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An Audit Report on

The Health and Human Services Commission's Consolidation of Administrative Support Services

January 2006
Report No. 06-018



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Overall Conclusion

The Health and Human Services Commission (Commission) should ensure that the business processes of health and human services agencies' financial services and information resources functions are operating efficiently and effectively as intended by House Bill 2292 (78th Legislature, Regular Session; see text box for additional details). To do this, the Commission should:

- Conduct a comprehensive business process analysis of the health and human services agencies' financial services functions. The health and human services agencies reported experiencing a strain on their resources in processing purchase vouchers and completing the entry of budget data.
- Strengthen its oversight of the health and human services agencies' information resources functions. The Commission decided to centrally manage and support only certain information systems. The Commission assigned the management and support of the remaining estimated 700 information systems to the health and human services agencies that use them.

Improving the Efficiency and Effectiveness of Administrative Support Services' Business Processes

House Bill 2292 (78th Legislature, Regular Session) modified Texas Government Code, Section 531.0055(d), to specify that "the performance of administrative support services for health and human services agencies is the responsibility of the commission. The term 'administrative support services' includes, but is not limited to, strategic planning and evaluation, audit, legal, human resources, information resources, purchasing, contract management, financial management, and accounting services."

House Bill 2292 also added Texas Government Code, Section 531.0055(b)(2)(A), which specifies that "the provision of information technology services at health and human services agencies [is] considered to be a centralized administrative support service either performed by commission personnel or performed under a contract with the commission."

In addition, the Commission needs to improve its oversight of its human resources and payroll services contractor. The Commission did not adequately monitor its contractor's preparations for and costs associated with transferring services, which led to the health and human services agencies' experiencing problems with the services the contractor provided. The Commission also needs to improve its oversight of this contractor's performance and compliance with other contractual obligations. The Commission did not ensure that changes in contract terms were adequately documented or that the executed contract was amended.

The Commission should standardize the access and application controls of its internal accounting system's financial modules, which are used by the health and human services agencies, to improve controls and achieve efficiencies in

processing electronic purchase vouchers. The Commission should also correct access rights in the internal accounting system. Correcting access rights will help to prevent the possible misuse or abuse of financial applications and improve the accountability of financial transactions that health and human services agencies create.

Key Points

The Commission should conduct a comprehensive business analysis of health and human services agencies' financial services functions.

The Commission should conduct a complete business process analysis of the health and human services agencies' financial services functions to collect complete information on the amount of work that needs to be accomplished and to identify areas that could be streamlined or consolidated to ensure that appropriate resources are available to meet workload demands.

The Commission should strengthen its oversight of health and human services agencies' information resources functions.

The Commission should strengthen its oversight of health and human services agencies' information resources functions to ensure that the business processes developed and used by these functions are operating efficiently and effectively. This should be done by:

- Developing adequate performance measures to monitor the performance of information resources functions.
- Approving draft policies and procedures and requiring the health and human services agencies to use them.

The Commission did not demonstrate adequate oversight in monitoring its contractor's activities and costs for transferring human resources and payroll services.

The Commission delegated its responsibility to plan for its contractor's activities in transferring human resources and payroll services to the contractor itself and did not adequately monitor the contractor's activities. Although the Commission maintained responsibility for monitoring the costs for transferring its services to the contractor, the Commission did not adequately monitor transition costs. Specifically:

- The Commission approved the contractor's proposed budget for costs associated with the transfer of services without obtaining adequate documentation that explained the types and amounts of services and costs involved with the transfer.

- The Commission neither developed objective policies and procedures for monitoring the reasonableness and necessity of costs reported by the contractor nor inquired about significant variances between the contractor's reported costs and its approved transition budget.

The Commission was not adequately involved in the development, testing, and validation of tests to assess interfaces between the contractor's Web-based application and the Human Resources and Management System.

The Commission's delegation of responsibility for planning its contractor's responsibilities limited its involvement in the development, testing, and validation of contractor Web-based applications that interface with the state-owned Human Resources and Management System (HRMS). The Commission relied on the contractor to both develop and perform adequate and appropriate tests to assess the contractor's own modifications to HRMS and validate and report the results of those tests.

The Commission did not adequately monitor the performance and compliance of its human resources and payroll contractor.

The Commission did not hire a contract manager to monitor the performance and compliance of its human resources and payroll services contractor until 11 months after the execution of the contract and after paying its contractor \$7.5 million. In addition, the Commission did not develop adequate policies and procedures to monitor the contractor's performance and compliance with the terms of its executed contract.

The Commission did not ensure that changes in the terms of its human resources and payroll services contract were documented through contract amendments.

The Commission did not document contract changes through formal amendments to its executed contract when changes were made to the contractor's scope of work, the time period the contractor could incur and report costs for transferring services, and the contractor's payment rate.

The Commission should strengthen the access and application controls of its internal accounting system for processing electronic purchase vouchers.

The Commission did not standardize the access and application controls of the internal accounting system's financial modules that are used by the health and human services agencies. Standardization would help to ensure that there is an efficient approach to achieving a proper segregation of duties for entering and approving electronic purchase vouchers.

Summary of Management's Response and Auditor's Follow-Up Comment

The Commission is in general agreement with the audit recommendations, and its full responses are presented in Appendix 3. However, the Commission did not respond to the findings and recommendation in Chapter 2-D regarding changes to the terms of its human resources and payroll contract that have not been documented through amendments. The failure to document these changes could have a significant cost impact to the State. The Commission needs to ensure that it adheres to the established procedures for changing or amending executed contracts.

Summary of Information Technology Review

Auditors identified vulnerabilities within the financial modules of the health and human services agencies' internal accounting system and application controls that would not adequately prevent or detect inappropriate or possibly fraudulent financial transactions. Specifically:

- The Department of Assistive and Rehabilitative Services and the Department of Family and Protective Services do not have adequate segregation of duties for the entry and approval of electronic purchase vouchers.
- The financial modules that the Department of State Health Services and the Department of Aging and Disability Services use do not consistently record who approves each electronic purchase voucher.
- Health and human services agencies do not periodically review their financial module transaction audit logs to detect inappropriate approvals.

It is important to note that the weaknesses in recording who approves each electronic purchase voucher are mitigated by manual, paper-based processes used by each of the health and human services agencies. However, the financial modules were intended to provide a standardized, automated, and efficient process for documenting and approving purchase voucher payments.

Summary of Objectives, Scope, and Methodology

The audit objectives were to examine the Commission's consolidation efforts for centralizing its administrative support functions and to determine whether the Commission's efforts improved the efficiency and effectiveness of its administrative support services' operations as intended by House Bill 2292 (78th Legislature, Regular Session). Specifically, auditors:

- Reviewed the implementation of the outsourced human resources management contract.

- Reviewed the Commission's consolidation of financial services processes.
- Reviewed the consolidation of information technology services and automated systems.

Because of the manner in which support functions were consolidated, it was also necessary to conduct audit work at other agencies included within Article II of the General Appropriations Act.

The audit scope included assessing the methodology that the Commission used to plan the consolidation of its administrative support functions. The audit's primary focus was assessing the adequacy of the Commission's consolidation planning conducted from June 2003 through August 2004, specifically with regard to the Commission's centralization and development of consolidated financial services and information resources business processes and related information systems. Additionally, the audit scope included reviewing the adequacy of the Commission's planning and monitoring of the human resources and payroll services that it transferred to a contractor. The audit assessed the Commission's planning and monitoring process for this contractor's activities from October 2004 through August 2005.

The audit methodology included collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating the results of tests, and interviewing the Commission's and health and human services agencies' management and staff.

Recent SAO Work		
Number	Product Name	Release Date
06-009	An Audit Report on the Health and Human Services Commission's Consolidation of Administrative Support Functions	September 2005
06-005	A Follow-Up Audit Report on the Health and Human Services Commission's Prescription Drug Rebate Program	September 2005
05-045	A Follow-Up Audit Report on the Health and Human Services Commission's Administration of the Children's Health Insurance Program	July 2005
05-033	An Audit Report on Administration of Nursing Facility Contracts at the Department of Aging and Disability Services and the Health and Human Services Commission	April 2005
05-028	A Follow-Up Audit Report on Managed Care Contract Administration at the Health and Human Services Commission	February 2005
05-024	An Audit Report on the Health and Human Services Commission's Monitoring of Its Contracted Medicaid Administrator	January 2005
04-042	An Audit Report on the Health and Human Services Commission's Administration of the CHIP Exclusive Provider Organization Contract	July 2004
04-011	An Audit Report on the Health and Human Services Commission's Monitoring of Managed Care Contracts	November 2003

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Detailed Results

Chapter 1

The Commission Should Conduct a Business Process Analysis of Health and Human Services Agencies' Financial Services Functions and Strengthen Its Oversight of Those Agencies' Information Resources Functions

The Health and Human Services Commission (Commission) should conduct a complete business process analysis of health and human services agencies' financial services functions to ensure that consolidation efforts result in efficient and effective financial operations. Because the Commission did not perform a comprehensive business process analysis prior to its consolidation

of its administrative support functions, individual health and human services agencies' financial services functions:

Business Process Analysis

A comprehensive business process analysis would provide detailed and accurate information to management for assessing the efficiency and effectiveness of current administrative support functions. Such analysis would document existing processes, identify process outputs and activities, and determine customer service requirements.

In addition, this type of analysis would assist in establishing a baseline for current performance and identify performance gaps and other areas for improvement, including operating costs.

- Have experienced difficulties in processing purchase vouchers and entering budget data.
- Lack adequate performance measures to monitor their financial services activities.
- Use manual, paper-based approval processes that are duplicative of the electronic approval processes of the internal accounting system.

In addition, the Commission decided to centralize only the information resources functions related to the management and technical support of three specific information systems used by all the health and human services agencies. While this decision appears reasonable, the Commission should strengthen its oversight of health and human services agencies' information resources functions to ensure that these functions have developed efficient and effective business processes. This should be done by:

- Developing adequate performance measures to monitor the performance of its information resources functions.
- Approving and standardizing policies and procedures that the health and human services agencies' information resources functions use.
- Standardizing other policies and methodologies for health and human services agencies' information resources functions to use.

The Commission Should Conduct a Comprehensive Business Process Analysis of Health and Human Services Agencies' Financial Services Functions

The Commission should conduct a comprehensive business process analysis of health and human services agencies' financial services functions to collect information on the amount of work that needs to be accomplished and to identify areas that could be streamlined or consolidated to ensure that appropriate resources are available to meet workload demand.

The Consolidated Financial Services Function

The Commission decided to establish a financial services function at each of the health and human services agencies to avoid disrupting existing payment and payroll processes.

The Commission reported that it (1) facilitated decisions regarding each consolidated financial services function's staffing levels and (2) required that each financial services function establish an accounting and budgeting department.

Although the Commission monitors each health and human services agency's use of the internal accounting system and operating budgets, the health and human services agencies are responsible for monitoring the ongoing operations of their financial services functions.

The Commission chose to maintain a financial services function at each of the health and human services agencies to avoid disrupting the payment and payroll processes (see text box for additional information about the consolidation of the financial services function). While the Commission's decision not to centralize the financial services functions under its management appears reasonable, the Commission should ensure that the agencies' financial services functions perform their responsibilities efficiently and effectively.

Four of the five health and human services agencies reported experiencing a strain on their staffing resources for either processing purchase vouchers or completing the entry of budget data. They also reported that there were increases in the financial services workloads when the 12 legacy health and

human services agencies were transformed into the 5 existing health and human services agencies.

The Commission conducted functional reviews of the 12 legacy health and human services agencies to identify the full-time equivalent (FTE) positions within financial services functions that would be subject to consolidation. The Commission reports that it reduced the financial services staffing for the health and human services agencies by 64 FTEs.¹ In addition, the Commission reported that FTE reductions were achieved through attrition, retirements, and the elimination of positions that were judgmentally determined to be redundant. The Commission also anticipated that the use of a common internal accounting system by the health and human services agencies would result in an efficient and effective use of financial personnel. However, the Commission did not conduct comprehensive business process analyses of the 12 legacy health and human services agencies' financial services functions. Because of this, it did not have adequate information to

¹ The reduction in 64 FTEs resulted in a salary savings of \$1.8 million in General Revenue.

determine whether its consolidation efforts would result in more efficient and effective processes.

In addition, the Commission needs to standardize the activities that the health and human services agencies perform in order to process and document the approval of electronic purchase vouchers within its internal accounting system. This issue is discussed further in Chapter 3.

The State Auditor's Office previously reported that the Commission conducted functional reviews of the 12 legacy health and human services agencies to identify FTE positions in administrative support functions that would be subject to consolidation. However, those reviews did not provide complete information on existing processes, identify process outputs and activities, or determine customer requirements.

The Commission should ensure that health and human services agencies develop adequate performance measures to monitor the performance of their financial services functions.

The Commission should ensure that its health and human services agencies develop adequate performance measures for their financial services functions. Three of the five health and human services agencies—the Department of Aging and Disability Services, the Department of Family and Protective Services, and the Department of State Health Services—did not have performance measures for their respective financial services functions. In addition, while the Commission reported developing performance measures, most of these performance measures were primarily output-based and did not measure the timeliness of purchase voucher payments to external vendors. Developing adequate performance measures that identify and address both internal and external customer needs, such as assessing the timeliness of payments, can assist the health and human services agencies in identifying specific areas that can be improved, re-engineered, or eliminated. Such performance measures will also enable the Commission to ensure that the health and human services agencies' financial operations are efficient and effective.

The Commission should ensure that health and human services agencies discontinue manual, paper-based approval processes that duplicate other approval processes.

The health and human services agencies are using manual, paper-based approval processes that are duplicative of the electronic approval processes already performed by the internal accounting system's financial module for approving purchase vouchers. This results in unnecessary delays in the payment of purchase vouchers. Although weaknesses in the application controls for recording who approves each electronic purchase voucher are mitigated by the manual, paper-based approval process, the Commission's use of the financial module was intended to provide a standardized and efficient

approach for approving purchase vouchers for payment. The weaknesses in application controls are discussed further in Chapter 3.

Recommendations

The Commission should:

- Perform a comprehensive business process analysis that includes (1) an analysis of the processes and activities performed by each of the health and human services agencies' financial services functions and (2) quantification of the workload to be performed by financial services staff at each agency.
- Develop standardized performance measures to monitor the performance of health and human services agencies' financial services functions such as the cycle time to process and approve purchase vouchers.
- Facilitate the discontinuation of duplicative efforts performed by the health and human services agencies for documenting the approval of purchase vouchers.

Chapter 1-B

The Commission Should Strengthen Its Oversight of the Health and Human Services Agencies' Information Resources Functions

The Commission should ensure that health and human services agencies' information resources functions use business processes that are efficient and effective. The Commission centralized only the information resources functions related to the management and technical support of three specific information systems used by all the health and human services agencies:

The Organization of the Information Resources Functions

The information resources functions are performed by different organizational functions: the Commission's Enterprise Chief Information Office (Enterprise Office) and the Information Resources Management (IRM) units at each of the health and human services agencies.

The Enterprise Office is responsible for the management and support of the System for Application, Verification, Eligibility, Reports and Referrals; the Texas Integrated Eligibility Redesign System; and the Health and Human Services Administrative System. The Enterprise Office is managed by the Commission's chief information officer, who reports directly to the Commission's deputy commissioner of financial services.

The IRM function is in place at each of the health and human services agencies. The IRM is responsible for management and support of the information systems and technology used by the agency's administrative and client service programs. The IRM reports to its agency's chief operating officer.

- The System for Application, Verification, Eligibility, Reports and Referrals (SAVERR, which is the present system for program eligibility determination)
- The Texas Integrated Eligibility Redesign System (TIERS, which is a new system for program eligibility determination that will be replacing SAVER)
- The Health and Human Services Administrative System (HHSAS, which is the internal accounting system)

The Commission reported that the approximately 700 other information systems used by health and human services agencies are managed and supported by the agencies that use them.

The Commission's decision to manage only the information systems used by all five health and human services agencies appears reasonable. However, the Commission should ensure that the information resources functions that the agencies have developed provide for efficient and effective business processes. The Commission should do this by (1) developing adequate performance measures to monitor the performance of health and human services agencies' information resources functions, (2) approving and standardizing policies and procedures for the health and human services agencies' information resources functions to use, and (3) standardizing other policies and methodologies for health and human services agencies to use.

The Commission should develop adequate performance measures to monitor the performance of health and human services agencies' information resources functions.

The Commission did not develop adequate performance measures to monitor the performance of either its own Enterprise Chief

The Project Management and Repository System

The Project Management and Repository System (PMRS) is a database that compiles and reports information on the completion status of technology projects whose costs exceed \$100,000. PMRS is used for internal reporting and project management purposes. PMRS compiles and reports the following information entered by the project manager:

- Project start up
- Planning the project
- Executing and controlling the project
- Closing the project

Source: Health and Human Services Commission

Information Office (Enterprise Office) or the information resources management (IRM) functions at the health and human services agencies. The Commission reported that it did standardize the use of its Project Management and Repository System (PMRS), which it uses as a tool to monitor the progress of information technology projects (see text box for additional information about PMRS).

However, PMRS did not compile or report on the performance of the other services provided by the information resources functions, such as help desk, technical, or system security support. Adequate performance measures can assist the Commission in

determining whether its Enterprise Office and health and human services agencies' IRMs are meeting the needs of their customers.

The Commission should complete the development and approval of agency-wide information resources policies and procedures.

The Commission drafted policies and procedures to be used by both its Enterprise Office and health and human services agencies' IRMs. These policies and procedures established high-level guidelines for maintaining information system security over health and human services information systems, developing policies for managing the use of information technology equipment, and ensuring the quality of services or products that are provided. Completing the development and approval of these policies and procedures will allow the Commission to establish a framework for developing efficient

and effective standardized business processes. As of December 2005, those policies and procedures were still being reviewed by the Commission.

The Commission should require the health and human services agencies to use its Information Technology Governance and Project Management Policies and Service-Oriented Architecture Plan.

The Commission's decision to manage only its Enterprise Office and its own IRM function allows each of the other health and human services agencies' IRM functions to independently determine how to consolidate and manage their respective information resources. However, this increases the risk that health and human service agencies could implement inefficient and ineffective processes.

The Commission reports that the health and human services agencies are not required to use specific policies that have been drafted for its Enterprise Office: the Information Technology Governance and Project Management Policies (Policies) and the Service-Oriented Architecture Plan (Plan). The Commission's Policies provide a high-level approach to managing information technology projects. The Plan is a management approach that is based on tailoring the use of information resources and applications to support business processes. Both the Policies and the Plan are useful documents for providing additional guidance to health and human services agencies in developing consistent, efficient, and effective business processes for their information resources functions.

Recommendations

The Commission should:

- Develop performance measures that measure whether health and human services agencies' information resources services meet the needs of client service programs in an efficient and effective manner.
- Complete the development and approval of its agency-wide information resources policies and procedures.
- Require the health and human services agencies to comply with its Enterprise Office's Information Technology Governance and Project Management Policies and Service-Oriented Architecture Plan.

The Commission Should Substantially Enhance Its Planning for and Monitoring of Administrative Support Service Contracts

The Commission's efforts to manage its human resources and payroll services contract demonstrate that it needs to improve its oversight of the planning for and monitoring of administrative support service contracts. The Commission did not adequately plan and monitor its contractor's preparation for providing human resources and payroll services. Specifically:

- The Commission did not adequately monitor the progress of activities that the contractor performed in transferring services from the Commission to itself. In addition, although the Commission was responsible for monitoring the contractor's costs for transferring those services, the Commission neither adequately monitored the reasonableness and necessity of the contractor's costs nor determined the adequacy of the services the contractor performed during the transfer.
- The Commission limited its involvement in the development, testing, and validation of interfaces between the contractor's Web-based applications and the state-owned Human Resource Management System. This led to health and human services agencies' experiencing problems with using the contractor's Web-based applications.
- The Commission did not adequately monitor the contractor's performance and compliance with contract requirements. It did not hire a contract manager to monitor the contract until 11 months after it had executed the contract and after paying the contractor \$7.5 million. In addition, the Commission did not develop adequate policies and procedures for monitoring the contractor's performance and compliance with contract requirements.
- The Commission did not document changes to its human resources and payroll services contract before those changes became effective.

The Commission's lack of adequate planning and independent monitoring of its contractor's activities prevented it from ensuring that the operations and resources of health and human services agencies were adequately protected from delays or problems that could result from the contractor's preparations.

Chapter 2-A

The Commission Did Not Demonstrate Adequate Oversight in Monitoring Its Contractor's Activities and Costs Associated with Transferring Human Resources and Payroll Services

The Commission did not adequately monitor the activities that its contractor performed in the transfer of human resources and payroll services. The Commission's transition plan for transferring its human resources and payroll

services to the contractor delegated the responsibilities for planning and monitoring those activities to the contractor.

Transition Costs

Section 4.03 of the executed contract agreement between the Commission and the contractor states that the Commission will pay the contractor for transition costs not to exceed \$26.6 million in three annual installment payments. The first and second payments of approximately \$5.3 million and \$10.7 million, respectively, are due to the contractor as defined by the contract; the final payment of approximately \$10.7 million is subject to a reduction, dependent on a review of the final transition costs the contractor reports.

The contract requires the contractor to provide documentation explaining the services and costs involved in its budget for the \$26.6 million. In addition, the contract states that the Commission will assess the reasonableness and necessity of transition costs that the contractor reports by conducting a monthly review of the contractor's financial statements. As stipulated by the contract, the Commission reserves the right to request additional documentation as necessary to complete its review of transition costs.

The Commission also did not adequately monitor the contractor's transition costs associated with transferring human resources and payroll services to the contractor. (See text box for details about transition costs). The Commission approved the contractor's budget of anticipated transition costs without adequate documentation regarding the reasonableness or necessity of the services the contractor was going to perform. Although the executed contract specified that the Commission would assess the reasonableness and necessity of transition costs the contractor reported, the Commission did not develop any policies or procedures to perform such an assessment. In addition, the Commission did not develop criteria to evaluate the adequacy of the contractor's performance in transferring services.

The Commission did not monitor the activities of its human resources and payroll services contractor.

The Commission developed a transition plan that delegated the planning and monitoring of contractor activities to the contractor itself. Because of this, the Commission could not ensure that the planning and monitoring performed to transfer services to the contractor were adequate or appropriate. The transition plan delegated the following responsibilities to the contractor²:

- Development of the work plan and communications with target audiences
- Development and performance of oversight activities to monitor the transfer of human resources and payroll responsibilities to the contractor
- Planning for and performance of all system development activities

The significance of adequately monitoring its contractor is exemplified by problems that the Commission experienced in its attempt to transfer its payroll operations to the contractor on October 1, 2005. Health and human services agencies reported that, following the contractor's first attempt to process the agencies' payroll, a number of significant problems occurred:

- The contractor did not demonstrate its understanding of state guidelines and regulations for processing payroll.

² The contractor hired a subcontractor to assist in the development, performance, and monitoring of the responsibilities delegated by the transition plan. As discussed further in this chapter, subcontractor services accounted for approximately 56.8 percent of the transition costs reported in July 2005.

- The contractor missed the deadline for direct deposit notifications; as a result, approximately 80 employees at the Department of State Health Services received warrants instead of direct deposits. The contractor did not notify the Department of State Health Services of this situation. Some employees reported incurring overdrafts on their personal checking accounts because of this problem.
- Employees reported not receiving either their salaries or the correct salary amount, including, in some cases, the appropriate overtime pay.

As a result of the above problems, the Commission decided to resume control of payroll processing until the problems were corrected. However, the Commission had inadequate staffing to process payroll because it had already reduced its own payroll staff in anticipation of the transfer of payroll services to the contractor. The Department of State Health Services reported that its financial services staff was assisting in processing payroll.

In addition, the Commission experienced problems when it implemented the first features of its contractor's Web-based services on May 2, 2005. Those problems are discussed further in Chapter 2-B.

The Commission approved the contractor's transition budget without understanding whether those costs were reasonable and necessary.

The Commission approved the contractor's proposed transition budget of \$26.6 million on November 10, 2004; however, the contractor did not provide the Commission with documentation explaining the services and costs involved in the transition. The contract requires the contractor to provide documentation supporting its proposed expenditures.

Without clearly defining the types and amounts of services the contractor would perform during the transfer, the Commission did not have any assurance that the \$26.6 million allocated for the start-up of the contractor's operations was reasonable and necessary.

The Commission did not adequately monitor the transition costs reported by the contractor.

The Commission did not have policies or procedures for monitoring the contractor's transition costs. The Commission received monthly financial statements from the contractor for its transition costs and compared the statements to the contractor's transition budget and previous month's financial statements. However, the Commission did not request or obtain any additional documentation from the contractor to support whether those reported costs were accurate, reasonable, or necessary.

In addition, the Commission did not question the contractor about any significant variances between the contractor's transition budget and the contractor's monthly financial statements. The Commission also could not

determine whether the services the contractor proposed to provide were actually provided because the contractor did not give the Commission documentation explaining the services and costs involved with the transition.

Auditors compared the contractor’s July 2005 financial statement³ to the approved transition budget and identified the budget variances listed in Table 1. As of July 31, 2005, the contractor had exceeded the \$26.6 million approved transition budget by \$2 million.

Table 1

Variances Between the Approved Transition Budget and Actual Transition Costs Reported by the Human Resources and Payroll Services Contractor			
Budget Item	Approved Transition Budget (millions)	Actual Costs the Contractor Reported in July 2005 (millions)	Difference Between Approved Budget and Reported Costs (millions)
Blue Print Design	\$4.2	\$4.5	\$0.3
Project Management Services	3.9	3.3	(0.6)
Operation Startup	0.9	2.2	1.3
Training and Change Management Services	4.7	1.1	(3.6)
Technology	12.9	17.5	4.6
Total	\$26.6	\$28.7	\$2.0

Source: Health and Human Services Commission

Auditors also determined that approximately \$16.3 million (56.9 percent) of the total transition costs that the contractor reported in July 2005 were attributed to subcontractor services. The contractor originally projected that costs for subcontractor services would be approximately \$10.5 million (39.5 percent) of the total proposed transition cost.

In addition, because the Commission did not have documentation with sufficient details that explained the contractor’s services and costs involved with the transition, the Commission did not have criteria to assess the quality or adequacy of the services the contractor provided in comparison with the cost of those services. For example, there was a \$3.6 million difference between the budgeted and reported costs for training and change management services, and the Commission did not have the documentation necessary to evaluate the quality or adequacy of the services provided for \$1.1 million in comparison with what the contractor proposed to provide for \$4.7 million.

Despite the significant differences between budgeted and reported costs summarized in Table 1, the Commission did not attempt to identify an explanation for those differences. The Commission asserted that the terms of

³ July 2005 would have been the final month of the transition period based on the anticipation of full implementation of outsourced human resources and payroll services beginning August 1, 2005. However, as discussed in Chapter 2-A, this date was changed to October 1, 2005.

its contract ensured that its payments for transition costs were capped at \$26.6 million and that it would not pay any transition costs that exceeded that amount. However, the Commission has no assurance about whether the transition costs were reasonable and necessary or whether the services provided were performed to its expectations.

Recommendations

The Commission should:

- Ensure that, when it is outsourcing administrative support services, it adequately plans and independently monitors the transfer of all critical business activities.
- Develop and implement objective policies and procedures for developing, reviewing, and independently monitoring activities for transferring its services to a contractor.
- Establish criteria to evaluate the adequacy of the services that a contractor proposes performing in transferring services.
- Develop and implement objective policies and procedures to monitor the reasonableness and necessity of a contractor's transition costs. Specifically, the Commission should:
 - ♦ Require the contractor to provide adequate documentation that allows the Commission to determine the reasonableness and necessity of the anticipated services and costs that the contractor identified as necessary for transferring services.
 - ♦ Obtain adequate supporting documentation, such as invoices and subcontractor payment terms, to ensure that reported transition costs are accurate.
- Obtain an audit of its human resources and payroll services contractor's transition costs prior to making any additional payments for transition costs. The audit should verify whether reported transition costs were accurate, reasonable, necessary, and incurred in accordance with the terms of the executed contract. In addition, the Commission should ensure that its final installment payment for transition costs is based on the conclusion of the audit report and is made in compliance with the terms of the executed contract.

The Commission Limited Its Involvement in the Development, Testing, and Validation of Interfaces between the Human Resources and Payroll Services Contractor's Web-Based Applications and the State-Owned Human Resources Management System

The Commission did not have adequate involvement in the development,

Test Plan

A test plan is a detailed outline of system development tests to be performed. Each test should have a defined set of entrance and exit criteria to ensure that system development activities are complete prior to proceeding to full operation.

The test plan used by the contractor consisted of four components of tests:

- System Testing: Tests of the processes and the technology within a system.
- Integration Testing: Tests of converted data, interfaces between the various systems, creation and distribution of reports, and system performance.
- Load and Stress Testing (LAST): Tests to ensure that the systems can handle the predicted number of users based on specific conditions.
- User Acceptance Testing (UAT): UAT is similar in scope and complexity to Integration Testing and will use many of the same test scripts. The main difference is that it is driven by the end users who will perform all tasks that they typically would perform as part of their duties.

testing, and validation of the interfaces between the human resources and payroll services contractor's Web-based applications and the state-owned Human Resource Management System (HRMS). To validate the adequacy and appropriateness of the contractor's changes, the Commission relied on test results the contractor reported. This resulted in delays that impaired the health and human services agencies' ability to use the contractor's Web-based applications.

The Commission was not adequately involved in the development, testing, and validation of test plans to assess the adequacy of the contractor's interfaces with HRMS.

As discussed in Chapter 2-A, the Commission's transition plan delegated to the contractor the responsibility for planning and monitoring the activities performed by the contractor. Included in these activities were the development, testing, and validation of test plans to assess the adequacy of interfaces between the contractor's Web-based applications and HRMS (see text box for additional details regarding test plans). Although the Commission had the opportunity to review and comment on three of

four components of the contractor's test plans—Integration, Load and Stress, and User Acceptance Testing—its acceptance of the transition plan hindered its technical staff from completely understanding the contractor's modifications and limited its technical staff's ability to monitor the adequacy and the appropriateness of those tests.

Based on their experiences with the contractor's implementation of the first features of the Web-based applications, Commission staff reported several significant areas in which the Commission needed to have a more prominent role:

- **Contract Provisions.** Commission staff with technical expertise were not involved in developing the technical areas of the executed contract and subsequently determined that the contract lacked specificity in many critical technical areas. The State Auditor's Office previously reported that the Commission did not clearly define its critical technical support services in the contract (see *An Audit Report on the Health and Human*

Services Commission's Consolidation of Administrative Support Functions, SAO Report No. 06-009, September 2005).

- **Information System Security.** The contractor did not provide the Commission's security team with information and access to Web-based applications that would allow the security team to assess the adequacy of the contractor's security controls. In addition, the security team reported that it did not receive the contractor's security plan until after the implementation of the first features of the Web-based applications.
- **System Development Testing.** Commission staff were not involved in developing the test plans the contractor used and, therefore, were limited in their ability to independently validate the test results that the contractor reported. Commission staff recommended that the involvement of the technical staff in the test plan development process be increased, specifically in user acceptance testing. Although the Commission performed some user acceptance testing, it was limited to using tests that were defined and designed by the contractor. In addition, the contractor instructed Commission staff to *not* perform ad hoc testing.⁴

Auditors also determined that the test plans the contractor developed designated certain responsibilities as assigned to the Commission although the designations conflicted with the provisions of the contract. This issue is discussed further in Chapter 2-D.

- **Defect Identification and Resolution.** Commission staff also lacked information regarding the details of system defects and involvement in classifying and reclassifying the severity of those defects. Although the contractor provided a weekly defect report to the Commission, the report lacked specificity and information regarding the corrective actions taken to fix the defects. Furthermore, the classification of defects was the sole responsibility of the contractor; only defects that the contractor deemed "critical" or "high" were corrected during system development. (See text box for additional details regarding defect classification.)

<p style="text-align: center;">Classification of System Defects</p> <p>Defects identified during system development were placed into four categories:</p> <ul style="list-style-type: none">▪ Critical. A defect that causes all further processing to be suspended. There is no feasible workaround. The problem must be corrected for the project to be successful.▪ High. A defect that causes a serious problem in system processing. There may be a feasible workaround, but it would result in additional manual work. The problem should be corrected for the project to be successful.▪ Medium. A defect that causes an inconvenience to the users or system processing. If a feasible workaround exists, immediate correction of the problem is optional.▪ Low. A defect that does not cause a significant user or processing problem. This type of defect would typically be deferred until after all system development activities are complete.

Commission staff reported that the implementation of the first features of the

⁴ The Commission staff reported that ad hoc testing is a standard testing method used to find defects that pre-defined tests may miss.

Web-based applications was delivered with nearly 100 critical and high defects. As a result, the health and human services agencies experienced difficulties using those applications.

- **System Development Documentation.** The Commission was not provided with all technical documents related to functional and technical designs of the contractor's modifications and testing methodology in a timely manner. Specifically, the contractor did not provide technical documents for implementing the first features of the Web-based applications in a timely manner, and it did not provide functional and technical designs for testing.
- **System Development Time Line.** Commission staff were not involved in defining measurable project checkpoints to be used in deciding whether to advance implementation activities to full operation. Specifically, Commission staff were not involved in the development of implementation time lines for the first features of the Web-based applications. In addition, the Commission staff reported that, although the first features of Web-based applications were implemented for full operation, those features did not provide all the functionality the Commission anticipated.

The Commission did not independently validate the contractor's reported test results.

With the exception of performing limited user acceptance testing, the Commission did not independently validate the contractor's reported test results. Instead, the Commission relied on the contractor to report and validate test results. Without independently verifying test results, the Commission could not be completely certain that the contractor's Web-based applications would function adequately and appropriately.

The Commission implemented the first features of the Web-based applications even though it was aware of defects in security controls involving the format of passwords and user access rights. The contractor proposed a short-term workaround to mitigate the risk posed by these defects, which the Commission found feasible. However, as previously discussed, Commission staff reported that the first features of applications were delivered with nearly 100 other critical and high defects. As a result, the health and human services agencies experienced difficulties using those Web-based applications.

Recommendations

The Commission should:

- **Develop and implement objective policies and procedures to ensure that it is involved in the development, testing, and validation of test plans to assess the appropriateness and adequacy of contractor modifications to**

state-owned information systems. The Commission should ensure that its information resources staff have an active role in:

- ♦ Developing technical provisions and requirements of administrative support services contracts.
 - ♦ Ensuring the adequacy and appropriateness of all security controls involving state-owned information systems and any application interfaces.
 - ♦ Developing, testing, and validating test plans used in assessing a contractor's modifications to state-owned information systems.
 - ♦ Classifying system defects identified and ensuring that an appropriate resolution is developed and implemented.
 - ♦ Acquiring all technical documents related to the design and testing of modifications involving state-owned information systems.
 - ♦ Creating a system development time line. The Commission should ensure that (1) requirements for developing a time line include establishing measurable checkpoints and (2) Commission information resources staff determine whether it is appropriate to advance system development activities to full implementation.
- Independently review and test contractor modifications to state-owned information systems *prior* to fully implementing those modifications.

Chapter 2-C

The Commission Has Not Adequately Monitored Its Human Resources and Payroll Services Contractor's Performance and Compliance with Contract Requirements

The Commission hindered its ability to adequately monitor its human resources and payroll services contractor by not having a contract manager or contract monitoring policies and procedures prior to the execution of its contract.

The Commission did not hire a contract manager until 11 months after the execution of the contract and after the Commission had already paid the contractor \$7.5 million.

Contract Manager Responsibilities

The Texas Building and Procurement Commission's *Contract Management Guide* states that a contract manager's responsibilities typically include, but are not limited to:

- Participating, as necessary, in developing the solicitation and writing the draft documents.
- Monitoring the contractor's progress and performance to ensure that goods and services conform to the contract requirements.
- Managing any state property used in contract performance.
- Authorizing payments consistent with the contract documents.
- Exercising state remedies, as appropriate, when a contractor's performance is deficient.
- Resolving disputes in a timely manner.
- Documenting significant events.
- Maintaining appropriate records.

The Commission hired a contract manager in August 2005, which was 11 months after the execution of its contract in October 2004. The Commission did not post a job opening for the position of contract manager for its human resources and payroll services contract until March 2005, which was six months after the execution of the contract.

The Commission hired the contract manager several months after it had made approximately \$7.5 million in payments to the contractor⁵ and after the contractor had started providing a limited number of services to the health and human services agencies.⁶

If the contract manager had been hired earlier, he or she could have assisted in planning and monitoring activities that were performed by the contractor (discussed in Chapters 2-A and 2-B) and could have

ensured that changes to the executed contract terms were documented and amended appropriately. Issues regarding the documentation and amendment of changes to the executed contract terms are discussed in more detail in Chapter 2-D.

The Commission did not develop adequate policies and procedures for monitoring the contractor's performance and compliance with contract requirements.

The Commission did not establish contract monitoring policies and procedures, such as on-site visits of the contractor's operations, to ensure that the contractor was prepared for and capable of fulfilling its obligations or to review and verify the contractor's reported performance. Although the Commission drafted agency-wide guidelines for monitoring a contractor's performance and ensuring contractor compliance with contracts, it did not use those guidelines or develop any contract monitoring policies and procedures tailored to the human resources and payroll services contract.

The Texas Building and Procurement Commission's *Contract Management Guide* recommends that state agencies establish contract monitoring policies and procedures during the development of the statement of work for contract services.

⁵ The Commission paid \$5.3 million in transition costs in December 2004 and \$2.2 million in operating fees in April 2005.

⁶ The contractor started providing limited support services to HRMS on January 31, 2005, and implemented its Web-based, self service applications for recruitment and staffing, administrative training, human resources policies, and electronic forms on May 2, 2005.

Recommendations

The Commission should:

- Ensure that, after awarding a solicitation for contract services but before the execution of the contract agreement, it hires a contract manager or delegates contract management responsibilities to existing staff.
- Develop and implement objective policies and procedures for monitoring the performance of contractors. These policies and procedures should allow the Commission to effectively measure and assess contractor performance. The Commission should consider incorporating the guidelines for contractor site visits and desk reviews that are recommended by the Texas Building and Procurement Commission's *Contract Management Guide*.

Chapter 2-D

The Commission Did Not Ensure that Changes to the Terms of Its Human Resources and Payroll Services Contract Were Documented through Amendments to Its Executed Contract

The Commission established provisions within its Uniform Contract Terms and Conditions and defined a change management process in its executed contract for human resources and payroll services; however, it did not ensure that changes to the contract terms were documented and amended to the executed contract before making those changes effective. Both the Commission and its contractor took actions during the transfer of services that changed the original terms of the executed contract.

Changes were made to the contractor's scope of work, the time period during which the contractor could incur and report transition costs, and the payment rate used to calculate operating fees. Specifically, the Commission did not document or amend the following changes to its executed contract:

- As discussed in Chapter 2-B, the test plans specified that the Commission was responsible for performing certain activities that changed the original scope of work specified in the contract. This resulted in costs being shifted to the Commission. Specifically, the quality assurance test plans stated that the *Commission* would be responsible for testing the performance of state-owned information systems, other than HRMS, that interfaced with the contractor's Web-based applications and for determining the funding resolution to resolve any defects it identified. In contrast, the executed contract specified that the *contractor* would "support internal and external interfaces to HHSAS financials, [the Commission's] legacy systems, and statewide systems."⁷

⁷ This requirement is described in Exhibit F, Part 5.4.4.

- The Commission extended its transition phase to allow the contractor to fix problems caused by the contractor’s modifications to HRMS, but it did not amend the contract to reflect this change.

Operating Fees

The executed contract stipulates that the Commission would pay operating fees for the human resources and payroll services provided by the contractor effective May 1, 2005. The operating fees are paid prospectively on a quarterly basis and are calculated according to the monthly full-time equivalent employee (FTE) average for each health and human services agency multiplied by a corresponding unit rate determined from the executed contract’s operating fee schedule.

To properly reflect gradual implementation of the contractor’s services during the transition period, the executed contract adjusted the unit rates for the following months:

- May 2005 - 50 percent reduction
- June and July 2005 - 25 percent reduction

Upon full implementation in August 2005, the Commission would use the full unit rate to calculate operating fees.

The unit rates used to calculate operating fees are described further in Appendix 2.

Extension of the transition phase affected when transition costs the contractor reported to the Commission were incurred and whether those transition costs should be considered as part of the \$26.6 million allocated for paying transition costs.

- The Commission disputed paying the August 2005 operating fee using the full rate because system development problems prevented the contractor from fully implementing services on August 1, 2005 (see text box for additional information regarding operating fees). The Commission appropriately adjusted the August 2005 operating fee.⁸ However, the Commission neither documented its reasons for adjusting the payment nor formally amended the contract to reflect this change. The supporting documentation for the August 2005 payment included a note that stated, “August fee based on same monthly rate as July due to recent contract revisions.” However, the Commission did not follow required procedures in making the revisions.

Not documenting changes and amending contract terms can lead to disagreements over the roles, responsibilities, and costs assumed by both the Commission and the contractor. The Texas Building and Procurement Commission’s *Contract Management Guide* specifies that the failure to manage and control changes to executed contract provisions “can result in an unintentional modification to the scope of work, ... increase in the contract cost, [and can lead to] circumvention of management controls and diminished contractor accountability.”

Recommendation

The Commission should ensure that it documents changes in contract terms and conditions and, when appropriate, amends executed contracts for those changes.

⁸ Section 4.06(b) of the executed contract and Section 9.03 of the Uniform Contract Terms and Conditions allow the Commission to withhold disputed fees. In addition, Section 11.11(b) of the Uniform Contract Terms and Conditions requires that disputes be documented and disposed of by agreement between the parties.

The Commission Should Strengthen Access and Application Controls by Standardizing How Health and Human Services Agencies Process Electronic Purchase Vouchers

The Commission has not standardized health and human services agencies' approach to processing electronic purchase vouchers in an efficient manner using the financial module within its Health and Human Services

The Health and Human Services Administrative System (HHSAS)

HHSAS is the internal accounting system that the five health and human services agencies use. HHSAS incorporates PeopleSoft's Human Resource Management System (HRMS) and other financial software applications into a single automated system.

Although health and human services agencies' use of HRMS has been standardized, centralized, and supported by the Commission, the use of the financial software applications (general ledger, accounts payable, purchase orders, and asset management) has been tailored to the needs of each of the five health and human services agencies. Therefore, five separate financial modules have been created, one for each agency. These modules are maintained jointly by the Commission and each agency's support services team.

Administrative System (HHSAS, the Commission's internal accounting system). Instead, the Commission has established individual HHSAS financial modules for itself and for each of the other four health and human services agencies (see text box for additional details), and it has allowed each health and human services agency to independently determine its approach for achieving efficiencies using its individual financial module.

As a result, the Commission is not managing health and human services agencies' financial modules' processing of electronic purchase vouchers in the centralized, efficient, and effective manner prescribed by House Bill 2292 (78th Legislature, Regular Session).

In addition, not standardizing the approach for achieving efficiencies in processing purchase vouchers has led to vulnerabilities within agencies' individual financial modules and to application controls that do not adequately prevent or detect inappropriate or possibly fraudulent financial transactions. Specifically:

- The Department of Family and Protective Services and the Department of Assistive and Rehabilitative Services have not adequately segregated duties for the entry and approval of electronic purchase vouchers.
- The financial modules that the Department of State Health Services and the Department of Aging and Disability Services use do not consistently record who approves each electronic purchase voucher.
- None of the health and human services agencies is periodically reviewing these approval records to detect inappropriate approvals.

It is important to emphasize that, although there are weaknesses within the financial modules' processes in recording who approves each electronic purchase voucher, each health and human services agency has a manual, paper-based process to document the approval of electronic purchase vouchers. Nevertheless, the lack of a standardized approach for processing and documenting the approval of electronic purchase vouchers for all health

and human services agencies has resulted in an inefficient process for ensuring that electronic purchase vouchers are appropriately approved.

The Commission should standardize HHSAS financial module security and access controls across health and human services agencies to ensure that an efficient approach is used to properly segregate the duties of entering and approving electronic purchase vouchers.

The Commission has not standardized HHSAS financial module security and access controls for processing electronic purchase vouchers across all five health and human services agencies. This has resulted in inconsistent approaches for achieving possible efficiencies in processing electronic purchase vouchers. The Commission reports that each health and human services agency is using a standardized set of user security classes that was designed around the use of Workflow, which is the automated capability in HHSAS to assign a system-defined role to users and ensure the proper segregation of duties for each user. However, health and human services agencies are not required to use Workflow, and not all of them do.⁹

In addition, the lack of a standardized approach for entering and approving electronic purchase vouchers has resulted in each health and human services agency's creating different user access approaches, which has weakened segregation of duties controls. Auditors reviewed the security classes and the existence of Workflow controls for the financial modules used by the Department of Assistive and Rehabilitative Services and the Department of Family and Protective Services and identified the following conditions that represent weaknesses in segregation of duties:¹⁰

- The Department of Family and Protective Services identified 25 users who were given access rights to *only* enter purchase vouchers but who may also inappropriately have the ability to approve purchase vouchers.¹¹ Such a risk would have been prevented by using Workflow.
- Ten users at the Department of Assistive and Rehabilitative Services and 13 users at the Department of Family and Protective Services were given access rights to both enter and approve purchase vouchers.

⁹ The Department of State Health Services and the Department of Aging and Disability Services have implemented Workflow for the entry and approval of electronic purchase vouchers. The Commission indicates that the Department of Family and Protective Services and the Commission have not implemented Workflow for processing electronic purchase vouchers and that the Department of Assistive and Rehabilitative Services has configured Workflow only for the approval of electronic purchase vouchers.

¹⁰ Auditors previously reported on segregation-of-duties weaknesses identified at the Department of State Health Services (see *A Follow-Up Audit Report on the Department of State Health Services*, SAO Report No. 05-051, August 2005). In addition, auditors continue to review the segregation of duties defined in the financial modules for the Commission and the Department of Aging and Disability Services and plan to issue a separate report on the results of that work.

¹¹ The Department of Family and Protective Services reported that it needed to perform a review of the security processes involved to determine whether any mitigating controls existed to prevent these users from inappropriately approving a purchase voucher.

- Eight of the 10 users at the Department of Assistive and Rehabilitative Services who can enter and approve purchase vouchers also have the ability to create and change vendor information such as vendor contact names and vendor addresses. In addition, these eight users can change electronic purchase voucher and vendor information without creating a system record of their changes. Users with such access could possibly create and approve payments to fake vendors.

In addition, each health and human services agency makes different use of the defined application control structure, which is intended to efficiently and effectively process and maintain the data integrity of processed electronic purchase vouchers. This further complicates the Commission’s operation and maintenance of its internal accounting system. For example:

- The ability to override application controls that validate vendor billings is configured differently in each health and human services agency’s financial module.
- The application controls that prevent payment of duplicate invoices are configured differently in each health and human services agency’s financial module.

The Commission should ensure that health and human services agencies’ financial modules track the approval of vendor purchase vouchers.

Auditors reviewed the electronic records for purchase vouchers¹² processed during June 2005 at the Department of State Health Services and the Department of Aging and Disability Services and determined that the financial modules these agencies use do not consistently record the approval of electronic purchase vouchers (see Table 2).

Table 2

Summary of Agencies’ Electronic Purchase Voucher Approvals for June 2005				
Agency	Total Number of Electronic Purchase Vouchers for Which Approval Was Not Recorded	Total Number of All Transactions	Payment Amount of Electronic Purchase Vouchers for Which Approval Was Not Recorded (millions)	Total Payment Amount of All Transactions (millions)
Department of State Health Services	943	10,279	\$2.7	\$77.5
Department of Aging and Disability Services	172	7,261	\$0.6	\$16.4

However, each health and human services agency does have a manual process that documents the name of the approver on paper purchase vouchers.

¹² The electronic purchase vouchers that auditors reviewed did not include batch, interest, or unposted electronic purchase vouchers.

Although the manual process appears to be an adequate compensating control to document the approval of purchase vouchers, it is inefficient and redundant of a process that could be automated by each agency's financial module.

The Commission should ensure that health and human services agencies periodically review their financial modules' audit logs.

The Commission has not ensured that health and human services agencies periodically review their financial modules' audit logs. While examining whether the financial modules were recording the identification of staff that approved purchase vouchers, auditors determined that the Commission had not been reviewing the financial module audit logs. Periodically reviewing the audit log records is an important method for detecting inappropriate purchase voucher approvals.

Recommendations

The Commission should:

- Standardized HHSAS financial module security classes and Workflow controls across all health and human services agencies to ensure proper segregation of duties. In addition, the Commission should consider standardizing its application control structure across all health and human services agencies to more efficiently and effectively operate and maintain HHSAS.
- Ensure that the HHSAS financial modules used at each of the five health and human services agencies capture and record information about the specific individual who approves each electronic purchase voucher.
- Ensure that health and human services agencies establish objective policies and procedures to periodically review audit log records created by their HHSAS financial modules. Because of the large amount of information that is potentially available in these logs, the Commission should ensure that the health and human services agencies develop a risk assessment to identify the type of information the reviews of audit logs should examine.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The audit objectives were to examine the Health and Human Services Commission's (Commission) consolidation efforts for centralizing its administrative support functions and determine whether the Commission's efforts improved the efficiency and effectiveness of its administrative support services' operations as intended by House Bill 2292 (78th Legislature, Regular Session). Specifically, auditors:

- Reviewed the implementation of the outsourced human resources management contract.
- Reviewed the Commission's consolidation of financial service processes.
- Reviewed the consolidation of information technology services and automated systems.

Because of the manner in which agency support functions were consolidated, it was also necessary to conduct audit work at other agencies included within Article II of the General Appropriations Act.

Scope

The audit scope included assessing the methodology the Commission used to plan the consolidation of administrative support functions. The audit's primary focus was assessing the adequacy of the Commission's consolidation planning conducted from June 2003 through August 2004, specifically with regard to the Commission's centralization and development of consolidated financial services and information resources business processes and related information systems. Additionally, the audit scope included reviewing the adequacy of the Commission's planning and monitoring of the transfer of services to the human resources and payroll services contractor. The audit assessed the Commission's planning and monitoring process for this contractor's activities from October 2004 through August 2005.

Methodology

The audit methodology included collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating the results of tests, and interviewing the Commission's and health and human services agencies' management and staff.

Information collected and reviewed included the following:

- The Commission's House Bill 2292 transition plan
- The Commission's and health and human services agencies' consolidation planning documents and analyses
- Interviews with the Commission's executive management and administrative support management and staff, and interviews with health and human services agencies' management and staff
- Surveys completed by employees and verified by their supervisors
- Commission and health and human service agency reports and interoffice memoranda
- Procurement files associated with the contract for human resources and payroll services management
- The Commission's executed contract for human resources and payroll services management
- Requests for proposals for purchasing and for human resources and payroll services management
- Contract deliverables associated with the Commission's executed contract for human resources and payroll services management
- Planning and testing documents developed for the transfer of human resources and payroll services to the contractor
- Technical documents describing the system design of the Health and Human Services Administrative System
- Extracted data regarding end-user access rights and processed purchase vouchers

Procedures and tests conducted included the following:

- Limited review of consolidation planning documents for financial services and information resources
- Assessment of consolidation planning activities
- Limited review of the executed contract for human resources and payroll services management
- Limited review of planning and testing documents developed for transferring human resources and payroll services to the contractor

- Review of data extracts regarding end-user security access rights
- Review of approval of purchase vouchers

Criteria used included the following:

- House Bill 2292 (78th Legislative, Regular Session)
- Texas statutes and the Texas Administrative Code
- The Commission's House Bill 2292 transition plan
- *State of Texas Contract Management Guide*
- Policies and procedures for the Health and Human Services Administrative System
- Draft policies and procedures developed for the information resources function

Other Information

Audit fieldwork was conducted from June 2005 through October 2005. This audit was conducted in accordance with generally accepted government auditing standards.

The following members of the State Auditor's staff performed the following:

- Willie J. Hicks, MBA (Project Manager)
- Kels M. Farmer, CISA (Assistant Project Manager)
- Priscilla Garza
- Yi Hubert
- Joe Lawson, CPA
- Gary Leach, MBA, CISA, CQA
- Anthony Patrick, MBA
- Susan Pennington, MPAff
- Anca Pinchas, MAC
- John J. Quintanilla, MBA, CIA, CFE
- Andrew Reardon
- Rene Valadez

- Jim Yerich, CPA
- Michael Yokie, CISA
- Leslie Ashton, CPA (Quality Control Reviewer)
- Ralph McClendon, CCP, CISSP (Quality Control Reviewer)
- John Young, MPAff (Audit Manager)

Human Resources and Payroll Services Contract Operating Fees

Tables 3 and 4 show the operating fee schedules that the Health and Human Services Commission is required to use to determine the operating fee amount to pay its human resources and payroll services contractor.

Table 3 - Operating fee schedule for the three-month period (May 1, 2005 - July 31, 2005) during which the contractor was in the process of implementing its services

Operating Fee Schedule: May 2005—July 2005			
Monthly Total Number of Full-Time Equivalent (FTE) Employees Served (All Texas Government Customers)	Unit Rate per FTE May 2005	Unit Rate per FTE June 2005	Unit Rate per FTE July 2005
43,001-44,000	\$12.57	\$18.85	\$18.85
44,001-45,000	\$12.45	\$18.67	\$18.67
45,001-46,000	\$12.32	\$18.48	\$18.48
46,001-47,000	\$12.20	\$18.30	\$18.30
47,001-48,000	\$12.08	\$18.11	\$18.11
48,001-49,000	\$11.96	\$17.93	\$17.93
49,001-50,000	\$11.84	\$17.75	\$17.75
50,001-51,000	\$11.71	\$17.57	\$17.57
51,001-53,000	\$11.59	\$17.38	\$17.38
53,001-55,000	\$11.47	\$17.20	\$17.20
55,001-57,000	\$11.35	\$17.02	\$17.02
57,001 or above	\$11.23	\$16.84	\$16.84

Source: Health and Human Services Commission

Table 4 - Operating fee schedule to be followed upon full implementation of the contractor's services in August 2005

Operating Fee Schedule: August 2005—September 2009		
Monthly Total Number of Full-Time Equivalent (FTE) Employees Served (All Texas Government Customers)	Monthly Unit Rate per FTE	Annual Rate per FTE
38,000 or below	\$26.59	\$319.13
38,001-39,000	\$26.35	\$316.20
39,001-40,000	\$26.11	\$313.27
40,001-41,000	\$25.86	\$310.34
41,001-42,000	\$25.62	\$307.41
42,001-43,000	\$25.37	\$304.49
43,001-44,000	\$25.13	\$301.56
44,001-45,000	\$24.89	\$298.63
45,001-46,000	\$24.64	\$295.70
46,001-47,000	\$24.40	\$292.78
47,001-48,000	\$24.15	\$289.85

Operating Fee Schedule: August 2005–September 2009		
Monthly Total Number of Full-Time Equivalent (FTE) Employees Served (All Texas Government Customers)	Monthly Unit Rate per FTE	Annual Rate per FTE
48,001-49,000	\$23.91	\$286.92
49,001-50,000	\$23.67	\$283.99
50,001-51,000	\$23.42	\$278.14
51,001-53,000	\$23.17	\$278.13
53,001-55,000	\$22.93	\$275.21
55,001-57,000	\$22.69	\$272.28
57,001 or above	\$22.45	\$269.35

Source: Health and Human Services Commission

Management's Responses



TEXAS HEALTH AND HUMAN SERVICES COMMISSION

ALBERT HAWKINS
EXECUTIVE COMMISSIONER

January 6, 2006

John Keel, CPA
State Auditor
1501 North Congress Avenue, Suite 4.224
Austin, Texas 78701

Dear Mr. Keel:

Attached please find the Health and Human Services Commission's management response to the State Auditor's Office (SAO) draft audit report titled "The Health and Human Services Commission's Consolidation of Administrative Support Services."

We have carefully reviewed the information contained in the draft report, and appreciate the opportunity to provide our response to SAO's findings and recommendations.

Sincerely,

A handwritten signature in blue ink, appearing to read "Albert Hawkins".

Albert Hawkins

cc: Wanda M. Thompson, Ph.D.
Deputy Executive Commissioner for System Support Services
Tom Suehs, Deputy Executive Commissioner for Financial Services
Chris Traylor, Chief of Staff
David Griffith, Internal Audit Director

P. O. Box 13247 • Austin, Texas 78711 • 4900 North Lamar, Fourth Floor, Austin, Texas 78751

HHSC Management Response
to the State Auditor's Office Audit Report on:

**The Health and Human Services Commission's
Consolidation of Administrative Support Services**

Chapter 1 – A

SAO Recommendation: *The Commission should:*

- *Perform a comprehensive business process analysis that includes (1) an analysis of the processes and activities performed by each of the health and human services agencies' financial services functions and (2) quantification of the workload to be performed by financial services staff at each agency.*
- *Develop standardized performance measures to monitor the performance of health and human services agencies' financial services functions such as the cycle time to process and approve purchase vouchers.*
- *Facilitate the discontinuation of duplicative efforts performed by the health and human services agencies for documenting the approval of purchase vouchers.*

Management Response:

- *Perform a comprehensive business process analysis that includes (1) an analysis of the processes and activities performed by each of the health and human services agencies' financial services functions and (2) quantification of the workload to be performed by financial services staff at each agency.*

H.B. 2292, 78th Legislature, Regular Session, 2003, directed Health and Human Services (HHS) agencies to consolidate administrative functions, including financial services, in order to eliminate duplicative systems and streamline processes and procedures. In September 2003, the twelve legacy agencies' chief financial officers (CFO) formed a workgroup to develop consolidation recommendations. The workgroup identified and defined a complete inventory of financial functions and recommended each function for either: a) outsourcing, b) placing the function in individual agencies if considered mission critical to the HHS agency, or c) centralizing or consolidating within the HHS Enterprise.

Priority for recommending functions for consolidation was given to those functions that, through consolidation, had the greatest potential for increased operational efficiencies. The functions the workgroup recommended for consolidation formed the basis for Phase I – the Financial Services Consolidation Project. As a result of the workgroup's recommendations, Health and Human Services Commission (HHSC) executive leadership consolidated eight major financial services areas: Fiscal Policy, Standardization of Fiscal and Budget Reports, Federal Funds Management, Cost Allocation, Rate-setting, Forecasting, Data Research/Decision Support, and Payroll.

HHS Financial Services staff were charged with making the accounting systems in the new five-agency structure operational by September 1, 2004. This involved renumbering and

HHSC Management Response
Consolidation of Administrative Support Services
January 6, 2006

reestablishing a new appropriation bill structure for each of the five agencies to ensure there would be no interruption to client services. Each employee and every contract had to be mapped to a "new" agency and appropriation line item, which involved changing the existing coding. Legacy agency financial systems had to be phased-out and a Legislative Appropriations Request (LAR) had to be developed and submitted in the new structure, which involved restating historical expense. It was recognized that a consolidation of this magnitude would involve a second phase, optimization, and a third phase, standardization of policies and procedures.

Phase II – the Financial Services Optimization Project, was to be performed after the 79th Legislative Session in 2005 and before the start of the 80th Legislative Session in 2007, and is currently underway. A Financial Services Employee Survey was deployed on November 18, 2005, via the Intranet to all HHS financial services staff. The results of this survey, along with the results of an Agency Workload Indicator Survey completed by the CFOs, identified staff performing financial services in the new HHS Enterprise – post consolidation. Evaluation of existing staff resources and workload is the initial Phase II step to identify areas that would benefit from a business process analysis. As a result of this evaluation, realignments may be necessary within HHS to appropriately support workload demands. The Financial Services Optimization Project will not only identify financial services areas that would benefit from staff realignment, but also areas that would benefit from reengineering the business processes to create greater efficiency and effectiveness.

The third phase of consolidating financial services will involve standardizing policies and procedures across the HHS Enterprise in order to build a foundation of control and accountability that supports external reporting and performance management.

Action Planned: Completion of Phase II – the Financial Services Optimization Project.

Estimated Completion Date: September 2006

Title of Responsible Person: Deputy Executive Commissioner for Financial Services

- *Develop standardized performance measures to monitor the performance of health and human services agencies' financial services functions such as the cycle time to process and approve purchase vouchers.*

Action Planned: HHSC will work with HHS CFOs to identify and implement standard performance measures for financial services functions.

Estimated Completion Date: April 2006

Title of Responsible Person: Deputy Executive Commissioner for Financial Services

- *Facilitate the discontinuation of duplicative efforts performed by the health and human services agencies for documenting the approval of purchase vouchers.*

Action Planned: HHSC will work with each HHS agency CFO to determine the extent to which duplication of effort occurs and discontinue manual paper-based approval processes as automated processes are implemented and strengthened. Within the next 90 days, HHS CFOs will determine the extent of duplication of effort in each agency and identify any steps that can be taken to temporarily mitigate this duplication prior to the upgrade of Health and Human Services Administrative System (HHSAS) Financials, which is scheduled for completion September 1, 2007. Final changes will be implemented in conjunction with the HHSAS Financials upgrade.

Estimated Completion Date: March 2008

Title of Responsible Person: Deputy Executive Commissioner for Financial Services

Chapter 1 – B

SAO Recommendation: *The Commission should:*

- *Develop performance measures that measure whether health and human services agencies' information resources services meet the needs of client service programs in an efficient and effective manner.*
- *Complete the development and approval of its agency-wide information resources policies and procedures.*
- *Require the health and human services agencies to comply with its Enterprise Office's Information Technology Governance and Project Management Policies and Service-Oriented Architecture Plan.*

Management Response:

- *Develop performance measures that measure whether health and human services agencies' information resources services meet the needs of client service programs in an efficient and effective manner.*

The Enterprise Architecture and Security Management section has developed a Performance Metrics guide to standardize required performance measures. The next step is to develop a pilot Enterprise IT performance metrics program. The results of the pilot will be used to develop and implement enterprise wide information resources performance measurement and reporting.

Action Planned: Implement an Enterprise IT performance metrics program.

Estimated Completion Date: December 2006

Title of Responsible Person: Chief Information Officer

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- *Complete the development and approval of its agency-wide information resources policies and procedures.*

HHS agency Information Resources Managers, Information Security Officers, and the Enterprise Technical Architecture Board collaborated to draft information security, equipment use, and quality policies and procedures. The review and approval of these policies is currently underway.

Action Planned: Finalize, gain approval for, and implement Enterprise IT policies on information security, equipment use, and quality.

Estimated Completion Date: June 2006

Title of Responsible Person: Chief Information Officer

- *Require the health and human services agencies to comply with its Enterprise Office's Information Technology Governance and Project Management Policies and Service-Oriented Architecture Plan.*

HHS Enterprise IT supports the recommendation that HHS agencies comply with the referenced policies for managing information technologies. To comply with H.B. 1516, 79th Legislature, Regular Session, 2005, the Enterprise IT governance and project management policies will integrate with the new Department of Information Resources (DIR) statewide policies, processes, and templates.

Action Planned: Incorporating the new requirements from H.B. 1516 (as implemented by DIR), finalize, gain approval for, and implement the Enterprise IT policies on governance and project management.

Estimated Completion Date: August 2006

Title of Responsible Person: Chief Information Officer

Chapter 2 – A

SAO Recommendation: *The Commission should:*

- *Ensure that, when it is outsourcing administrative support services, it adequately plans and independently monitors the transfer of all critical business activities.*
- *Develop and implement objective policies and procedures for developing, reviewing, and independently monitoring activities for transferring its services to a contractor.*
- *Establish criteria to evaluate the adequacy of the services that a contractor proposes performing in transferring services.*

- *Develop and implement objective policies and procedures to monitor the reasonableness and necessity of a contractor's transition costs. Specifically, the Commission should:*
 - *Require the contractor to provide adequate documentation that allows the Commission to determine the reasonableness and necessity of the anticipated services and costs that the contractor identified as necessary for transferring services.*
 - *Obtain adequate supporting documentation, such as invoices and subcontractor payment terms, to ensure that reported transition costs are accurate.*
- *Obtain an audit of its human resources and payroll services contractor's transition costs prior to making any additional payments for transition costs. The audit should verify whether reported transition costs were accurate, reasonable, necessary, and incurred in accordance with the terms of the executed contract. In addition, the Commission should ensure that its final installment payment for transition costs is based on the conclusion of the audit report and is made in compliance with the terms of the executed contract.*

Management Response: HHSC agrees that it is essential to adequately plan and independently monitor critical business activities and costs when transferring administrative support functions to an outsourced vendor.

As it relates to the transfer of Human Resources and Payroll Services, HHSC believes that it has appropriate oversight within the governance structure established for this contract. While the contractor was responsible for developing the work plan and communications plan, as well as the planning and performance of all system development activities, HHSC had final review and approval of these work products, giving HHSC authority to revise or modify any aspects of the plan. HHSC exercised this authority throughout the transition period. The governance structure established by HHSC provided for a project manager who closely monitored the activities of the contractor.

In addition, HHSC created a steering committee to review and monitor transition activities. The committee was comprised of the chief operating officers from each agency, representatives from the major consolidated administrative areas within HHSC, and other stakeholders. The areas of human resources, payroll, and information technology all had senior management in place on the project, closely participating in the process and providing oversight.

The State Auditor's Office report states that the issues encountered when transferring payroll operations to the contractor exemplifies the significance of adequately monitoring a contractor. However, HHSC actions to establish central control for the coordination and processing of payroll functions in October 2005 resulted from the agency's proactive monitoring of payroll activities.

Payroll processing is a highly technical and complicated function and typically there is a small number of employees negatively affected in any given month (such as receiving a paper warrant

rather than direct deposit). As a result of HHSC's proactive monitoring and timely and appropriate response to identified issues, October 2005 payrolls were successfully processed.

Transition costs such as those associated with this contract while not common in HHSC contracting are negotiated amounts and generally set at a not-to-exceed level. HHSC monitors the transition budget to ensure reasonable and appropriate expenditures. The HHSC monitoring process will be standardized to document and assure the following key elements:

- Evaluation and monitoring of transition costs, including implementing case-specific monitoring protocols, as needed,
 - Inclusion of appropriate performance requirements and associated measures related to the transfer of services in the request for proposal,
 - Development of appropriate "readiness review" criteria and perform a review of the contractor's ability to assume the contracted services prior to the anticipated effective date for transferring the services, and
 - Inclusion in the contract appropriate remedies and/or liquidated damages associated with the transition of services.
- *Obtain an audit of its human resources and payroll services contractor's transition costs prior to making any additional payments for transition costs. The audit should verify whether reported transition costs were accurate, reasonable, necessary, and incurred in accordance with the terms of the executed contract. In addition, the Commission should ensure that its final installment payment for transition costs is based on the conclusion of the audit report and is made in compliance with the terms of the executed contract.*

HHSC will conduct a prepayment review and reconciliation before the transition budget is closed out. A financial audit would be more beneficial after transition services are completed.

HHSC's uniform contract terms and conditions provide the ability to audit a contractor's reported transition expenses after the transition period expires to ensure that claims are made in accordance with federal requirements, state requirements, and contract provisions, and are sufficient to ensure the accuracy and validity of contractor's invoices. If, as a result of the audit, HHSC determines that the contractor has overcharged the state, HHSC will notify the contractor of the amount of such overcharge and the contractor will be required to promptly pay the amount of the overcharge, plus interest.

Action Planned: HHSC will review and reconcile transition expenditures before final payment is made. HHSC will also obtain an audit of its human resources and payroll services contractor's transition costs. The recommended audit will verify whether reported transition costs were accurate, reasonable, necessary, and incurred in accordance with the terms of the executed contract. HHSC will recover any unallowable payments pursuant to the terms of the executed contract.

Estimated Completion Date: October 2006

Title of Responsible Person: Deputy Executive Commissioner for System Support Services

Chapter 2 – B

SAO Recommendation: *The Commission should:*

- *Develop and implement objective policies and procedures to ensure that it is involved in the development, testing, and validation of test plans to assess the appropriateness and adequacy of contractor modifications to state-owned information systems. The Commission should ensure that its information resources staff have an active role in:*
 - *Developing technical provisions and requirements of administrative support services contracts.*
 - *Ensuring the adequacy and appropriateness of all security controls involving state-owned information systems and any application interfaces.*
 - *Developing, testing, and validating test plans used in assessing a contractor's modifications to state-owned information systems.*
 - *Classifying system defects identified and ensuring that an appropriate resolution is developed and implemented.*
 - *Acquiring all technical documents related to the design and testing of modifications involving state-owned information systems.*
 - *Creating a system development time line. The Commission should ensure that (1) requirements for developing a time line include establishing measurable checkpoints and (2) Commission information resources staff determine whether it is appropriate to advance system development activities to full implementation.*
- *Independently review and test contractor modifications to state-owned information systems prior to fully implementing those modifications.*

Management Response: Contracts impacting state-owned information systems, especially mission-critical Enterprise information systems such as HHSAS, must have well-defined provisions that support the state's active role in development, testing, and implementation of system modifications. This active role is essential to ensure high quality implementation of contractor deliverables. Additionally, HHSC must remain accountable for defining, developing, and implementing security controls affecting state-owned information systems.

Action Planned: Review and modify procedures as necessary to ensure thorough involvement of agency IT in the development, testing, and validation of test plans for contractor modifications to state-owned information systems, including a requirement for independent review and testing of contractor modifications before implementation.

Estimated Completion Date: December 2006

Title of Responsible Person: Chief Information Officer

Chapter 2 – C

SAO Recommendation: *The Commission should:*

- *Ensure that, after awarding a solicitation for contract services but before the execution of the contract agreement, it hires a contract manager or delegates contract management responsibilities to existing staff.*
- *Develop and implement objective policies and procedures for monitoring the performance of contractors. These policies and procedures should allow the Commission to effectively measure and assess contractor performance. The Commission should consider incorporating the guidelines for contractor site visits and desk reviews that are recommended by the Texas Building and Procurement Commission's Contract Management Guide.*

Management Response: In August 2005, HHSC hired a contract manager and staff to monitor the performance of this contractor. Prior to this, the project manager performed contract management duties.

HHSC's Quality Assurance Surveillance Unit (QASU) has developed objective policies and procedures for monitoring contractor performance. These policies and procedures are in place to ensure that the contractor is performing all duties in accordance with the contract and for the agency to be aware of and address any developing problems and/or issues. QASU's Policies and Procedures manual has incorporated the guidelines recommended by the Texas Building and Procurement Commission's Contract Management Guide. The QASU will be able to effectively measure and assess a contractor's performance by following these policies and procedures.

Action Planned: Administrative Services Development (ASD) is currently reviewing the QASU's Policy and Procedures Manual to ensure it aligns with agency contract policies. ASD is also in the process of formalizing agency policies for monitoring contractor performance. These policies will be incorporated into HHSC's *Contracting Processes and Procedures Manual*, and all HHSC contract managers, including QASU, will follow these policies.

Estimated Completion Date: August 2006

Title of Responsible Person: Director, Administrative Services Development

Chapter 2 – D

SAO Recommendation: *The Commission should ensure that it documents changes in contract terms and conditions and, when appropriate, amends executed contracts for those changes.*

Management Response: Current agency procedures ensure contract amendments are executed when appropriate.

Chapter 3

SAO Recommendation: *The Commission should:*

- *Standardize HHSAS financial module security classes and Workflow controls across all health and human services agencies to ensure proper segregation of duties. In addition, the Commission should consider standardizing its application control structure across all health and human services agencies to more efficiently and effectively operate and maintain HHSAS.*
- *Ensure that the HHSAS financial modules used at each of the five health and human services agencies capture and record information about the specific individual who approves each electronic purchase voucher.*
- *Ensure that health and human services agencies establish objective policies and procedures to periodically review audit log records created by their HHSAS financial modules. Because of the large amount of information that is potentially available in these logs, the Commission should ensure that the health and human services agencies develop a risk assessment to identify the type of information the reviews of audit logs should examine.*

Management Response:

- *Standardize HHSAS financial module security classes and Workflow controls across all health and human services agencies to ensure proper segregation of duties. In addition, the Commission should consider standardizing its application control structure across all health and human services agencies to more efficiently and effectively operate and maintain HHSAS.*

Action Planned: During consolidation, HHS Enterprise standardized HHSAS Financials security classes. However, each agency had the option to request security controls to supplement the enterprise classes in order to meet specific agency business needs. To increase consistency across the HHS system, HHSC will work with HHS agencies to assess the feasibility of limiting agencies' ability to deviate from the standard enterprise security classes.

The Department of State Health Services (DSHS) and the Department of Aging and Disability Services (DADS) have already implemented Workflow. The Department of Family and Protective Services (DFPS), Department of Assistive and Rehabilitative Services (DARS), and HHSC, along with the HHSAS Enterprise Service Center (ESC), will analyze the feasibility of implementing Workflow in these agencies. It will be more efficient to implement Workflow in conjunction with any planned upgrade of HHSAS Financials. As part of this process, HHSC will also consider standardizing its application control structure across HHS agencies.

Estimated Completion Date:

- September 2006 for assessment of standardization of security classes.

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- September 2007 for implementing Workflow in order to correspond to the HHSAS Financials upgrade.

Title of Responsible Person: Deputy Executive Commissioner for Financial Services

- *Ensure that the HHSAS financial modules used at each of the five health and human services agencies capture and record information about the specific individual who approves each electronic purchase voucher.*

Action Planned: The Enterprise Security Manager-Security and Workflow Administration Team (SWAT) and HHSAS ESC have established additional controls to capture and record users who approve vouchers for all voucher approval methods utilized by the agencies. Approval records were captured in several data tables, depending on the voucher approval method employed. Standardization decisions made during the scheduled HHSAS Financials upgrade will further drive the methods for capturing and recording users who approve vouchers.

Estimated Completion Date: September 2007

Title of Responsible Person: Deputy Executive Commissioner for Financial Services

- *Ensure that health and human services agencies establish objective policies and procedures to periodically review audit log records created by their HHSAS financial modules. Because of the large amount of information that is potentially available in these logs, the Commission should ensure that the health and human services agencies develop a risk assessment to identify the type of information the reviews of audit logs should examine.*

Action Planned: Based on assessed risk, CFOs will develop a standardized list of audit logs to be monitored. HHSAS ESC will create queries or reports that highlight high-risk transactions that the CFOs and or accounting directors can monitor efficiently. Agency CFOs and HHSAS ESC will then provide training to HHS agencies on using audit logs to monitor, mitigate, and report risks, discrepancies, and other issues.

Estimated Completion Date: March 2006

Title of Responsible Person: Deputy Executive Commissioner for Financial Services

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