

INTERNAL AUDIT  
FISCAL YEAR 2018  
ANNUAL AUDIT PLAN



TEXAS DEPARTMENT OF INSURANCE  
INTERNAL AUDIT DIVISION  
OCTOBER 2017

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TEXAS DEPARTMENT OF INSURANCE  
INTERNAL AUDIT FISCAL YEAR 2018 ANNUAL AUDIT PLAN  
OCTOBER 2017

PLAN APPROVED



Kent C. Sullivan  
Commissioner of Insurance

October 26, 2017

Date



W. Ryan Brannan  
Commissioner of Workers' Compensation

October 26, 2017

Date



Greg Royal, CPA, CIA, CGAP, CRMA  
Internal Audit Director

October 26, 2017

Date

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## OVERVIEW OF TDI INTERNAL AUDIT FISCAL YEAR 2018 ANNUAL AUDIT PLAN

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### INTRODUCTION

This document provides the Fiscal Year (FY) 2018 Audit Plan as required by professional auditing standards and the Texas Internal Auditing Act (Texas Government Code, Ch. §2102.008). This plan provides our vision of Internal Audit efforts for FY 2018, allocating resources to the most critical areas within the Texas Department of Insurance (TDI).

Projects were identified for the Audit Plan by using a risk assessment model that considered input from TDI management, commissioners, and the State Auditor's Office. Using that input, staff exercised auditor judgment to prioritize projects for FY 2018.

### AUDIT CHARTER AND DEFINITION

The Audit Charter approved by the commissioners in November 2015 provides authorization to Internal Audit personnel for full, free, and unrestricted access to any of the agency's systems, records (manual or electronic), functions, property, and personnel relevant to the performance of statutory responsibilities and duties assigned by the Commissioner of Insurance and the Commissioner of Workers' Compensation. The charter also defines reporting relationships and the scope of audit work, as well as audit reporting and follow-up responsibilities.

As the internal audit profession has evolved, so has the definition of our work efforts. The mission of Internal Audit is to enhance and protect organizational value by providing risk based and objective assurance advice and insight. The definition states:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.<sup>1</sup>

### RISK ASSESSMENT

Internal Audit developed the Audit Plan by first conducting a comprehensive risk assessment of agency program activities. We then selected projects for FY 2018 based on relative risk and available hours.

Risk assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions or events. This process provides a means to organize and integrate professional judgments for project selection and work schedule development. Activities with higher risk were assigned higher audit priorities. Internal Audit used the risk assessment results for recommending projects.

We assessed risks within TDI by sending out agencywide questionnaires and interviewing all executive management, as well as other management responsible for championing the agency Balanced Scorecard and Enterprise Risk Management programs. Then, staff used the following criteria to determine the relative risk of each program activity and select projects:

- ★ Criticality to agency mission
- ★ Prior audits or studies
- ★ Size or complexity of operations
- ★ Quality of internal controls
- ★ Other high-risk indicators
- ★ Auditor judgment

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1 The Institute of Internal Auditors – International Professional Practices Framework, July 2015

### ALLOCATION OF HOURS

Project hours are allocated to the current goals and action plans contained in the *Fiscal Year 2017-2021 Agency Strategic Plan*, shown in Figure 1. We allocated 7,344 hours to audit and consulting projects including 5,998 hours for new projects and 1,346 hours for carry-over projects. All IT, legal, and administrative operations projects are included in agencywide operations. In addition, there are 400 hours for special requests and 300 hours for miscellaneous advisory projects, which are dispersed evenly to each core function area. The chart in Figure 2 depicts historical data of 10 core functions. Figure 3, allocates hours to the four agency balanced scorecard perspectives.

Figure 1 below allocates hours among the agency goals and action plans as depicted in the *Fiscal Year 2017-2021 Agency Strategic Plan*.

**Figure 1: FY 2018 Agency Goals & Action Plans Coverage Hours**



Figure 2 below compares Internal Audit’s actual coverage for FY 2015, FY 2016, FY 2017, and budgeted coverage for FY 2018. These 10 core functions were from prior strategic plans.

**Figure 2: Historical Core TDI Function Coverage**

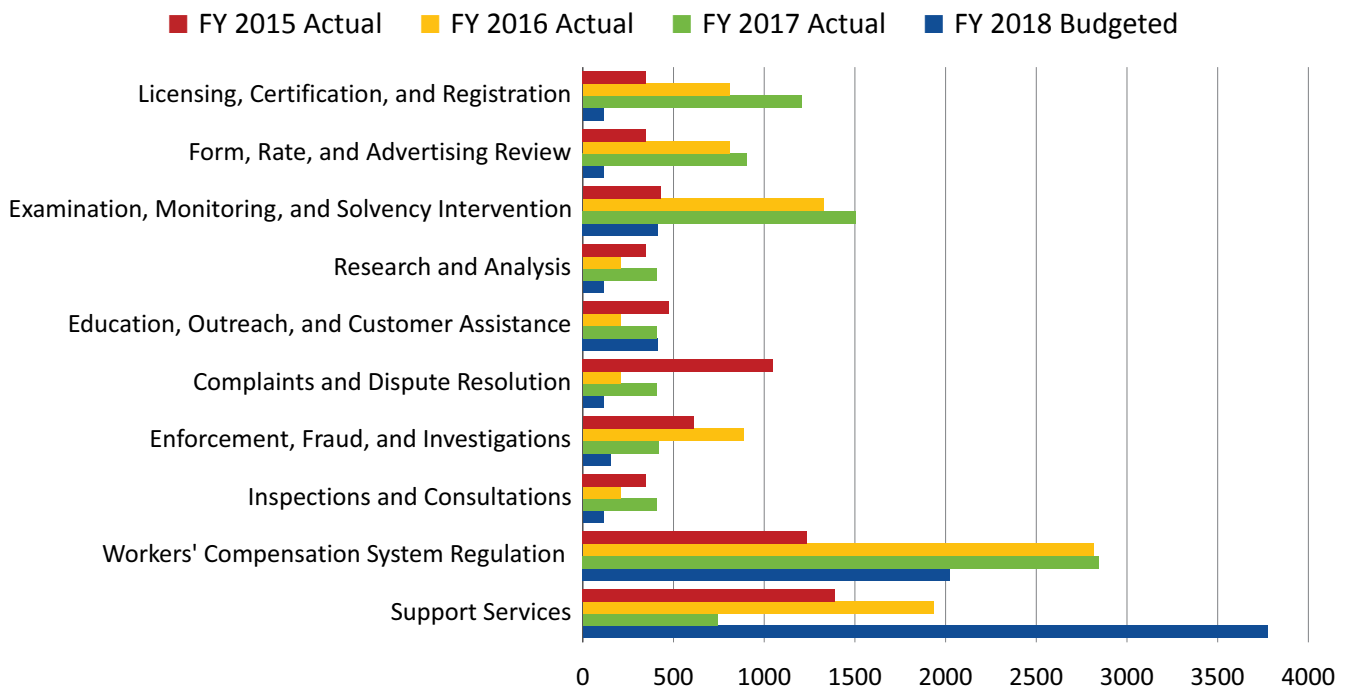
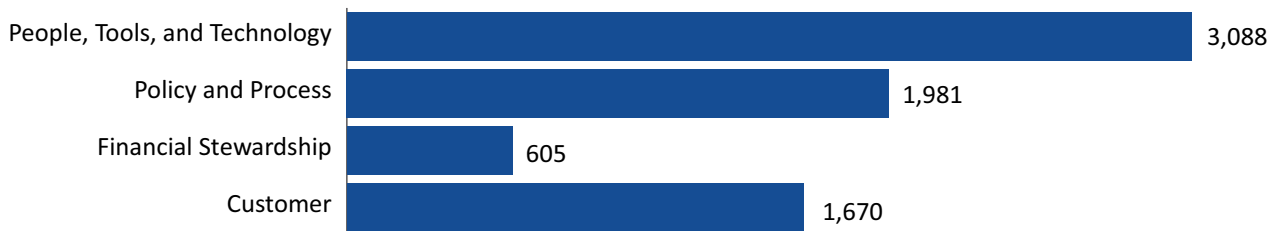




Figure 3 below shows the coverage of each of the four Balanced Scorecard Agency Perspectives.

**Figure 3: Balanced Scorecard Agency Perspectives**



### **ACCEPTABLE LEVEL OF RISK**

Although the plan contemplates a wide-ranging scope of audit effort, it does not provide coverage for all TDI components or systems. We attempted to maximize limited Internal Audit resources to provide reasonable coverage of the business activities that require the most attention. Due to budget constraints, our audit staff was reduced by one full-time equivalent auditor (14 percent of staff). This reduction has led to fewer hours allocated to projects than in prior fiscal years.

Because we cannot address every risk area, it is important the commissioners and management understand audit coverage limitations and the assumed risks in unaudited areas. This plan allocates Internal Audit resources to the agency's priorities and risks at this point in time. The Audit Plan also includes 400 contingency hours for special audit requests from the commissioners or executive management that may occur during the year.

The Internal Audit Division is committed to being a valuable resource in improving the agency's operations and proposes a plan that targets key processes, yet builds flexibility to allow for commissioner and management special requests that require immediate attention. After accounting for scheduled holidays, vacation, sick leave, required training, and administrative projects, 7,344 hours are available for audits, consulting activities, investigations, and special requests.

### **FY 2018 INTERNAL AUDIT PLAN ALLOCATION**

The Audit Plan depicts hours allocated to audit engagements in various divisions and sections of the agency and is shown in Schedule 1. The Audit Plan includes the following sections:

#### **Projects Carried Forward**

Some projects that began in FY 2017 were not completed by the end of the fiscal year. The following projects were started in FY 2017 and have hours allocated in FY 2018 to complete the project: Managed Care Quality Assurance; Rehabilitation, Liquidation, and Oversight; Controls Survey; and Risk Assessment for Fiscal Year 2018. Other projects that were not started in FY 2017, yet are still included in the FY 2018 Audit Plan in some format include ITS General and Application Controls, Certified Self Insurance, and TeamMate build-out of other modules.

#### **Information Technology Services Projects**

One project listed will assess IT general and application controls and is specific to the agency environment and specific applications. The other audit will focus on user developed applications on the insurance side. Although most audit projects have an IT component included in the audit scope, these projects will have a scope and objectives specific to IT controls in place.

### **Financial/Performance Assurance Activities**

Internal Audit provides assurance services for TDI, which are defined as objective examinations of evidence for the purpose of providing an independent assessment on risk management, control, and governance processes for the agency. Examples may include financial, compliance, economy and efficiency, effectiveness, investigations, and information technology engagements.

Hours allocated in this section are dedicated to projects that were selected through the agencywide risk assessment.

### **Special Initiatives**

In addition to assurance and consulting engagements, Internal Audit allocates resources toward special initiatives. These initiatives include any liaison activities during the year and special requests from commissioners and management.

### **Consulting/Advisory Activities**

By definition, internal auditing includes the provision of consulting services. Consulting services are advisory and client-related service activities, the nature and scope of which are agreed upon with the client. These activities are intended to add value and improve governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Internal Audit will continue to provide representation on TDI committees and work groups as needed and requested by the Commissioner of Insurance, the Commissioner of Workers' Compensation, and management. Upon request, Internal Audit will provide both formal and informal advice and suggestions on management issues, concerns, and draft policies and procedures.

Progressive Internal Audit departments provide additional management assistance or consulting services to their organizations. By providing consulting or advisory activities, Internal Audit adds value to TDI beyond assurance services and assists in strengthening agency internal controls.

### **Administrative Activities**

We included hours for various administrative activities of the Internal Audit Division, some of which are mandated either by the professional standards or statute we are required to follow. Department leave time is also included to show a full picture of hours to be used by Internal Audit during the year.

In addition, the Internal Audit division underwent an independent quality assurance review that was completed with a report issued in September 2015, and the division obtained the highest rating. Internal Audit staff periodically participates in a quality assurance review of another state agency and plans to participate in FY 2018. The Internal Audit Division is scheduled to go through another independent quality assurance review in the fall of 2018.

## **PROFESSIONAL STANDARDS**

We adhere to *Government Auditing Standards*, as promulgated by the U.S. Government Accountability Office, and the *International Standards for the Professional Practice of Internal Auditing*, as promulgated by the Institute of Internal Auditors, which includes the Code of Ethics. In addition, we conform to requirements found under the Texas Internal Auditing Act (Texas Government Code §2102) and comply with all policies and procedures of TDI.

## PERFORMANCE MEASURES

Internal Audit performance measures for FY 2018 are as follows:

- ★ Complete development and approval of the *Internal Audit Fiscal Year 2018 Audit Plan* by September 30, 2017.
- ★ Complete the *Internal Audit 2017 Annual Report* by November 1, 2017.
- ★ Complete 80 percent of the scheduled FY 2018 Audit Plan projects.
- ★ Spend over 60 percent of total planned hours available on direct audit and consulting work.
- ★ Obtain management acceptance of 95 percent of audit issues or recommendations.
- ★ Obtain management satisfaction on at least 80 percent of audit assurance and consulting activities.

Internal Performance Measure results for FY 2017 were:

- ★ The *Internal Audit Fiscal Year 2017 Audit Plan* was approved in September 2016.
- ★ The *Internal Audit 2016 Annual Report* was completed in October 2016.
- ★ Of the 23 projects in the FY 2017 Audit Plan, 16 were completed by the end of the fiscal year (70 percent). There were five on-going projects and two projects that had not started and were carried over to the FY 2018 Audit Plan.
- ★ Internal Audit spent 65 percent of total hours available on direct audit or consulting work in FY 2017.
- ★ Management acceptance of audit issues or recommendations exceeded 95 percent.
- ★ Management satisfaction from surveys exceeded 80 percent of audit assurance and consulting activities.

## INTERNAL AUDIT STAFFING AND BUDGET

A current organization chart for Internal Audit is attached to this plan and shown in Schedule 2. The division includes eight full-time equivalent positions: an audit director, six auditors, and an executive assistant. The FY 2018 Internal Audit Plan was developed based on the assumption that the division would be fully staffed throughout the year. The FY 2018 budget is included in this plan and is shown in Schedule 3.

Current Internal Audit staff members collectively have over 69 years auditing experience, including over 31 years at TDI. In addition, audit staff possesses the following 19 professional certifications and advanced education:

- ★ Four Certified Internal Auditors (CIA)
- ★ Three Certified Government Auditing Professionals (CGAP)
- ★ Three Certified Fraud Examiners (CFE)
- ★ Two master's degrees
- ★ Three Certified Public Accountants (CPA)
- ★ One Certification in Risk Management Assurance (CRMA)
- ★ One Certified Investments and Derivatives Auditor (CIDA)
- ★ One Certified Internal Controls Auditor (CICA)
- ★ One Certified Information Systems Auditor (CISA)

During FY 2017, one CPA, one CIA, one CISA, and two CFE certifications were obtained by four different staff members. Current staff is also actively pursuing CPA and CISA certifications in order to enhance skills.

## **CLOSING**

Audit plans act as a guide for audit departments. This plan includes proposed projects and other initiatives for FY 2018. We have budgeted time for special requests so that we can be responsive to the immediate needs of the commissioners and management as they arise throughout the fiscal year.

As discussed under “Acceptable Level of Risk” our plan does not, nor is it intended to, address or provide complete coverage for all TDI components or system risks. We believe that this plan allocates the resources of the Internal Audit Division to the most important priorities and risks of the agency at the time of publication.

Internal Audit wishes to thank TDI management and staff for their assistance in providing information which led to the development of this proposal. In addition, the Internal Audit Division looks forward to helping the agency meet its objectives this fiscal year. For further information on the Internal Audit FY 2018 Audit Plan, please contact the Internal Audit Director, Greg Royal, at (512) 676-6200 or by email at [greg.royal@tdi.texas.gov](mailto:greg.royal@tdi.texas.gov).

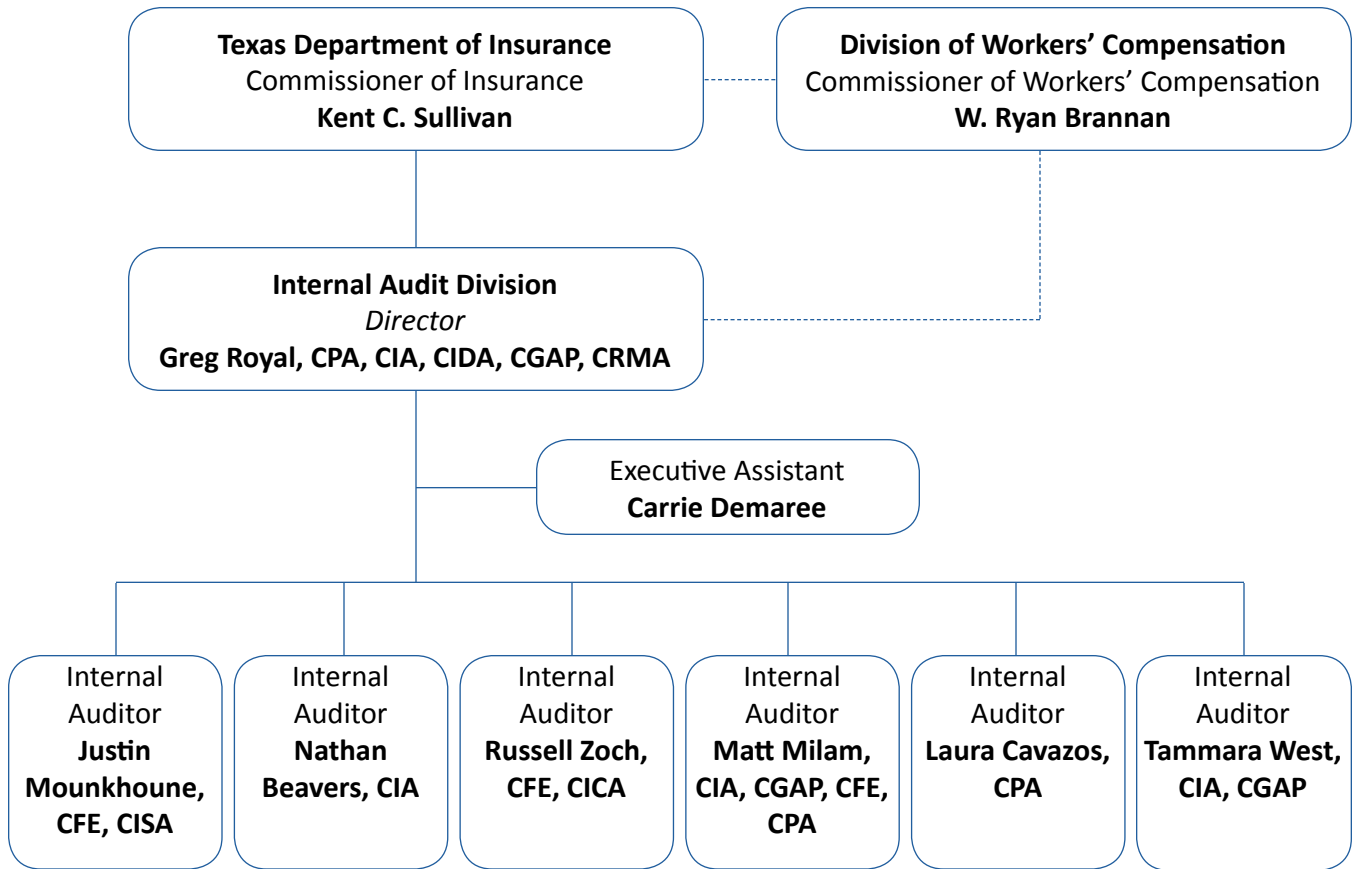
## SCHEDULE 1 – FY 2018 INTERNAL AUDIT PLAN PROJECTS

Project #	Project Description	Program Area	Hours
<b>Audit, Investigation, and Advisory Projects</b>			
<b>Projects Started and Carried Forward from FY 2017</b>			
2017-607	Managed Care Quality Assurance (MCQA)	Fin. Reg.	150
2017-304	Rehabilitation and Liquidation Oversight Program	Fin. Reg.	150
2017-604	Controls Survey Risk Ranking	Agencywide	250
Pending	Certified Self-Insurance	DWC GC	700
2017-305	Subsequent Injury Fund	DWC	10
2017-405	FY 2018 Risk Assessment	Agencywide	86
<b>Carry-Forward Project Subtotal</b>			<b>1,346</b>
<b>Information Technology Services Project</b>			
Pending	General Controls/Application Controls (FY 2017 Audit Plan)	Agencywide	750
Pending	User Developed Applications (Hobby)	Agencywide	750
<b>Information Technology Services Project Subtotal</b>			<b>1,500</b>
<b>Financial/Performance Assurance Projects</b>			
Pending	Claims and Customer Service (Form 24 Review)	DWC	600
Pending	Records Management and Support	DWC	600
Pending	Purchasing and Contracts	Admin. Ops	750
Pending	Mail room/cashier's office	Admin. Ops	500
Pending	Mid-year recommendations follow-up (Internal Audit Reports)	Agencywide	50
2018-301	FY 2017 Seized/Forfeited Property Audit ( <i>Code of Criminal Procedures Art 59.06</i> )	Fraud/SFMO	40
<b>Financial/Performance Assurance Project Subtotal</b>			<b>2,540</b>
<b>Special Initiatives</b>			
Various	Special assigned audits, investigations, or management requests	N/A	400
<b>Special Initiatives Subtotal</b>			<b>400</b>
<b>Consulting/Advisory Projects</b>			
Ongoing	Agency Strategy – Balanced Scorecard/ERM Workgroups	Admin. Ops	100
Ongoing	ITS Customer Meetings	Agencywide	24
Pending	Internet Posting Requirements	Public Affairs	300
Pending	Cell Phone and iPad Usage	Agencywide	440
Pending	Breach Response	Legal	300
Pending	Data Governance	Agencywide	47
Pending	Document Management	Agencywide	47
Pending	Miscellaneous Advisory Projects	Agencywide	300
<b>Consulting/Advisory Project Subtotal</b>			<b>1,558</b>
<b>Audit, Investigation, and Advisory Project Subtotal</b>			<b>7,344</b>
<b>Administrative and Required Internal Audit Projects</b>			
Ongoing	Internal Audit general administration (auditor staff at 17.5 percent)	N/A	2,220
Ongoing	Maximum annual vacation and sick leave accrual for each employee	N/A	1,620
Pending	FY 2019 Risk Assessment	N/A	400
Ongoing	Staff Training	N/A	280
Pending	TeamMate build-out of other modules	N/A	400
Pending	External Peer Review – part of the State Agency Internal Audit Forum Team	N/A	150
Pending	FY 2017 Internal Audit Annual Report	N/A	120
Pending	Internal Self-Assessment	N/A	150
<b>Administrative and Other Internal Audit Project Subtotal</b>			<b>5,340</b>
<b>Total Available Hours*</b>			<b>12,684</b>

\* Available Hours: (261 work days) - (14 holidays @ 8 hours/day) = 1,976 hours/year  
(1,976 hours x 6 auditors + 1,976 x .5 audit director hours to projects) = 12,844 Total Hours  
Total Hours (12,844 - 160) = 12,684 (1 auditor out of the office the month of September)

## SCHEDULE 2 – INTERNAL AUDIT ORGANIZATION CHART

As of October 1, 2017



## SCHEDULE 3 – FY 2018 ANNUAL OPERATING BUDGET

Expenditure Category	FY 2018
Salaries and Longevity (8.0 FTEs)	\$ 590,911.43
Other Operating Expenses	10,016.00
<b>Total Operating Budget</b>	<b>\$ 600,927.43</b>





Internal Audit Fiscal Year 2018 Annual Audit Plan  
Texas Department of Insurance  
Internal Audit Division