

# Internal Audit Annual Report for Fiscal Year 2022

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TDI | Internal Audit

Texas Department of Insurance  
[www.tdi.texas.gov](http://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 Texas Government Code, Section 2102.015, the Texas Department of Insurance Internal Audit will post its approved Internal Audit Plan for Fiscal Year 2022 and fiscal year 2021 Internal Audit Annual Report 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
IA21F	12/2021	Mozart helps Property and Casualty review filings more efficiently. Performance metrics could help align processes with program objectives.	Completed
IA21G	12/2021	Contract Administration’s bid evaluation process work. Minor improvements could help.	Completed
IA21H	12/2021	SFMO should improve its investigation case database and other processes.	Completed
IA22B	6/2022	The Agent and Adjuster Licensing Office processes applications appropriately. Minor improvements can better support applications.	Completed
IA22C	9/2022	TDI appropriately identified and prioritized mission essential functions and shared information and instruction to staff related to the Continuity of Operations Plan.	Completed

Two audit projects from the Internal Audit Plan for Fiscal Year 2022 are carryover projects in the Internal Audit Plan for Fiscal Year 2023:

- Cybersecurity
- DWC workplace safety

We postponed the System development | COMPASS update audit project because of significant updates to the information system made more sense to review in fiscal 2023.

We started one audit project not in IA’s fiscal 2022 plan because management, citing elevated risks, requested we audit revenues at property and casualty amusement rides. This project will continue in fiscal 2023.

### 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 2022

Report code	Report date	Report title/Subject	High level results
IA21d	9/2021	An advisory report on State Office of Administrative Hearings and citation processes in the Chief Clerk’s Office	Engaged with General Counsel to review processes related to State Office of Administrative Hearings (SOAH) filings—including court reporting for SOAH cases—and citations.
IA21e	10/2021	An advisory report on the Customer Operations Division’s processes to securely communicate with insurance companies	Engaged with the Customer Operations Division to review processes related to securely communicating with insurance companies.
IA22a	5/2022	An advisory report on TWIA’s procurement process, including requests for proposals and vendor selection	Engaged with the Commissioner of Insurance to provide information on the Texas Windstorm Insurance Association’s procurement processes.
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 Department  
Receives a rating of  
**“Pass with Deficiency”**

In compliance with the Institute of Internal Auditors’ International Professional Practices Framework, Government Auditing Standards, and the Texas Internal Auditing Act.

This opinion is based on a quality assessment review conducted by members of the Texas State Agency Internal Audit Forum (SAIAF) during the period of August, 2022.

The review was based on the methodology developed by the Texas State Agency Internal Audit Forum.



Life's better outside:

Handwritten signature of Brandy Meeks in black ink.

Brandy Meeks, CPA, CIA, CISA  
Director of Internal Audit  
Texas Parks and Wildlife



Life's better outside:

Handwritten signature of Sherise Stewart in black ink.

Sherise Stewart, MBA  
Senior Internal Auditor  
Texas Parks and Wildlife





## Part 5 | Internal Audit Plan for Fiscal Year 2023

### Overview

The Internal Audit Plan for Fiscal Year 2023 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. With that design in mind, will update it as needed.

We believe this plan provides coverage of key risks given our capabilities and resources. This plan sets the table for the fiscal year. We present 13 projects—including carryover projects from fiscal year 2022—that we plan to do.

### TDI | Internal Audit

Arby James Gonzales, CPA, CFE	Director
Isaac Barajas	Assistant Director
Nathan Beavers, CIA, CIA	Senior Internal Auditor
Laura Bryan, CFE, FMLI	Internal Auditor
Jessica Hirn	Internal Auditor
Elijah Marchlewski	Senior Internal Auditor
Patty Ramirez	Internal Auditor

### 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.*

## Risk categories

We assessed risks based on how they can impact the agency using the categories to the right. We also used discussions with agency staff and management; previous IA projects; reviews of agency procedures and reports; and our own knowledge, experience, and 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.

## 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 section includes projects we plan to conduct in fiscal year 2023. 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.

Subjects	Description
Maintenance Tax	We'll review TDI's calculation to determine maintenance tax rates.
Revenue	We'll assess processes to monitor, reconcile, and report revenue at selected program area(s) and financial services.
Information Technology	We'll review general IT controls project on selected system(s). General IT controls <sup>a</sup> could include: logical access, change management, backup and recovery, physical security, and application controls.

Subjects	Description
Rate Setting	We'll assess the rate-setting processes at the Life & Health division to address whether decisions are appropriate and consistent.
DWC Performance Based Oversight	We'll assess DWC's process related to ranking insurance carriers and health care providers for the Performance Based Oversight.
Follow-up on IA recommendations for the SFMO	We'll review SFMO's implementation of previous IA recommendations on inspections and investigations.
Contract or renewals for TxRAMP certification for cloud products <sup>b</sup>	We'll audit TDI's processes to monitor contracts or renewals for cloud products to ensure they comply with Texas Risk and Authorization Management Program (TxRAMP) requirements.

<sup>a</sup> General controls can be applied to IT system applications, operating systems, databases, and infrastructure.

<sup>b</sup> This project fulfills the requirement to consider methods for ensuring compliance with contract processes and controls for monitoring agency contracts in Government Code section 2102.005. We budget approximately 900 hours for each of these projects.

### Projects: Carry over projects from fiscal 2022

Projects	Description
Cybersecurity <sup>a</sup>	We're reviewing whether TDI's Information Technology Services responds to vulnerabilities and remedies identified by the Information Security Office.
DWC Workplace Safety <sup>a</sup>	We're reviewing whether DWC Health and Safety complies with grant requirements related to the Survey of Occupational Injuries and Illnesses and the Census of Fatal Occupational Injuries and is operating as efficiently and effectively as it can.
System development COMPASS update <sup>b</sup>	We'll review how TDI and DWC develop systems to update the COMPASS system. We'll review development lifecycle processes compared to the National Institute of Standards and Technology frameworks.
Follow-up on IA recommendations (advisory) <sup>a, c</sup>	We're following up on managements' status implementing previous IA recommendations.
Property & Casualty - Amusement Rides revenues (assurance) <sup>a, c</sup>	We're reviewing how P&C monitors, reconciles, and reports revenues in the Amusement Rides section.

We started or postponed these projects during fiscal 2022, and they are currently in progress.

<sup>a</sup> We are currently conducting these projects.

<sup>b</sup> This project was postponed in fiscal 2022, and we will audit specific modules that went live in TxCOMP in September 2022.

<sup>c</sup> These projects were not included in the Internal audit plan for fiscal year 2022, and we conducted these projects either because management requested the project or as a response to elevated risks.

## Other activities

General administrative activities help the division operate as efficiently and effectively as possible and enable 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.

### Risk Categories

Continuing education
Continuous risk assessment
Fiscal 2022 internal audit annual report
Follow-up on IA recommendations
Peer review
Quality assurance improvement program
Seized/forfeited property certification
TeamMate+ process optimization
Volunteer to help advance the profession (IA associations, presentation or training, etc.)

## Acceptable level of risk

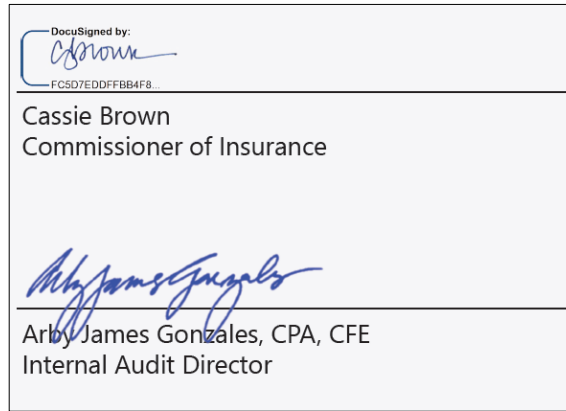
IA does not—nor do we intend to—cover all TDI functions or risks in its internal audit plan. Our goal is to use current resources to cover key processes and risk areas we identified during our risk assessment to improve agency processes.

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 Texas Internal Auditing Act requirements and comply with TDI policies and procedures.

## Approvals



### Part 6 | External audit services procured in fiscal year 2022

TDI did not procure external audit services in fiscal year 2022. TDI entered into an interagency contract to provide internal audit services for the Office of Injured Employee Counsel starting in fiscal year 2022.

### 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-38, the General Appropriation Act (87 <sup>th</sup> 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.
Texas Government Code, Section 321.022 – Coordination of Investigations	TDI Fraud Panel updates with SAO Audit and Investigations about internal investigations and SAO Hotline Complaints quarterly.





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Texas Department of Insurance  
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