clients who requested services
- Accurate payments to managed transportation organizations

Payments totaling approximately \$134 million made to Managed Transportation Organizations (MTOs) in fiscal year 2015 were accurately and timely paid as well as appropriately approved. The Medical Transportation Program (MTP) has established a framework to monitor MTO performance, however, improvements were identified in the following areas:

- Formalization and documentation of some of the contract requirements in the areas emphasized by executive management
- Expansion of existing monitoring of financial solvency to include key ratio calculations and timely payments to subcontractors
- Timely completion of desk reviews
- Consistent completion and retention of monitoring process checklists

16-01-022 HHS System Audit of Salary Overpayments

The objectives of the audit were to determine whether separating employees are reported accurately and timely to prevent overpayments, processes are designed to appropriately detect overpayments, and overpayments are collected.

It was determined that overall, employees separating from DFPS, DSHS, and HHSC were identified and reviewed to prevent overpayment and that improvements have been made with the implementation of proactive controls to prevent salary overpayments since a State Auditor's Report in 2008 noted there were only reactive controls. However, DFPS needs to

improve managers' completion of the required course *CAPPS Training for Managers*.

16-02-014 Oversight of Statewide Network of Community Partners

The objectives of the audit were to:

- Evaluate whether the Office of Social Services monitoring and oversight of the Community Partner Program is effective and provides assurance that desired program outcomes are achieved
- Determine whether Memorandums of Understanding (MOUs) with community partner organizations include adequate provisions and performance measures associated with protecting confidential HHSC client information
- Determine whether logical controls at community partner organizations effectively protect HHSC systems and client data from unauthorized access

The audit results identified that improvements are needed in the MOUs, background checks, and access accounts to improve accountability and program effectiveness.

16-02-017 Oversight of Selected Administrative Goods and Services Contracts

The audit objective was to determine whether oversight activities effectively support HHS System compliance with state requirements for contracting and procurement, including requirements over the needs identification and evaluation and award phases of the procurement cycle.

The audit identified that improvements to documentation, policies and procedures, and training are needed to strengthen accountability and increase effectiveness.

16-02-018 Accounts Receivable Processes

The objectives of this audit were to:

- Evaluate the effectiveness of the processes
- Determine whether individuals possess authorized and segregated user access to accounts receivable capabilities within the Accounts Receivable Tracking System
- Assess whether system change management policies and procedures are in place to ensure changes are authorized by management, sufficiently tested prior to implementation, and documented

Despite a six month vacancy in management, tenured staff functioned effectively and the Accounts Receivable Department processed an estimated \$4.2 billion in receipts for the period of September 1, 2015 to August 1, 2016. However, the audit identified that manuals required updating and that improvements were needed in access controls, segregation of duties, and management review.

16-02-023 Inspector General's Investigative Process

Five of the Sunset Commission's recommendations related to the Inspector General's investigative process were selected and reviewed to determine the implementation status of the recommendations. While the five recommendations selected for review were determined to be generally implemented, not all aspects of the recommendations were completed. In addition, recommendations to further improve the investigative process were made related to maintaining documentation to support reports; prioritization of investigations; user roles for the Case Tracker System; and formalizing performance measures.

16-02-024 Contract Processing Times for Selected HHSC Contracts

The objective of this audit was to determine, for selected contracts, whether the processes in place effectively supported the timely processing of contracts from procurement and legal review to contract execution. Audit testing identified that the efficiency of the contracting process and reliability

of data needed improvement as well as the need for performance measures for the contracting process.

16-04-027 Audit of Nursing Facility Survey Citations and Remedies

The objectives of this audit were to:

- Evaluate measures taken by Regulatory Services to meet Center for Medicaid and Medicare Services requirements related to adequacy of survey documentation maintained to support recommended citations and remedies.
- Evaluate regional enforcement processes designed to ensure consistency in citation and remedy decisions.
- Determine how State Office Enforcement ensures consistency when reviewing and imposing citations and remedies referred from the regions.

The audit work identified two key areas for improvement: 1) Establish a more centralized control structure to enable management to track inconsistencies between Regional and State Office enforcement methodologies and 2) Strengthen regional practices to promote consistency in deficiency writing and provide additional support to survey teams.

17-01-016 HHS System Audit of Information Technology Application Change Management

This audit evaluated whether change management processes support accurate and timely implementation of needed changes. Audit staff also evaluated and identified change management best practices in use. A review of a sample of changes made to 14 applications identified some best practices related to change management processes as well as improvements that were needed in areas such as: segregation of duties, change management procedures, configuration change control, security impact analysis, access restrictions, and audit logging.

17-02-002 Eligibility Operations – Vendor Operations

This audit determined whether controls support monitoring of the document processing, eligibility support, and data broker service contracts by reviewing monitoring practices on current contract deliverables and following up on prior audit findings. Eligibility Operations – Vendor Operations and Business and Operations Support have adequate processes in place to track and review contract deliverables and communicate results to the vendor. The audit determined that disaster recovery plans had not been recently tested. In addition, the risk ranking of the system security plan was understated.

17-02-005 HHS Job Audit Process

This audit determined that overall, job audits are being conducted and the results are accurately reflected in the Centralized Accounting and Payroll/Personnel System (CAPPS). The human resources and payroll services contractor, NorthgateArinso (NGA), has established policies and procedures for processing job audits that are effective when followed. While job audits not placed on hold were processed by NGA within the agreed upon ten business day benchmark, 949 of the 1,146 HHS system job audits requested between September 1, 2013 and August 31, 2016 were placed on hold. Assessment of a sample of job audits placed on hold indicated (a) the hold was placed due to missing or incomplete information and (b) the majority of requesting managers had not completed training offered by NGA to communicate job audit policies and procedures.

17-02-006 Audit of the Blind Children’s Program Quality Assurance Plan

The objective of this audit was to determine the effectiveness of the Blind Children’s Program’s quality assurance plan and provide recommendations for improvement. Since the January 2015 effective date of the current quality assurance plan, the Blind Children's Program has implemented additional quality assurance activities and modified planned quality assurance activities that are not reflected in the quality assurance plan. Improvements to the quality assurance plan and related tools are needed to

help ensure the program is more effective in determining how successfully the program serves children.

17-02-011 Texas Administrative Code, Chapter 202 Compliance

This audit determined whether HHSC is in compliance with the TAC 202 requirements. HHSC has implemented the majority of the TAC 202 requirements. Areas determined to need strengthening include:

- Completing an inventory of information systems
- Performing independent reviews of HHSC's information security program
- Improving communications to executive management
- Collecting data required in DIR's Security Control Standards Catalog
- Documenting Internal Risk Assessment Procedures

17-02-024 Construction and Maintenance Project Management

The objective of this audit was to determine whether controls are adequate over the construction and maintenance contract management processes for State Hospitals and State Supported Living Centers (SSLCs). The audit determined that key controls are in place to adequately manage contractor performance related to timeliness, key deliverables, expenditures and quality of work performed. However, State Hospitals and SSLCs are not utilizing the CAFM system consistently. As a result, data and records are located in various areas, making statewide analysis difficult. Oversight of facilities needs to be strengthened to promote consistency and standardization.

17-02-025 Health Informatics Services and Quality

The objective of this audit was to determine whether controls are in place to address risks related to confidentiality, integrity, and availability of patient health records. The Health Informatics Services and Quality (HISQ) Division has controls in place to address risks related to the confidentiality, integrity, and availability of patient health records. However, opportunities exist to improve security and access controls.

17-04-009 Audit of State Supported Living Centers Volunteer Services

The objectives of this audit were to:

- Assess the internal control structure to receive and disburse monetary donations on behalf of the Volunteer Services Council (VSC) to ensure it is designed effectively and operating efficiently
- Assess the State Supported Living Center's (SSLC) policies, procedures, and business practices as they relate to local fundraising activities to ensure donations are properly received, tracked, and distributed
- Determine if memorandums of understanding between the SSLC and VSC are current and approved

Overall, the SSLC Community Relations Departments tested are generally managing the receipt and disbursement of VSC donated funds in compliance with agency policy. However, there are instances where improvements could be made to ensure transparency in transactions and reduce the potential appearance of impropriety.

17-04-017 State Supported Living Center Overtime Administration

The timekeeping processes of State Supported Living Centers (SSLCs) were evaluated to determine whether overtime and compensatory time is reported accurately and in compliance with agency policies. Testing determined that SSLCs could improve their timekeeping procedures to ensure accurate time reporting and increase efficiency.

Verification of Recommendations Reported as Implemented

Internal Audit team members verified the implementation of 127 recommendations reported as implemented by management throughout the year. Of those, 114 (90%) were verified to be fully implemented and closed. The remaining 13 were reopened and management is working to complete implementation.

Section III

Consulting Services and Non-Audit Services Completed

Internal Audit staff presented on the audit process, risk assessment, and control frameworks at staff meetings and leadership academies as requested by management. In addition, the HHSC Internal Audit Division completed the following non-audit services during fiscal year 2017:

Contracts Over \$100 Million

This engagement was requested by Executive Management. The purpose was to research contract monitoring processes performed by Contract Managers or appropriate oversight areas for the contracts that exceed \$100 million in total value. Internal Audit surveyed agency management responsible for monitoring the contracts to compile information on whether:

- Contract Managers are in place for each contract.
- A formal monitoring process has been established, which includes an inventory of contract requirements and a risk-based approach to monitoring those requirements.
- Processes include documenting and communicating monitoring results to the appropriate areas which may include the contractor, program, and executive management.
- Monitoring (i.e., performance, financial, desk reviews, on-site visits) is performed through review of monitoring schedules or reports.
- Internal and external audits related to contract monitoring have been performed.

Provider Investigation Reporting

At the request of Texas Department of Aging and Disability Services (DADS), Consumer Rights and Services and Regulatory Services Divisions, UT Austin student auditors conducted an evaluation of the Provider Investigation Reporting (PIR) process and performed a detailed assessment of the submission of incident reports by providers, PIR reports, and subsequent follow-up activities by regional survey staff.

Asset Management Controls

This consulting engagement was requested by Health and Human Services Commission (HHSC) Executive Management. The engagement team analyzed the roles and responsibilities for the asset management process, including how they align with the processes and responsibilities for the Financial Services Division and the Information Technology Division.

Ombudsman Quality Assurance Unit

The Deputy Chief of Staff requested an evaluation of the recently developed quality assurance (QA) process in order to identify opportunities for improvement. The engagement team identified strengths and potential areas for improvement in four key components of the QA phone call review process. This project was completed by a group of UT Student Auditors.

Mapping Managed Care Controls and Oversight

This engagement was requested by the Director of Contract Compliance and Performance Management. The engagement objective was to map controls and compensating controls in managed care contract oversight. The resulting process map incorporated information on financial and non-financial incentives and disincentives (e.g., public posting of report card and sanction data). This project was completed by a group of UT Student Auditors.

Information Technology Governance Committee

Internal Audit staff attended committee meetings as non-voting members and provided advice and guidance as appropriate. A report was not issued for this project.

Hiring Freeze Waiver Process

This project documented the hiring freeze waiver process in a flowchart to assist executive management in understanding this process. A report was not issued for this project.

Print Shop Cost Recovery

The Deputy Executive Commissioner, System Support Services requested a review of the HHS Print Shop cost allocation methodology. The purpose of this engagement was to determine if the cost allocation methodology includes all relevant costs. This project was completed by a group of UT Student Auditors.

Experience Rebate Process

Executive Management requested Internal Audit to analyze the Experience Rebate Process and provide an overview of the process, while addressing the following questions:

- What is the intent of the experience rebate process and how does it work?
- How is the Managed Care Organization (MCO) self-reported Financial Statistical Report (FSR) information validated?
- What happens to the experience rebates collected by HHSC?
- Do experience rebates have an impact on capitation rates?
- What is the historical perspective of experience rebates?
- Does the State recognize savings from the experience rebate process?
- Does the experience rebate process impact how an MCO does business?
- What are the results of the experience rebate audit conducted by the Department of Health and Human Services Office of Inspector General (HHS OIG)?

Health and Human Services Administrative System (HHSAS) to Centralized Accounting and Payroll/Personnel System (CAPPS) Financials Enhancement Project

This engagement was requested by the IT Applications/Enterprise Services Division. Internal Audit evaluated the proposed processes and methodologies in specific client requested components of the HHSAS to CAPPS 9.2 Financials Enhancement Project to identify any areas of risk or gaps not previously identified in the documented processes.

Section IV

External Quality Assurance Review

The Division's External Quality Assurance Review was completed in August 2016, by David MacCabe, LLC, a state contracted vendor. The opinion that was reported was as follows:

*Based on the information received and evaluated during this external QAR, it is the opinion of the reviewer that the internal audit activity at the Texas Health and Human Services Commission **generally conforms** to the IIA Standards, the Government Auditing Standards, and the Texas Internal Auditing Act. This opinion, representing the best possible evaluation, means that policies, procedures, and an internal audit charter are in place, and that the practices that are followed provide reasonable assurance that the audit work conducted is in compliance with the requirements of the applicable professional standards and the Texas Internal Auditing Act.*

Section V

Internal Audit Plan for Fiscal Year 2018

The audit plan below includes 18 audits and will be added to throughout the year based on risk and agency needs. In addition Internal Audit staff will conduct verification work on recommendations reported by management as implemented and address management requests as possible.

Health and Human Services Commission Audit/Project	Est. Budget (Hours)
Claims Administrator Contract Oversight (carryover from FY 17)	110
Vendor Drug Program (carryover from FY 17)	60
Contract Monitoring of Local mental Health Authorities (carryover from FY 17)	90
Accuracy of TIERS Data (carryover from FY 17)	950
HHS System Business Continuity and Disaster Recovery (carryover from FY 17)	650
Foster Grandparent Program (carryover from FY 17)	500
Privacy	1200
Accounts Payable Processes	1200
Allegations of Mistreatment of Minors	1500
Early Childhood Intervention Program	1500
Human Resources Hiring Process	2000
HHS System Software Licenses	1500
Contract Audit - TMHP Contract	2000
Contract Audit (Contract to be selected at a later time)	1500
Payments to Rural Hospitals	1500
Petty Cash	1200

Department of State Health Services Audit/Project	Est. Budget (Hours)
Vital Statistics Unit	2050
Public Health Regions	2000

None of the projects included in the Fiscal Year 2018 Audit Plan specifically address benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.

The following business processes were ranked as "high risk" but not included in the FY 2018 Audit Plan either due to recent audit activity or resource limitations:

Health and Human Services Commission

Business Area	Auditable Unit
Medicaid/CHIP Services Department	Medical Transportation Program
Medicaid/CHIP Services Department	Quality and Program Improvement
Medical and Social Services	Office of eHealth Coordination
Medicaid/CHIP Services Department	Medicaid/CHIP Medical Director
Medicaid/CHIP Services Department	Financial Reporting and Audit Coordination
Health, Developmental, and Independence Services	Family and Social Services
Medicaid/CHIP Services Department	Program Enrollment and Support

Department of State Health Services

Business Area	Auditable Unit
Regional and Local Health Services	Texas Center for Infectious Disease
Consumer Protection	Surveillance
Laboratory and Infectious Disease Services	Infectious Disease Prevention
Consumer Protection	Meat Safety Assurance
Community Health Improvement	Public Health Screening and Services Coordination
Laboratory and Infectious Disease Services	Laboratory Services
Laboratory and Infectious Disease Services	TB/HIV/STD
Community Health Improvement	Maternal and Child Health
Consumer Protection	EMS/Trauma Systems
Community Health Improvement	Environmental Epidemiology and Disease Registries
Consumer Protection	Compliance

Risk Assessment Methodology:

HHSC Internal Audit is implementing a perpetual risk assessment process that will allow for better identification of, and response to, shifts in risk. The three major components of this risk assessment process are described below:

1. **Define the audit universe.** Develop a comprehensive list of "auditable units" (i.e., program areas/units, activities, processes, etc.) to be considered for annual planning. This included review of organizational charts across the HHS System for the upcoming transformation on 09/01/2017, the agency's annual report, and the HHSC and DSHS Strategic Plans. Criteria for selecting "auditable units" includes: level of contribution to HHS Goals and Strategies, the magnitude of impact on the organization, the level of importance to justify the cost of control, and the efficiency in minimizing auditable units when possible.
2. **Select and weight risk factors.** Risk factors are specific and identifiable sources of uncertainty or potential negative consequences. Risk is inherent to every auditable unit - what varies among units is the degree or *level* of risk. Level of risk is determined by the extent of impact to the agency as a whole, should the specific risk occur. Risk factors are selected by consideration of current issues by the Director of Internal Audit. Risk Factors used as part of the Risk Assessment include:
 - Strategic Risk Factors
 - Operations Risk Factors
 - Regulatory Risk Factors
 - Susceptibility and Exposure Risk Factors

Internal Audit Division sent a survey to Management requesting input on the additional 5 risk factors:

- Control Environment
- Assessing Risk
- Control Activities
- Information and Communication
- Monitoring Activities

3. **Prioritize auditable units to assess overall risk level.**

- **Score:** The Internal Audit Division scored each factor based on the level of potential impact to the organization, as well as level of likelihood of the risk occurring using a 5-point scale: low risk

levels received 1 point, medium-low - 2 points, medium risk levels - 3 points, medium-high - 4 points, and high risk levels - 5 points. For example, the Medicaid & CHIP Program Enrollment & Support unit would score a 5 on the Strategic risk factor for impact, while Veterans Services would score a 2 on the same risk factor. Management's scoring of the 5 additional risk factors was included in the Risk Assessment scoring.

- **Additional Points:** Areas identified as of interest or concern by executive management team members or the Director of Internal Audit received additional points at the discretion of the scoring team.
 - **Rank:** Calculate based on the sum of all scores (Internal Audit Division, and Management Survey) and rank all units relative to one another. Identify high, medium-high, medium, medium-low, and low risk areas.
4. **Monitoring and Updating Risk Assessment.** Information is gained and added to the risk assessment tool through routine meetings with agency management, information learned during audit work, and other sources that identify risks. This is monitored and assessed routinely and amendments to the audit plan are proposed as appropriate.

Section VI

External Audit Services Procured in Fiscal Year 2017

Disproportionate Share Hospital and Uncompensated Care Audit Services
Xerox PCRA SSAE 16 and HIPPA Audits
Document Processing Services Financial Audit
Tiers Data Center Prospective Price Redetermination
Managed Care Organization (MCO) Financial Statistical Reports (FSR)
Northgatearinfo Performance and Retrospective Cost Settlement
Medical Transportation Organization - Financial Statistical Reports (FSR)
Electronic Health Record (EHR) Incentive Payments
Recovery Audits
Delivery System Reform Incentive Payments
Eligibility Support Services Program (ESS), Children's Health Insurance Program (CHIP), and Enrollment Broker Retrospective Cost Settlement Audits
Managed Care Organization (MCO) Performance Audits
Xerox (TMHP, PCRA) Retrospective Cost Settlement
Accenture (THMP) SSAE-16 Audit
Data Broker Services Audit

Section VII

Reporting Suspected Fraud and Abuse

The HHSC Internet and Intranet, HHS Circular C-027, and HHS Enterprise Fraud Prevention and Awareness, provide information on how to report suspected fraud, waste, and abuse. Employees must report suspected fraud, waste, or abuse in health and human services programs to the HHSC Inspector General and the Texas State Auditor's Office (SAO).

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