OFFICE OF INSPECTOR GENERAL
TEXAS HEALTH AND HUMAN SERVICES COMMISSION

DEEP EAST TEXAS
COUNCIL OF GOVERNMENTS

While HHS Contract Funds Were Used as Intended, Financial and IT Controls Should be Improved

February 28, 2017
IG Report No. IG-16-017

HHSC IG

TEXAS HEALTH AND HUMAN
SERVICES COMMISSION

INSPECTOR GENERAL

DEEP EAST TEXAS
COUNCIL OF GOVERNMENTS
While HHS Contract Funds Were Used as Intended, Financial and IT Controls Should be Improved

WHY THE IG CONDUCTED THIS AUDIT

In December 2015, the former Executive Commissioner's Office requested the audit of state funds paid to DETCOG through three contracts with Health and Human Services agencies worth $1.5 million:

- The Area Agency on Aging (AAA) contract with Department of Aging and Disability Services (DADS).
- The Services to At-Risk (STAR) Youth contract with Department of Family Protective Services (DFPS).
- The Texas Information and Referral Network (TIRN) 2-1-1 contract with Health and Human Services Commission (HHSC).

The request was prompted by a federal indictment of the former DETCOG executive director, suspected of misappropriating federal funds.

The audit objective was to (a) determine whether state funds were used as intended and recover state funds if applicable, and (b) evaluate DETCOG's compliance with requirements contained in contracts with HHS agencies.

WHAT THE IG RECOMMENDS

DETCOG should (a) adopt a "least privilege" approach that allows current and new users only the minimum access needed, (b) change its password policy and practices to align with industry best practices, (c) change current roles and responsibilities within the Finance and Accounting section to ensure duties are segregated, (d) eliminate manual processes to the extent possible, and (e) conduct a thorough review and take appropriate actions to ensure the physical security of its blank check stock.

View **IG-16-071**
For more information, contact:
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WHAT THE IG FOUND

State funds were expended for approved purposes for the contracts included in the scope of this audit. Invoices were accurately calculated and substantiated with support documentation, and control environments associated with contracted programs and services were adequately designed and working as intended. Audit results indicated, however, that control weaknesses exist in DETCOG's IT and Finance and Accounting control environments. These weaknesses could impair DETCOG's ability to continue to ensure funds are used as intended.

Job duties and financial software access were not properly segregated. Specifically:

- The technology support specialist had access to the login credentials for all staff and shared his credentials with executive management.
- All staff could access and create vendors in the vendor master.
- All staff had access to blank check stock.
- Multiple individuals were able to authorize checks to be processed.
- The data entry clerk is the only individual authorized to print checks.
- The data entry clerk printed and distributed checks without the oversight of the accountant.
- Vendor invoices were received by multiple individuals, which may make them difficult to track and reconcile.

DETCOG uses Abila software for financial transactions but does not use the software to its full capability. Reconciliations, budgeting, and accounts receivable are performed outside the Abila software. Manual processes lead to higher error rates through lower data reliability, potential loss of key data, and inefficiencies in completing time-consuming tasks. In addition, physical security of DETCOG's blank check stock should be improved.

Improvements to the control environments, will reduce DETCOG's vulnerability to invalid system data, collusion, circumvention of authorizations and approval controls, and the high risk of misappropriation of funds.

DETCOG concurred with the findings on financial and IT control issues and stated that it was using the findings and the IG Audit Division's recommendations for their intended purpose – to help DETCOG strengthen internal controls to ensure the continued success and integrity of the programs it operates and the services it performs for the benefit of Texans.

LESSONS LEARNED

Contractors expending funds from HHS System agencies should safeguard access and segregate functions related to accounting and finance functions. HHS System agencies monitoring contracts should obtain reasonable assurance that contractors follow best practices and use appropriate controls.

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INTRODUCTION

The Texas Health and Human Services Commission (HHSC) Inspector General (IG) Audit Division has completed an audit of contracts between Health and Human Service (HHS) agencies and the Deep East Texas Council of Governments (DETCOG).

In December 2015, the former Executive Commissioner's Office directed the audit of HHS System state funds paid to DETCOG. The request was prompted by a federal indictment of the former DETCOG executive director, suspected of misappropriating federal disaster relief funds.

This report details the results of the audit of the following three DETCOG contracts with HHS System agencies:

- The Area Agency on Aging (AAA) contracts with Department of Aging and Disability Services (DADS).[1]

- The Services to At-Risk (STAR) Youth contract with Department of Family Protective Services (DFPS).[2]

- The Texas Information and Referral Network 2-1-1 (TIRN) contracts with HHSC.[3]

These contracts provided $1.5 million in funding to DETCOG during the period of time audited. Figure 1 shows the funding of each contract over the audit scope, which covered the period of September 1, 2014, through March 31, 2016. Unless otherwise described, any year referenced is the state fiscal year, which covers the period from September 1 through August 31.

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[1] DADS Contracts 539-11-0014-00001 and 539-16-0011-00001 between the Department of Aging and Disability Services and Deep East Texas Council of Governments for Older Americans Act Programs (October 1, 2010; September 1, 2015).
[2] DFPS Contract 24028206, Purchased Client Services Contract for Service Type: Services to At-Risk Youth (September 1, 2012).
[3] HHSC Contracts 529-16-0006-00005 and 529-11-0001-00006, Agreement by and between the Texas Health and Human Services Commission and Deep East Texas Council of Governments for 2-1-1 Texas Information and Referral Services (September 1, 2010, and September 1, 2015); and HHSC Contract 529-11-0063-00020, Information and Referral Services Agreement between the Texas Health and Human Services Commission and Deep East Texas Council of Governments for Provision of Child Care Information and Referral Services (September 1, 2015).

Figure 1: **DETCOG HHS Funding from September 2014 through March 2016**
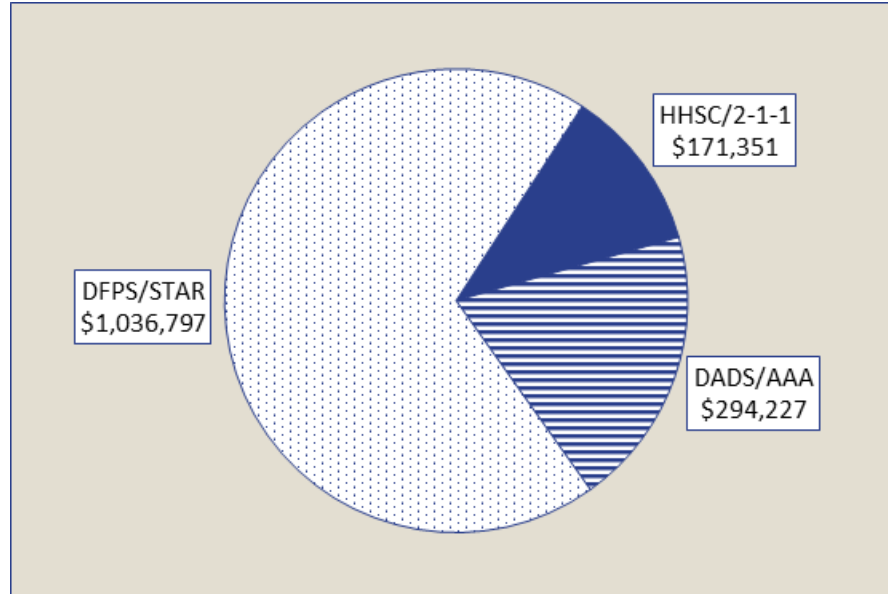

Source: Health and Human Services Administrative System

Objective

The audit objective was to (a) determine whether state funds were used as intended according to contractual requirements and recover state funds if applicable, and (b) evaluate DETCOG's compliance with requirements contained in contracts with HHS agencies.

Background

The state Regional Planning Act of 1965 allows regional counties, school districts, municipalities, soil and water conservation districts, and other special districts to voluntarily join together to form regional councils, also known as councils of government. Through federal and state funding incentives and mandates, these entities formed to address economic development issues, planning needs, and concerns within their respective regional areas. DETCOG serves a primarily rural 12-county area in eastern Texas, as shown in Figure 2. Its offices are in Jasper and Lufkin, Texas.

Figure 2:   DETCOG's Service Area
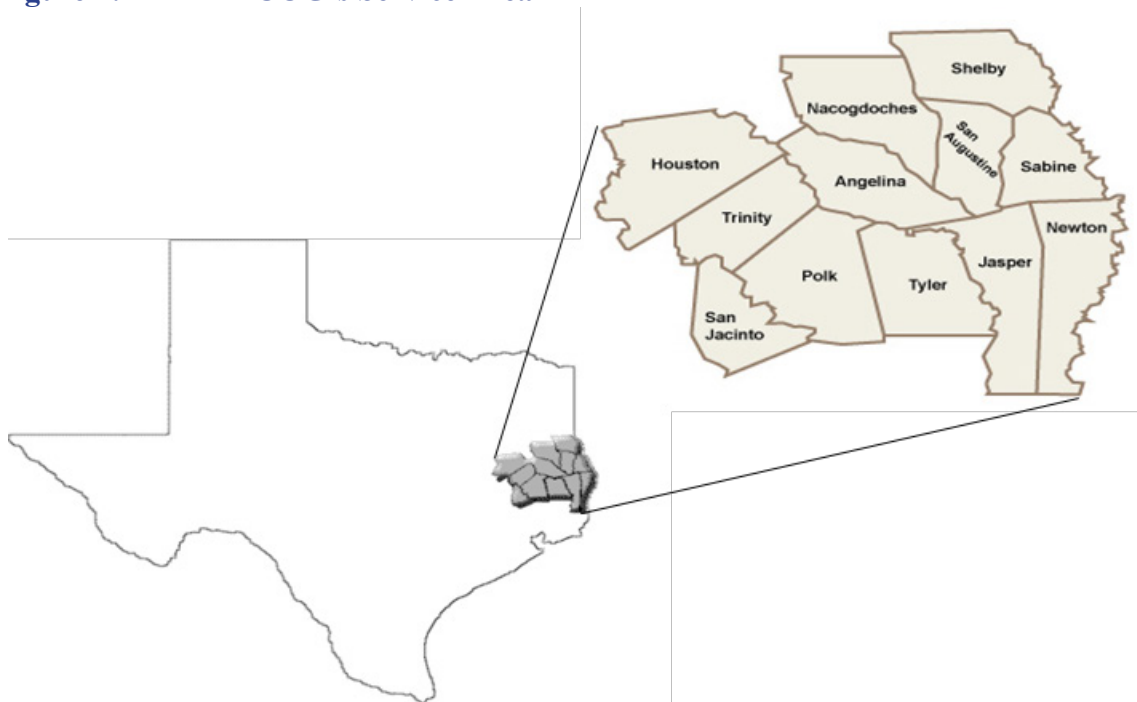
Source: 2-1-1 Texas and WorkForce Solutions Deep East Texas

According to DETCOG's response to an IG Internal Control Structure Questionnaire in July 2015, as of March 20, 2015, DETCOG had state and federal contracts totaling nearly $31.9 million, as follows:

- State agency funding of $7.6 million, including the $1.5 million in the scope of this audit.
- Federal contracts totaling $8.4 million.
- Federal pass through funding totaling $15.9 million.

Area Agency on Aging Contracts with DADS

Area agencies on aging provide services to help people age 60 and older, their family members, and caregivers, receive the information and assistance they need to locate and access community services. The DADS contracts provide assistance for eligible individuals with special emphasis on those living in rural areas, facing high economic and social need, or having severe disabilities, with the goal of reducing utilization of institutional care.

The original contract between DETCOG and DADS was in place from October 1, 2010, through September 30, 2015. The current contract covers the term from October 1, 2015, through September 30, 2019. Both contracts were considered within the audit scope and state funding for the contracts totaled $294,227 during the audit period.

STAR Youth Contract with DFPS

DETCOG offers short-term counseling services through the STAR Program to area at-risk youth and their families. Eligible recipients access these services at no cost. Program costs are provided by DFPS through a fee-for-service contract. The contract, first initiated in 2013, has been renewed annually since its inception. Under the contract, DFPS will reimburse DETCOG up to $680,372 annually for services provided on claims submitted monthly for review and approval by DFPS. For the audit period state funding received by DETCOG was $1,036,797 for this contract.

TIRN Contracts with HHSC

The TIRN was developed by HHSC to provide a single, statewide number that consumers can dial for information about community resources. HHSC contracts with DETCOG to provide this service as an Area Information Center for the entire Deep East Texas region during all hours year-round. Additionally, DETCOG maintains a regional database with regular uploads to the Texas 2-1-1 statewide database and conducts regional outreach activities.

The contracts between DETCOG and HHSC originated in September 2010. The contracts reviewed within the scope of our audit will terminate on August 31, 2018, with options for renewal through August 31, 2020. For the audit period state funding received by DETCOG was $171,351 for this contract.

DETCOG and the three HHS System agencies share accountability for:

- Ensuring effective use of state dollars
- Complying with applicable federal and state laws
- Achieving stated program goals

The IG Audit Division conducted this audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

RESULTS, ISSUES, AND RECOMMENDATIONS

Payments of state funds made to DETCOG were reconciled monthly between the program areas and the DETCOG Controller's requests for reimbursement to HHS agencies, showing funds were expended for approved purposes according to the contracts included in the scope of this audit. No issues were identified regarding payments or the control environments associated with contracted programs and services.

Interviews, assessments of access management, and a review of accounting and information technology (IT) environments and controls showed that reports and other data produced by DETCOG's accounting system were not sufficiently reliable for the purposes of the audit. Consequently, the IG Audit Division performed enhanced testing of financial and IT controls in the accounting area. The results of audit test work in those areas follow.

GENERAL IT CONTROLS

DETCOG uses the Abila MIP Fund Accounting™ (Abila) software for recording financial transactions and events. One employee, the technology support specialist, was the only employee with full administrative rights and responsibility to support the information systems and technical support in the organization, including the Abila software. The IG Audit Division conducted interviews and assessments and identified the existence of multiple general IT control issues.

Issue 1:   User Access Was Not Controlled

DETCOG did not limit user access within the Abila software to ensure proper segregation of duties or the integrity of accounting transactions. DETCOG had purchased seven software licenses: five for the finance department, one for the director of administration, and one for the executive director. All seven license holders had unrestricted access to the Abila software. By not utilizing the software's user access control function to align an employee's access with the employee's accounting and financial responsibilities, and with no mitigating controls in place, DETCOG could not rely on the authenticity of transactions and the data in the system. Each user had the ability to create and approve entries which could be improper, inaccurate, or fraudulent. The DADS contract specifically requires that the contractor shall have internal control systems appropriate to the size of the organization and shall have a division of responsibility among different employees.[4] DETCOG did not utilize user access controls and

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[4] DADS Contract 539-11-0014-00001 between the Department of Aging and Disability Services and Deep East Texas Council of Governments for Older Americans Act Programs (October 1, 2010).

divide responsibilities within the software to the extent of the software's capabilities.

The National Institute of Standards and Technology (NIST) publishes the prevailing IT control guidelines for information systems housing government data. NIST standards and criteria for controls implementation are mandated by the Federal Information Systems Management Act of 2002. According to NIST, the generally accepted practice of access controls is, "In general, organizations should base access control policy on the principle of least privilege, which states that users should be granted access only to the resources they need to perform their official functions."[5] In addition, NIST describes that when implementing security controls, organizations should "configure access rules to grant appropriate access privileges to authorized personnel, based on their roles or job functions. Ensure only system administrators have access to the controls."[6]

Recommendation 1

DETCOG should conduct a thorough review of system user responsibilities, and should adopt a "least privilege" approach that allows users only the access needed within the Abila software to perform their job responsibilities. DETCOG should also use this approach when creating new roles and when assigning access to new staff, and shall review user access at least annually, adding or removing access to align an individual's access with the individual's job responsibilities.

Management Response

Action Plan

Completed:

1. *Conduct a thorough review of system user responsibilities.*
2. *Adopt a "least privilege" approach that allows users only the access needed within the Abila software to perform their job responsibilities.*
3. *Limit and assign "Admin" rights to the Chief Financial Officer.*
4. *Schedule semi-annual review of user access within the Abila MIP Fund Accounting software.*
5. *Review National Institute of Standards and Technology Special Publication 800-14, Generally Accepted Principles and Practices for Securing Information Systems, 3.12 Logical Access Control (September 1996).*

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[5] National Institute of Standards and Technology Special Publication 800-14, Generally Accepted Principles and Practices for Securing Information Systems, 3.12 Logical Access Control (September 1996).
[6] National Institute of Standards and Technology Special Publication 800-47, Security Guide for Interconnecting Information Technology Systems (August 2002).

6. *Review National Institute of Standards and Technology Special Publication 800-47, Security Guide for Interconnecting Information Technology Systems (August 2002).*

In Progress: N/A

Future Implementation: Semi-annually the Chief Financial Officer will conduct a thorough review of system user responsibilities within the Abila software to determine all user access is limited to the "least privilege" approach.

Responsible Manager

Chief Financial Officer

Target Implementation Dates

07/01/2017 - Chief Financial Officer will conduct the semi-annual review of system user responsibilities within the Abila software to determine all user access is limited to the "least privilege" approach.

01/01/2018 - Chief Financial Officer will conduct the semi-annual review of system user responsibilities within the Abila software to determine all user access is limited to the "least privilege" approach.

Issue 2:   Passwords Controls Were Not In Place

DETCOG did not comply with contract provisions that require it to limit access to confidential information through the effective use of network and application passwords. DETCOG's technology support specialist maintained a list of each staff member's network login credentials (ID and password). Additionally, the technology support specialist shared his administrative login ID and password with the executive director and director of administration for the express purpose of ensuring they have access to staff members' network login credentials. According to the technology support specialist, DETCOG had requested that users share their passwords with the technology support specialist for at least the past seven years.

According to the technology support specialist, DETCOG requested and stored these passwords in a central location for security purposes and to assist its users when they forgot their passwords.

NIST standards require that information systems implement strong mechanisms to identify and authenticate users to ensure that they are authorized to access networks, software, and computerized devices. According to NIST, the generally accepted practice of identification and authentication through passwords is to

"teach users not to use easy-to-guess passwords, not to divulge their passwords, and not to store passwords where others can find them."[7] NIST also prescribes implementing security controls to include "strong mechanisms to identify and authenticate users to ensure that they are authorized to access the interconnection."[8] Identification and authentication are critical components of computer security since they are the basis for most types of access control and for establishing user accountability. By establishing a system of shared passwords, DETCOG diminished the validity of identification or authentication within its systems.

Recommendation 2

DETCOG should change its password policy and practices to align with industry best practices.

Management Response

Action Plan

Completed:

1. *Immediate issue of a directive from the Executive Director to all staff requiring them to change all passwords and further directed all staff not to share passwords with anyone. All employees were advised that Supervisors and the IT staff would no longer have a record of any passwords.*
2. *Verify all passwords changed to comply with the October 7, 2016 directive.*
3. *Change DETCOG password policy and practices to align with industry best practices.*
4. *Adopt and institute a temporary password policy which allows IT staff to access an employee's computer for updates and repairs. Set system controls to prompt the employee to change from the temporary password at their next log-in.*
5. *Set up system controls to automatically prompt system users to change their DETCOG domain passwords every 90 days.*
6. *Review and modify the password structure.*
7. *Schedule an "unannounced" Information Technology Assessment by an outside party.*
8. *Review National Institute of Standards and Technology Special Publication 800-14, Generally Accepted Principles and Practices for Securing Information Systems, 3.11.3 Passwords.*
9. *Review National Institute of Standards and Technology Special Publication 800-47, Security Guide for Interconnecting Information Technology Systems.*

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[7] NIST Special Publication 800-14, Generally Accepted Principles and Practices for Securing Information Systems, 3.11.3 Passwords (September 1996).
[8] NIST Special Publication 800-47, Security Guide for Interconnecting Information Technology Systems (August 2002).

In Progress:

1. *Develop and implement an updated Technology Policy with an expected completion date on or before March 31, 2017.*
2. *Address findings from the Information Technology Assessment on-site visit on November 8-9, 2017. Findings and recommendations were received on December 12, 2016 and shared with the HHSC Audit Team with a request that it remain confidential to avoid any potential security issues. Implementation will occur during the fiscal years ending September 30, 2017 and 2018.*

Future Implementation: Semi-annually the Information Technology Director will review the Technology Policy.

Responsible Manager

Information Systems Administrator

Target Implementation Dates

10/01/2017 - Information Technology Director will conduct the semi-annual review of the Technology Policy and provide Executive Director with updates regarding the Information Technology Assessment.

04/01/2018 - Information Technology Director will conduct the semi-annual review of the Technology Policy and provide Executive Director with updates regarding the Information Technology Assessment.

09/30/2018 - Information Technology Director will provide Executive Director with updates regarding the Information Technology Assessment.

Additional Management Comments

The only passwords shared by DETCOG employees related to access to DETCOG's internal network and in no way involved access to the HHS System and/or any information related to the HHS System, confidential or non-confidential. DETCOG employees did not at any time fail to protect the integrity of HHS System data, including confidential information.

INTERNAL CONTROLS - FINANCE AND ACCOUNTING

The accuracy and appropriateness of requests for reimbursement to HHS System agencies depends on the controls within DETCOG's Finance and Accounting processes. Without a sufficient control structure at DETCOG, HHS System agencies could reimburse DETCOG for inaccurate amounts or fraudulent transactions. The DETCOG finance department consisted of five staff, which at the time of the audit fieldwork, were led by the controller. A chief financial officer was put in place in November 2016.

Issue 3:   Duties Were Not Properly Segregated

Financial duties were not adequately segregated within DETCOG's Finance and Accounting section, and one Finance and Accounting staff member had the capability to carry out multiple financial processes from beginning to end. Table 1 illustrates the overlap in duties among DETOG staff.

Table 1:   Staff Matrix of System Access and Duties Assigned

		Controller[9]	Accountant	Accountant	HUD Accountant	Data Entry Clerk
System Access (Abila)	Vendor Master	X	X	X	X	X
	Payroll	X	X	X	X	X
	Accounts Payable	X	X	X	X	X
Physical Access	Blank Check Stock	X	X	X	X	X
Duties	Authorizes Checks	X	X[10]	--	--	X
	Printing of Checks	--	--	unknown[11]	unknown	X
	Distributes Checks	X	X	unknown	unknown	X
	Receives and Distributes Vendor Invoices	--	--	X	X	X
Totals		6	6	5	5	8

Source: DETCOG management and staff interviews conducted on-site during fieldwork.

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[9] Since the conclusion of on-site fieldwork, the job title "controller" changed to "assistant controller." The chief financial officer, who started in November 2016, now heads the Finance and Accounting function of DETCOG.

[10] The accountant had the back-up responsibility of authorizing checks when the DETCOG controller was unavailable.

[11] Auditors did not evaluate all duties for all Finance and Accounting staff.

The following control weaknesses were noted in the audit:

- All staff could access and create vendors in the vendor master.

- All staff had access to blank check stock.

- Multiple individuals were able to authorize checks to be processed and printed.

- Only one individual printed checks. This individual was never on vacation during check printing days.

- The data entry clerk printed and distributed checks without the oversight of the accountant.

- Vendor invoices were received by multiple individuals, which may make them difficult to track and reconcile.

All staff members were able to carry out multiple tasks, and the data entry clerk could carry out all of the functions performed in the Abila software. This access level makes it possible for the data entry clerk to complete the entire check processing function, including creating a vendor, authorizing checks, and distributing checks, without the review or approval of another staff member.

The absence of appropriate separation of duties creates opportunities for collusion, circumvention of authorizations and approval controls, and a high risk of misappropriation of funds or fraud. The practice of delegating all tasks in the accounting process to a single individual conflicts with DETCOG's own standard operating procedures and DADS contract requirements.

Recommendation 3

DETCOG management should change current roles and responsibilities within the Finance and Accounting section to ensure duties are properly and adequately segregated.

Management Response

Action Plan

Completed:

1. *Change current roles and responsibilities within the Finance and Accounting section to ensure duties are properly and adequately segregated.*
2. *Limit access to vendor master files.*
3. *Limit access to blank check stock.*

4. *Limit the number of individuals authorized to process and print checks.*
5. *Randomly arrange an unscheduled change of personnel on check printing days.*
6. *Limit the number of individuals receiving vendor invoices to facilitate an efficient method to track and reconcile invoices.*
7. *Implement a semi-annual review and update of the Staff Matrix of System Access and Duties Assigned.* [12]

In Progress: N/A

Future Implementation: Semi-annually the Chief Financial Officer will review and update the Staff Matrix of System Access and Duties Assigned.

Responsible Manager

Chief Financial Officer

Target Implementation Dates

07/01/2017 - Chief Financial Officer will conduct the semi-annual review and update of the Staff Matrix of System Access and Duties Assigned

01/01/2018 - Chief Financial Officer will conduct the semi-annual review and update of the Staff Matrix of System Access and Duties Assigned

Issue 4:   Accounting System Was Underutilized

Following interviews with the DETCOG controller, an accountant, and the data entry clerk, the IG Audit Division concluded that DETCOG was not optimizing the functionality available in the Abila software. Functions such as reconciliations, budgeting, and accounts receivable were all being performed manually outside the Abila software, although Abila has those capabilities. The controller also mentioned that the journal voucher process needed to be automated.

Manual processes lead to higher error rates through lower data reliability, potential loss of key data, and inefficiencies in completing time-consuming tasks.

This issue was attributed to a lack of funding for training in the use of the Abila software. This conflicts with DETCOG's standard operating procedures, and the

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[12] See Appendix D.

HHSC contractor agreement[13] which states, staff "will be properly trained and qualified for the functions they are to perform."

Recommendation 4

DETCOG management should expand its use of the Abila software and eliminate manual processes to the extent possible.

Management Response

Action Plan

Completed:

1. *Purchase of the following modules for the Abila MIP Fund Accounting Software: Accounts Receivable Reporting, Forms Designer, Allocations, EFT for Accounts Payable, Human Resources, and Employee Web Services with Electronic Timesheets.*
2. *Purchase of training for Accounts Receivable Reporting, Forms Designer, Allocations, EFT for Accounts Payable, Human Resources, Employee Web Services with Electronic Timesheets, Budgeting, and General Ledger.*
3. *Review Abila MIP online overviews/trainings for Accounts Receivable Reporting, Human Resources, Employee Web Services with Electronic Timesheets, EFT, Electronic Requisitions, and General Ledger.*
4. *Perform reconciliations using the Abila MIP Fund Accounting Software.*
5. *Schedule upcoming training for Abila MIP modules.*

In Progress: Training for Abila MIP modules is scheduled for February 27, 28, and March 1, 2017.

Future Implementation:

1. *Schedule "go live" for Accounts Receivable Reporting, Forms Designer, Allocations, EFT for Accounts Payable, Human Resources, and Employee Web Services with Electronic Timesheets, and Budgeting.*
2. *Assess and schedule future training for the Abila MIP Fund Accounting Software.*

Responsible Manager

Chief Financial Officer

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[13] HHSC Contracts 529-16-0006-00005 and 529-11-0001-00006, Agreement by and between the Texas Health and Human Services Commission and Deep East Texas Council of Governments for 2-1-1 Texas Information and Referral Services (September 1, 2010, and September 1, 2015).

Target Implementation Dates

02/27/2017 – 03/01/2017 Finance and Human Resources Staff participation in Abila MIP Fund Accounting Software Training

03/15/2017 – "Go live" for Accounts Receivable Reporting and Budgeting

04/01/2017 – "Go live" for Human Resources and Employee Web Services with Electronic Timesheets

05/15/2017 – "Go live" for Allocations and Forms Designer

08/01/2017 – "Go live" for EFT for Accounts Payable

ISSUE 5:   PHYSICAL BLANK CHECK STOCK WAS NOT SECURE

Physical security of DETCOG's blank check stock was inadequate. Blank checks were stored in two locations. The data entry clerk kept a supply of blank checks in a locked office cabinet, while the remaining stock was stored in an unlocked cabinet in the finance store room.

The finance store room door was kept open during business hours without any restrictions to unauthorized entry. With access to blank check stock, given the unrestricted Abila software access granted to Finance and Accounting personnel, an individual could circumvent authorization controls, misappropriate funds, or commit fraud. This condition conflicts with industry best practices, DETCOG's standard operating procedures, and DADS contract requirements.

Recommendation 5

DETCOG management should take appropriate actions to ensure the physical security of its blank check stock.

<u>Management Response</u>

<u>Action Plan</u>

Completed: All check stock is stored in a locked cabinet inside a controlled access storage room.

In Progress: N/A

Future Implementation:

1. *Purchase of MICR printer, software, and paper required to convert to the use of blank paper stock for check printing.*
2. *Transition to the use of blank paper stock when existing preprinted check supply has been exhausted.*
3. *Transition to direct payments to vendors.*

<u>Responsible Manager</u>

Chief Financial Officer

<u>Target Implementation Dates</u>

04/30/2017 – Purchase MICR printer, software, and blank check stock for vendor payments.

08/01/2017 – Implement direct payments to all participating vendors.

CONCLUSION

The IG Audit Division completed an audit of DETCOG's use of funds for services it provides under its contracts with HHS. The audit included determining whether contract funds were used as intended according to contractual requirements. The IG Audit Division conducted site visits in October 2016.

While audit results indicated that state funds were used as intended according to the TIRN, STAR, and AAA contracts, internal control weaknesses exist in DETCOG's IT control and Finance and Accounting control environments.

Specifically, the IG Audit Division concluded:

- DETCOG does not utilize user access controls within the Abila software.

- Network login credentials are shared with the IT staff and executive officers.

- Roles and responsibilities are not properly segregated among the Finance and Accounting staff.

- The Abila software is not fully utilized to manage the functions performed by the Finance and Accounting staff.

- The blank check stock is not sufficiently secured.

The IG Audit Division offered recommendations to DETCOG management which, if implemented, will:

- Restrict Abila software according to roles and responsibilities under a "least privilege" principle.

- Bolster the integrity of user identification credentials within the DETCOG IT systems.

- Ensure financial transactions and entries are properly authorized, accurate, and appropriate.

- Increase data reliability by ensuring that financial transactions are accurately and efficiently entered, retained, and reported.

- Mitigate the risk of misappropriated funds or fraud.

The IG Audit Division thanks management and staff at DETCOG, DFPS, DADS, and HHSC for their cooperation and assistance during this audit.

Appendix A: Objective, Scope, and Methodology

Objective

The objective of this audit was to (a) determine whether state funds were used as intended according to contractual requirements and recover state funds if applicable, and (b) review DETCOG's adherence to requirements for contracts with HHS agencies.

Scope

The scope of the DETCOG audit included the period from September 2014 through March 2016, as well as review of controls present through the end of fieldwork in November 2016. The IG Audit Division focused on DETCOG's state contracts with DFPS, DADS, and HHSC.

Methodology

To accomplish its objectives, the IG Audit Division collected information for this audit through the following methodologies:

- Interviewing responsible staff at DETCOG and HHS System agencies.

- Reviewing contract requirements and restrictions on use of funds.

- Evaluating 100 percent of payments made to DETCOG from the 3 HHS agencies for the TIRN, STAR, and AAA programs.

- Reviewing and evaluating documents provided by DETCOG related to the HHS System contracts during the scope of the audit, including general ledger, invoice files, budget documents, monthly reconciliations, accounts payable documents including vendor payment registers and payroll registers, and subcontractor agreements.

- Reviewing the data and information systems that support the financial activities.

- Evaluating DETCOG's computer use policy for password security protocols and access management process for appropriateness.

The IG Audit Division issued an engagement letter to DETCOG on September 30, 2016, and conducted fieldwork at DETCOG's facilities in Jasper and Lufkin, Texas, in October 2016. While on-site, the IG Audit Division interviewed responsible personnel, evaluated processes and controls, and reviewed relevant

documents related to evaluate whether state funds were used as intended for three contracts.

The IG Audit Division used the following criteria to evaluate the information provided:

- DETCOG Standard Operating Procedures

- National Institute of Standards and Technology Special Publications

- HHS Data Use Agreement

- DADS Area Agency on Aging contracts

- DFPS Services to At-Risk Youth contract

- HHSC TIRN contracts

The IG Audit Division conducted this audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the issues and conclusions based on our audit objectives. The IG Audit Division believes the evidence obtained provides a reasonable basis for our issues and conclusions based on our audit objectives.

Appendix B: Sampling Methodology

Sampling Reconciliations Performed for TIRN Contract with DETCOG

The IG Audit Division reviewed a haphazard[14] sample of 6 of the 11 monthly reconciliations completed for the invoice periods during the audit scope to assess the completeness, accuracy, and relevance of monthly reconciliations associated with the TIRN contracts between DETCOG and HHSC.

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[14] Haphazard sampling is a non-statistical technique used by auditors to simulate random sampling.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS AND ECONOMIC DEVELOPMENT DISTRICT
210 Premier Drive, Jasper, Texas 75951, (409) 384-5704, Fax (409) 384-5390, TDD (409) 384-5975

February 24, 2017

Kacy J. VerColen, CPA
Audit Director
Inspector General – Texas Health and Human Services Commission
11501 Burnet Road, Building 902
Austin, Texas 78758

Dear Audit Director VerColen,

Thank you for the opportunity to submit our Management Response to the HHSC Inspector General (IG) Audit Division Draft Report No. IG-16-017 on programs of the Deep East Texas Council of Governments (DETCOG).

First and foremost, we are very pleased that the audit found that all HHS contract funds paid to DETCOG were used as intended.

We concur with the findings on financial and IT control issues and are using these findings and your recommendations for their intended purpose – to help us strengthen internal controls to ensure the continued success and integrity of the programs we operate and the services we perform for the benefit of the citizens of Texas.

Attached are the specific steps we have taken, and are taking, to address the five control issues identified in the audit. We will be happy to provide any additional documentation you request for verification purposes.

While no one enjoys the process of an audit, this particular one has been extremely valuable to our organization. We appreciate the thorough and professional manner in which this audit was conducted.

Sincerely,

Lonnie Hunt
Executive Director

DETCOG FINANCE DEPARTMENT RESPONSIBILITIES

Review Date: 01/11/2017

| Title of Staff (audit date) | Title of Staff (as of 01/11/17) | System Accesses (ABILA) | | | Physical Access | Duties | | | | Totals |
		Vendor Master	Payroll	Accounts Payable	Blank Check Stock	Authorizes checks	Printing of checks	Distributes checks	Receive / distribute accounts payable	
N/A	CFO/Controller	X	X	X	X	X	-	-	-	5
Controller	Assistant Controller	-	X	X	-	X	Backup only	-	-	3
Accountant	Accountant	-	X	X	-	-	-	X	X	4
Accountant	Position eliminated									-
HUD Accountant	HUD Accountant	-	-	-	-	-	-	X	X	2
Data Entry Clerk	Data Entry Clerk	-	X	X	X	-	X	-	X	5
	Totals	**1**	**4**	**4**	**2**	**2**	**1**	**2**	**3**	**19**

Appendix E: Report Team and Report Distribution

Report Team

The IG staff members who contributed to this audit report include:

- Kacy J. VerColen, CPA, Audit Director

- Joel A. Brophy, CIA, CRMA, CFE , CICA, Audit Manager

- Marcus Horton, CIA, CFE, CRMA, CCSA, Audit Project Manager

- Amy Behrnes, CIA, CIPP, IT Audit Project Manager

- Sarah Warfel, IT Staff Auditor

- Carolyn Cadena, CRMA, CIGA, CICA, Staff Auditor

- Lorraine Wayland, CFE, Staff Auditor

- Ashley Rains, Staff Auditor

- Frederick Appiah, Associate Auditor

- Lawrence Gambone, CPA, MBA, Quality Assurance Reviewer

- Mo Brantley, Senior Audit Operations Analyst

Report Distribution

Health and Human Services

- Charles Smith, Executive Commissioner

- Cecile Erwin Young, Deputy Executive Commissioner

- Heather Griffith Peterson, Chief Operating Officer

- Kara Crawford, Chief of Staff

- Karen Ray, Chief Counsel

- Karin Hill, Director of Internal Audit

- Michael Grisham, Community Access and Services
  Associate Commissioner and Administration

- Henry Whitman, Commissioner, DFPS

- Sasha Rasco, Prevention and Early Intervention Associate Commissioner, DFPS

- Chance Watson, Internal Audit Director, DFPS

- Jonathan Weizenbaum, Commissioner, DADS

- Sue Fielder, Area Agencies on Aging Director, DADS

- Kathie Carleton-Morales, Director, Contract Oversight and Support, DADS

Deep East Texas Council of Governments

- Lonnie Hunt, Executive Director

- Lynn Torres, DETCOG Board Executive Committee President

- Cynthia Chionsini, Chief Financial Officer

- Larry Alaniz, Information Systems Administrator

Appendix F: IG Mission and Contact Information

Inspector General Mission

The mission of the IG is to prevent, detect, and deter fraud, waste, and abuse through the audit, investigation, and inspection of federal and state taxpayer dollars used in the provision and delivery of health and human services in Texas. The senior leadership guiding the fulfillment of IG's mission and statutory responsibility includes:

- Stuart W. Bowen, Jr., Inspector General
- Sylvia Hernandez Kauffman, Principal Deputy IG
- Christine Maldonado, Chief of Staff and Deputy IG for Operations
- Olga Rodriguez, Senior Advisor and Director of Policy and Publications
- Roland Luna, Deputy IG for Investigations
- David Griffith, Deputy IG for Audit
- Quinton Arnold, Deputy IG for Inspections
- Alan Scantlen, Deputy IG for Data and Technology
- Deborah Weems, Deputy IG for Medical Services
- Anita D'Souza, Chief Counsel

To Obtain Copies of IG Reports

- IG website: https://oig.hhsc.texas.gov

To Report Fraud, Waste, and Abuse in Texas HHS Programs

- Online: https://oig.hhsc.texas.gov/report-fraud
- Phone: 1-800-436-6184

To Contact the Inspector General

- Email: OIGCommunications@hhsc.state.tx.us
- Mail: Texas Health and Human Services Commission
             Inspector General
             P.O. Box 85200
             Austin, Texas 78708-5200
- Phone: 512-491-2000