

Internal Audit Annual Report for Fiscal Year 2021

TDI | Internal Audit

Texas Department of Insurance
www.tdi.texas.gov

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**Part 1 | Compliance with Texas Government Code, Section 2102.015
Posting the Internal Audit Plan, Internal Audit Annual Report, and other audit information on the website.**

To comply with the provisions of Texas Government Code, Section 2102.015, the Texas Department of Insurance Internal Audit division will post its approved Internal Audit Plan for Fiscal Year 2022 and the Internal Audit Annual Report for Fiscal Year 2021 online at: <https://tdi.texas.gov/reports/>.

No weaknesses or concerns were raised by the audit plan or the annual report.

Part 2 | Internal audit plan for fiscal year 2021

The following table includes assurance projects in the Internal Audit Plan for Fiscal Year 2021.

Report code	Report date	Report title	Status
IA20A	9/2020	Minor improvements can help the Company Licensing and Registration Office continue to process filings appropriately	Completed
IA20B	9/2020	The State Fire Marshal’s Office needs significant improvements in its inspections processes and systems	Completed
IA20C	2/2021	Health Care Quality Review meets objectives but should adjust its worklist and procedures	Completed
IA21A	6/2021	Minor improvements can help Customer Operations continue to administer the Independent Dispute Resolution program	Completed
IA21D	8/2021	An audit report on cybersecurity procedures and communications at TDI	Completed

We started but have not completed 3 audit projects from the Internal audit plan for fiscal year 2021. We included them as a carryover project in the Internal audit plan for fiscal year 2022.

- Mozart artificial intelligence
- State Fire Marshal’s Office Investigations
- Bid evaluation process

Part 3 | Consulting services and nonaudit services completed.

The following table includes high-level objectives and a summary of consulting and nonaudit services completed during fiscal year 2021.

Report code	Report date	Report title/Subject	High level results
None	None	TDI boards and committees	Engaged with the Commissioner of Insurance on an ad hoc advisory project to review 1) TDI's processes to appoint or nominate board or committee members, and 2) education materials for new board and committee members. Provided insights to Commissioner of Insurance and General Counsel.
IA21a	11/2020	An advisory report on the Complaints Processing Office	Engaged with Customer Operations to review complaints processes and compare with other state agencies.
IA21b	6/2021	An advisory report on Enterprise Risk Management	Engaged with the Risk Office to help facilitate discussions with 19 program areas related to enterprise risk for TDI's Enterprise Risk Management initiative.
IA21c	8/2021	An advisory report on DWC's enforcement penalties	Engaged with DWC Enforcement to review penalty fee processes and identify opportunities to improve.
None	None	Fraud panel investigations	IA director participates in reviewing and investigating internal fraud claims.
None	None	Seized/forfeited property certification	Coordinate with TDI Fraud Unit and the State Fire Marshal's Office to certify to the Office of the Attorney General any proceeds resulting from seized or forfeited property.

Part 4 | External quality assurance review

Texas Department of Insurance Internal Audit Division
External Quality Assurance Review – December 2018

Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Department of Insurance Internal Audit Division (the Internal Audit Division) receives a rating of **"Pass/Generally Conforms"** and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

We found that the Internal Audit Division is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

The Internal Audit Division is well managed internally. In addition, the Internal Audit Division has effective relationships with the Commissioners and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.

The Internal Audit Division has reviewed the results of the peer review team's work and has accepted them to be an accurate representation of the Internal Audit Division's operations.

Acknowledgements

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit staff, the Commissioner of Insurance, Commissioner of Workers' Compensation, and the senior managers who participated in the interview process. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Division and its relationship with management.



Cheryl P. Scott, CPA
Director of Internal Audit
Texas Comptroller of Public
Accounts
SAIAF Peer Review Team
Leader

12/21/18
Date



Henrietta Cameron-Mann, CRA, CISA
Internal Auditor
Texas General Land Office
SAIAF Peer Review Team Member

12/21-18
Date

Internal Audit Plan for Fiscal Year 2022

Texas Department of Insurance | Internal Audit

Internal Audit Plan for Fiscal Year 2022

Overview

The Internal Audit Plan for Fiscal Year 2022 offers a strategy for the assurance and advisory projects Internal Audit (IA) will conduct to enhance and protect TDI's mission.

We designed a flexible plan to respond to the Commissioner of Insurance, the Commissioner of Workers' Compensation, or executive management requests to address critical risks that occur during the year. With that design in mind, the Internal Audit Plan for Fiscal Year 2022 functions as a working document, and we will update it as needed throughout the year.

We believe this plan provides coverage of key risks given our capabilities and resources.

This initial plan sets the table for the fiscal year. We present 10 projects—including carryover projects from fiscal year 2021—that we plan to perform.

TDI Internal Audit	
Arby James Gonzales, CPA, CFE	Director
Isaac Barajas	Assistant Director
Nathan Beavers, CIA, CISA	Senior Internal Auditor
Laura Bryan, FMLI, CFE	Internal Auditor
Kristina Cleaver, CFE	Senior Internal Auditor
Jessica Hirn	Internal Auditor
Jonathan Gonzalez	Internal Auditor
Daniel Wykes	Internal Auditor

Internal Audit Plan for Fiscal Year 2022

Mission

IA enhances and protects TDI's mission by providing risk-based and objective assurance, advice, and insight.

TDI includes the Division of Workers' Compensation (DWC) and the State Fire Marshal's Office (SFMO). The projects in this plan align with the agency's mission statements.

TDI mission

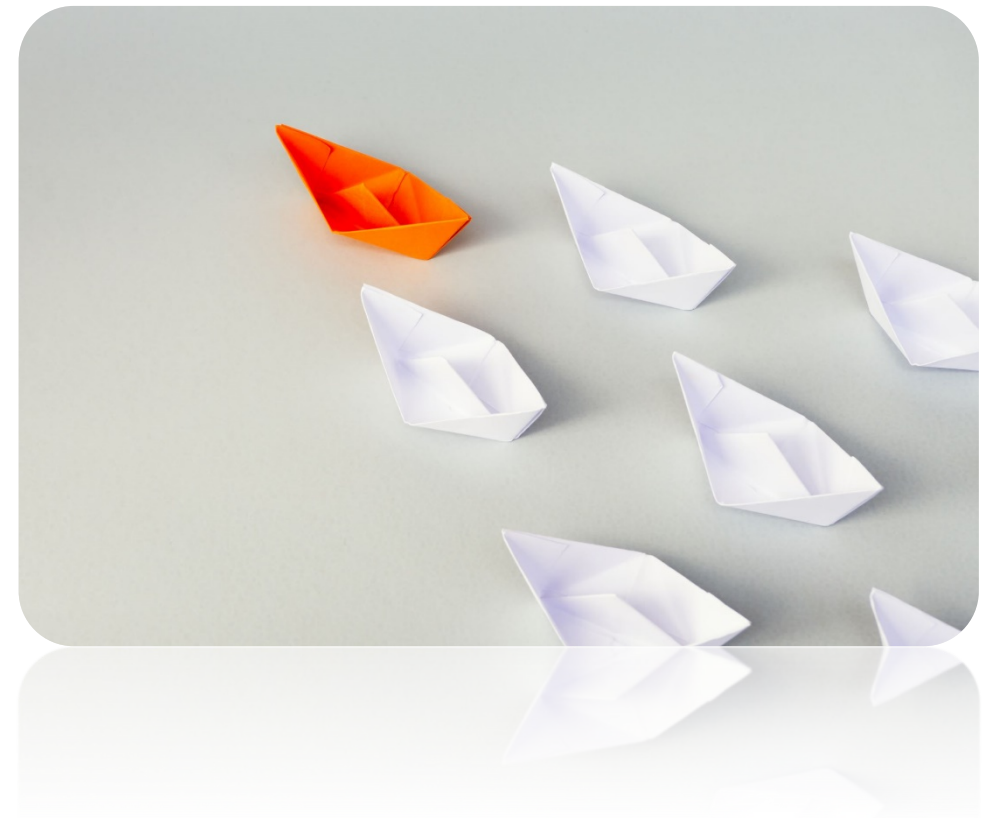
To protect insurance consumers by regulating the industry fairly and diligently, promoting a stable and competitive market, and providing information that makes a difference.

DWC mission

Regulate Texas workers' compensation efficiently, educate system participants, and achieve a balanced system in which everyone is treated fairly with dignity and respect.

SFMO mission

Reduce the loss of life and property through prevention, education, and protection.



Internal Audit Plan for Fiscal Year 2022

Projects

We developed projects in this plan by systematically assessing agency risk, including:

- Reviewing agency functions and processes,
- Discussing program risks with commissioners and management,
- Considering information from Enterprise Risk Management, and
- Using our own professional judgment.

We weigh available IA resources and build in flexibility to respond to special project requests from executive management and to add projects as risks present themselves.

The following page includes projects we plan to conduct in fiscal year 2022. We will determine the scope for each project as we perform our work.

We'll stay tuned to emerging risks throughout the year and adapt this plan if needed.



Internal Audit Plan for Fiscal Year 2022

Projects

Projects	Description
Cybersecurity	We'll determine whether TDI's Information Security Office and Information Technology Services identifies or protects from threats. We'll assess cybersecurity activities and determine which of the National Institute of Standards and Technology's (NIST) Cybersecurity Framework functions we'll review.
System development COMPASS update	We'll review how TDI and DWC is developing systems to update the COMPASS system. We'll review development lifecycle processes compared to NIST frameworks
Agent and Adjuster Licensing	We'll review whether Customer Operations is appropriately processing agent and adjuster license applications. AAL improved its processing time and increased the number of applications it processed in the past 2 years. We want to ensure TDI accurately processed applications.
DWC Workplace Safety	We'll review whether DWC Health and Safety complies with grant requirements and is operating as efficiently and effectively as it can.
Continuity of Operations Plan	We'll review TDI's COOP to determine whether it's updated as needed and set up to ensure TDI quickly recovers from a disruption in service or operations.

Internal Audit Plan for Fiscal Year 2022

Projects

Projects in progress	Description
Mozart artificial intelligence project (assurance)	Assurance project to determine whether Property and Casualty is using best practices to implement artificial intelligence or machine learning tools and whether those tools help form review complete intake more efficiently.
Investigations at the SFMO (assurance)	Assurance project to review SFMO's processes related to maintaining support, investigation reports security, and feedback and communications.
Bid evaluation process (assurance)	Assurance project to ensure TDI appropriately evaluates bids prior to selecting a vendor.
Customer Operations – communications (advisory) ^a	Advisory project to review Customer Operations' processes to communicate with insurance companies and identify opportunities to improve.
General Counsel – Chief Clerk's Office (advisory) ^a	Advisory project to review the Chief Clerk's Office's processes related to tracking cases at the State Office of Administrative Hearings and citations.

We started these projects during fiscal 2021, and they are currently in progress.
^a These projects were not included in the internal audit plan for fiscal year 2021. Management requested these advisory projects.

Internal Audit Plan for Fiscal Year 2022

Risk categories

We assessed risks based on how they can impact the agency using the categories below. We also used discussions with agency staff and management, previous IA projects, and our own judgments to consider how likely risks would occur. We will continue to assess risks throughout the year and adapt our plan according to agency needs.

Risk categories	Description
Strategy	Impact on TDI's, DWC's, or SFMO's ability to achieve its goals.
Operations	Impact on how TDI, DWC, or SFMO does its work.
Financial	Impact on TDI's, DWC's, or SFMO's finances or assets.
Compliance	Impact on TDI's, DWC's, or SFMO's ability to comply with requirements.
Reputation	Impact on TDI's, DWC's, or SFMO's standing with the public, industry, and other stakeholders.

Internal Audit Plan for Fiscal Year 2022

Other activities

General administrative activities help the division operate as efficiently and effectively as possible and enables us to meet our goals and objectives. Audit standards require us to develop and maintain our professional competence by completing continuing education. The standards also require us to maintain a quality assurance improvement program to ensure that we comply with standards when conducting assurance and advisory services.

Activities
Continuing education
Continuous risk assessment
Quality assurance improvement program
Peer review
Follow-up on internal audit recommendations
TeamMate+ process optimization
Seized/forfeited property certification
Fiscal 2021 internal audit annual report

Internal Audit Plan for Fiscal Year 2022

Acceptable level of risk

IA does not—nor do we intend to—cover all TDI functions or risks in its internal audit plan. Our goal is to use current resources to cover key processes and risk areas we identified during our risk assessment to improve agency processes.

Because we cannot address every key process and risk, the commissioners and executive management should understand the limits of the audit coverage and the risks they assume in the areas we do not audit. We believe this plan provides coverage of key risks given our capabilities and resources.

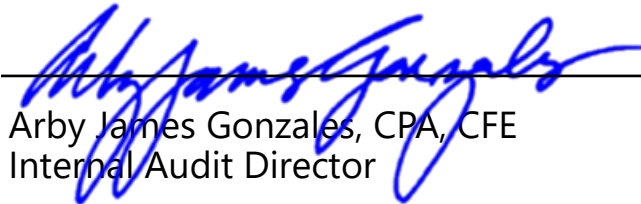
Professional standards

IA adheres to the U.S. Government Accountability Office's *Government Auditing Standards* and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, which includes the *Code of Ethics*. In addition, we conform to the Texas Internal Auditing Act requirements and comply with TDI policies and procedures.

Approvals



Cassie Brown
Commissioner of Insurance



Arby James Gonzales, CPA, CFE
Internal Audit Director

Part 6 | External audit services procured in fiscal year 2021

The following represents TDI external audit services procured or in progress in FY2021.

Auditee	Auditor
Office of Injured Employee Counsel	Garza Gonzalez and Associates

Part 7 | Reporting suspected fraud and abuse

The following represents TDI actions taken to meet suspected fraud and abuse reporting requirements.

Requirement	Actions taken
Section 7.09, page IX-37, the General Appropriation Act (86 th Legislature)	The agency has included a link to the State Auditor's Office (SAO) Fraud Hotline on TDI's websites. In addition, the agency has internal procedures for staff to report fraud, waste, or abuse.
Section 7.09, page IX-38, the General Appropriation Act (87 th Legislature)	The agency has included a link to the State Auditor's Office (SAO) fraud hotline on TDI's websites. In addition, the agency has internal procedures for staff to report fraud, waste, or abuse.



Internal Audit Annual Report for Fiscal Year 2021

Texas Department of Insurance
IAAR21