

**INTERNAL AUDIT ANNUAL REPORT  
TO THE GOVERNOR, LEGISLATIVE BUDGET BOARD,  
SUNSET ADVISORY COMMISSION, STATE AUDITOR,  
COMMISSIONER OF INSURANCE AND COMMISSIONER  
OF WORKERS' COMPENSATION**



**TEXAS DEPARTMENT OF INSURANCE**  
Internal Audit



**Texas Department of Insurance**  
**Internal Audit**, Mail Code 105-7A  
333 Guadalupe • P. O. Box 149104, Austin, Texas 78714-9104  
512-475-2990 telephone • 512-490-1024 fax

October 31, 2013

Honorable Rick Perry, Governor  
Members of the Legislative Budget Board  
Members of the Sunset Advisory Commission  
Mr. John Keel, State Auditor  
Ms. Julia Rathgeber, Commissioner of Insurance  
Mr. Rod Bordelon, Commissioner of Workers' Compensation

Attached is the annual report for Fiscal Year 2013 of the Internal Audit Division of the Texas Department of Insurance. This report fulfills the requirements set forth in the Texas Internal Auditing Act (the Act). As mandated in the Act, the State Auditor's Office prescribes the content. This report has been prepared in accordance with the State Auditor's content requirements.

The work performed by Internal Audit is a key element in assuring accountability, economy, efficiency, and effectiveness within the Texas Department of Insurance operations. The Internal Audit Division is committed to being a trusted resource and providing quality internal auditing services. We will aggressively pursue projects in fiscal year 2014 to continue our assistance to the Texas Department of Insurance in improving controls, reducing risk, and enhancing agency operations.

Please contact me at (512) 475-2984 if you desire further information about the contents of this report or would like to request additional copies.

Sincerely,

A handwritten signature in blue ink that reads "Greg Royal". The signature is stylized and cursive.

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

## Table of Contents

<b><u>Report Section</u></b>	<b><u>Description</u></b>
<b>I.</b>	<b>Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Website</b>
<b>II.</b>	<b>Internal Audit Plan for Fiscal Year 2013</b>
	A. Internal Audit Plan for Fiscal Year 2013
	B. Deviations from Fiscal Year 2013 Audit Plan
<b>III.</b>	<b>List of Consulting Engagements and Non-audit Services Completed</b>
<b>IV.</b>	<b>External Quality Assurance Review</b>
<b>V.</b>	<b>Internal Audit Plan for Fiscal Year 2014</b>
<b>VI.</b>	<b>External Audit Services</b>
<b>VII.</b>	<b>Reporting Suspected Fraud and Abuse</b>

**Section I.**

**COMPLIANCE WITH HOUSE BILL 16: POSTING THE INTERNAL  
AUDIT PLAN, INTERNAL AUDIT ANNUAL REPORT, AND OTHER  
AUDIT INFORMATION ON INTERNET WEBSITE**

## **I. Compliance with House Bill 16**

To comply with the provisions of House Bill 16, the Texas Department of Insurance Internal Audit Division will post to its Internet Website, its approved fiscal year 2014 Internal Audit Plan and fiscal year 2013 Internal Audit Annual Report. These documents can be viewed on the TDI Internet Website at

[://www.tdi.texas.gov/reports/report5.](http://www.tdi.texas.gov/reports/report5)

**Section II.A**

**INTERNAL AUDIT PLAN FOR FISCAL YEAR 2013**

# INTERNAL AUDIT

## Fiscal Year 2013 Annual Audit Plan



TEXAS DEPARTMENT OF INSURANCE  
Internal Audit Division  
333 Guadalupe  
Austin, TX 78714-9104

# TEXAS DEPARTMENT OF INSURANCE

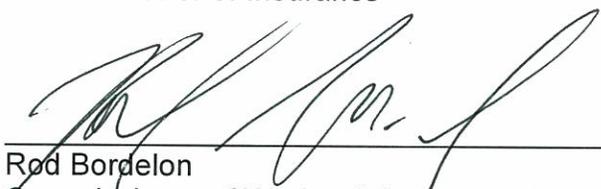
## Internal Audit Fiscal Year 2013 Annual Audit Plan

October 2012

Plan Approved:

  
\_\_\_\_\_  
Eleanor Kitzman  
Commissioner of Insurance

10/31/12  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Rod Bordelon  
Commissioner of Workers' Compensation

10/29/12  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Greg Royal, CPA, CIA, CIDA, CGAP  
Internal Audit Director

10/29/12  
\_\_\_\_\_  
Date

## TABLE OF CONTENTS

	<b><u>Page</u></b>
Overview of TDI Internal Audit Fiscal Year 2013 Annual Audit Plan	1
Schedule 1 – Fiscal Year 2013 Annual Audit Plan	8
Schedule 2 – Organization Chart	10
Schedule 3 – Fiscal Year 2013 Annual Operating Budget	11

## **Overview of TDI Internal Audit Fiscal Year 2013 Annual Audit Plan**

### **Introduction**

This document provides the Fiscal Year 2013 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 the fiscal year, 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 in prioritizing projects for the coming year.

### **Audit Charter and Definition**

The Audit Charter approved by the Commissioners in May 2012 remains current, and 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, the scope of audit work, and audit reporting and follow-up responsibilities.

As the internal audit profession has evolved, so has the definition of our work efforts.

*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 the coming year based on relative risk and available hours.

Risk assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events. The risk assessment process provides a means of organizing and integrating professional judgments for development of the work schedule. Activities with higher risk were assigned higher audit priorities. Internal Audit used the risk assessment results for recommending projects.

We assessed risk within TDI by sending out agency-wide questionnaires and interviewing selected executive management. The following criteria were then used in determining the relative risk of each program activity and selecting projects:

- Criticality to agency Mission
- Prior audits or studies
- Size or complexity of operations
- Quality of internal controls

---

<sup>1</sup> Institute of Internal Auditors – *International Professional Practices Framework*, January 2009

- Program’s completed Enterprise Risk Management (ERM) assessments
- Other high risk indicators
- Auditor judgment

The activities used in our analysis came from the following sources:

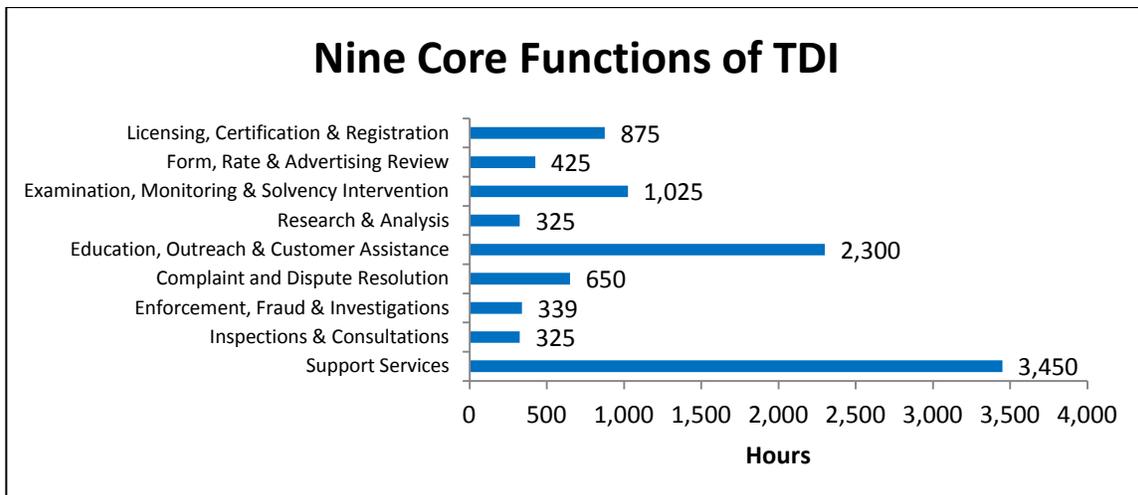
- ✓ Activities identified from questionnaires or interviews
- ✓ Business plans including Programs Enterprise Risk Management assessments

An Information Technology (IT) specific risk assessment was also performed. In performing the IT risk assessment, Internal Audit used similar criteria mentioned above to distinguish risk between general controls and application controls. The following criteria were used to identify IT projects:

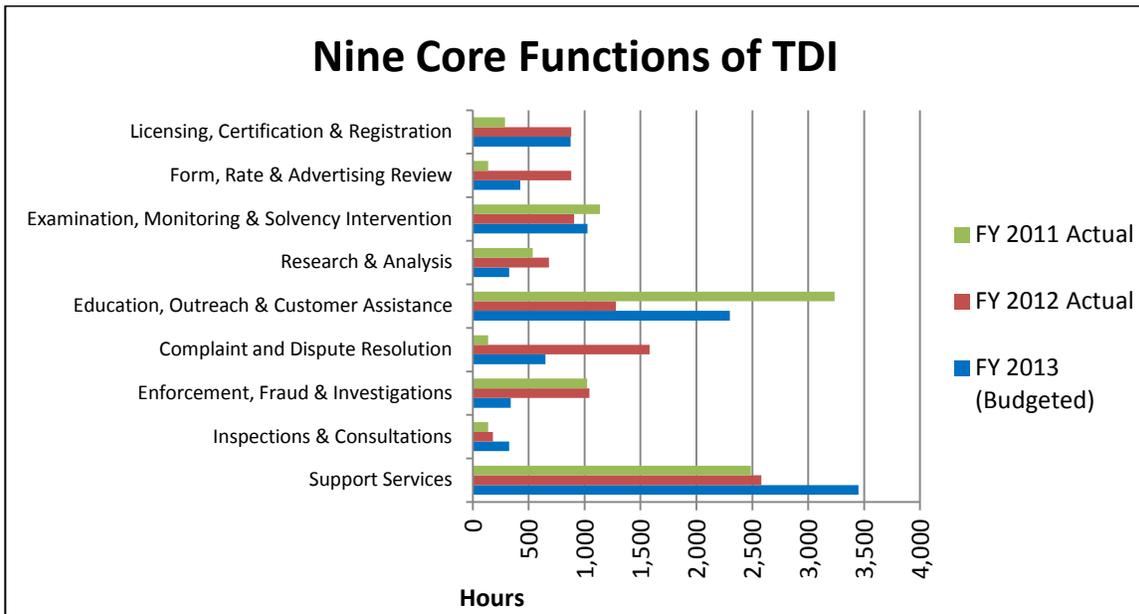
- Current utilization of the application, based both on frequency and the number of programs
- Criticality of the application
- Business value of the application
- Interfacing with other applications
- Technological complexity of the application
- Number and level of users of the application
- Prior audits
- Auditor judgment

General controls are control procedures that exist in the IT environment as a whole, while application controls are control procedures that exist specifically for each application. Projects selected will cover both general and application level controls.

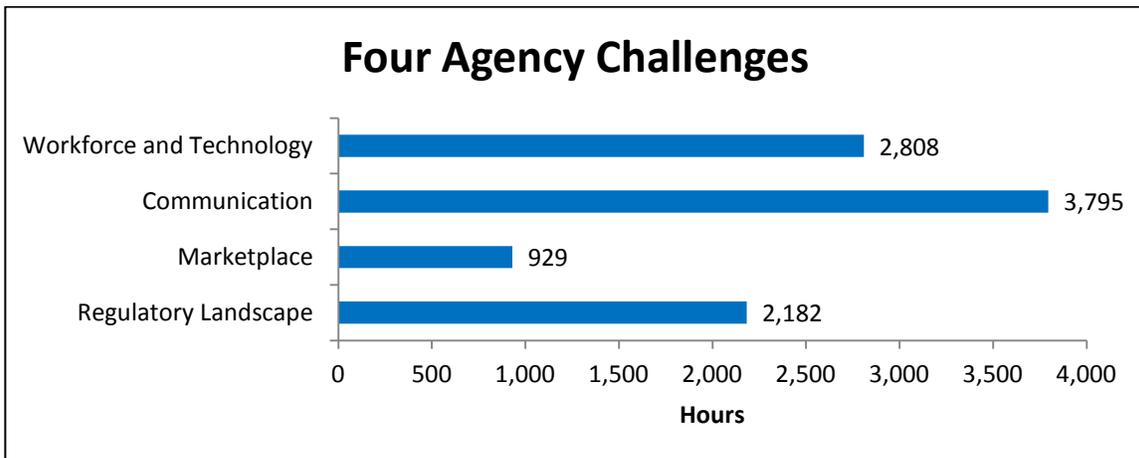
The graph below shows the number of audit hours within each of the nine core functions that comprise TDI’s regulatory and administrative responsibilities. We allocated the 9,714 hours (7,114 hours for new projects, 2,600 hours for carry-over projects) that are dedicated to audit or consulting projects identified across the nine core functions as shown in the agency Fiscal Year 2013-2017 Strategic Plan. This graph reveals good agency-wide coverage of audit activities. All Information Technology, Legal and Administrative Operations projects are shown in Support Services. In addition, there are 500 hours reserved for special requests and miscellaneous advisory projects shown on the graph split evenly among the nine core functions.



The graph below shows Internal Audit's coverage for the last two fiscal years and its coverage for Fiscal Year 2013.



This final graph shows the audit coverage in each of the four broad challenges identified in the Fiscal Year 2013-2017 Strategic Plan the agency faces in its efforts to accomplish its mission.



### 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 we believe require the most attention.

However, because we cannot address every risk area, it is important for the Commissioners and management to understand the limitations of the audit coverage and the risks they assume in areas not audited. We believe that this plan allocates resources of the Internal Audit Division to the most important priorities and risks of the agency at this

point in time. The Audit Plan also includes 500 hours for special 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, 9,714 hours are available for audits, consulting activities, investigations and special requests.

### **Fiscal Year 2013 Internal Audit Plan Allocation**

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

#### **Projects Carried Forward**

Some projects that were begun in fiscal year 2012 were not completed by the end of the fiscal year. The following fiscal year 2012 projects were started or completed in fiscal year 2013 and have hours allocated in fiscal year 2013 to complete the project: *Audit of Rate Filings – Intake, Medical Fee Dispute Resolution, Agent and Adjuster Licensing, DWC Designated Doctor Outreach & Oversight, Process Agency Revenues, Risk Assessment for Fiscal Year 2013, and Legal - Rule Making Process.*

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

The three projects and hours shown in this section were selected through the IT-specific risk assessment and subsequent discussions with management. Although most audit projects have an IT component included in the audit scope, these projects have a scope and objectives specific to IT controls in place.

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

Internal Audit provides assurance services for the agency 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 organization. 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 agency-wide risk assessment.

#### **Special Initiatives**

In addition to assurance and consulting engagements, Internal Audit allocates resources toward special initiatives. These initiatives include any liaison activities which may occur during the year and special requests to be responsive to the immediate needs of the Commissioners and management.

### **Consulting / Advisory Activities**

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

Progressive Internal Audit departments provide additional management assistance or consulting services to their organizations. We 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, we will provide both formal and informal advice and suggestions on management issues, concerns, and draft policies and procedures.

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. Leave time for the department is also included to show a full picture of hours to be used by Internal Audit during the year.

### **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 Fiscal Year 2013 are as follows:

- ✓ Complete development and approval of the Fiscal Year 2013 Audit Plan by September 30, 2012
- ✓ Complete the Fiscal Year 2012 Annual Internal Audit Report by November 1, 2012
- ✓ Complete 80% of the scheduled Fiscal Year 2013 Audit Plan projects
- ✓ Spend a minimum of 75% of total planned hours available on direct audit or consulting work
- ✓ Obtain management acceptance of 95% of audit issues and/or recommendations
- ✓ Obtain management satisfaction on at least 80% of audit assurance and consulting activities

Internal Performance Measure results for Fiscal Year 2012 were:

- ✓ Fiscal Year 2012 Audit Plan was completed.
- ✓ Fiscal Year 2011 Annual Internal Audit Report was completed in October 2011.

- ✓ Of 22 projects in the 2012 Audit Plan, 16 were completed by the end of the fiscal year (73%). There were also two investigations completed during the fiscal year that were not on the 2012 Audit Plan. There were 6 audit projects in progress at the end of the fiscal year.
- ✓ Internal Audit spent 68% of total hours available on direct audit or consulting work this fiscal year; 14% was spent on general administration with 13% on special projects or staff development.
- ✓ Management acceptance of audit issues and/or recommendations exceeded 95%
- ✓ Management satisfaction from returned surveys exceeded 80% of audit assurance and consulting activities

### **Audit Organization Staffing and Budget**

A current organization chart for Internal Audit is attached to this plan and shown in Schedule 2. The Division is budgeted nine full-time equivalent positions: an audit director, seven auditors, and an executive assistant. The fiscal year 2013 Internal Audit Plan was developed based on the assumption that the Division would be fully staffed throughout the entire year; however, at the end of October, two senior auditors gave notice they will be joining other state agencies as an audit director and senior auditor. It is anticipated it will take approximately 1 month to replace the staff although hours were not adjusted. During fiscal year 2012, staff turnover included hiring the IT Auditor who joined the team in late September 2011. The fiscal year 2013 Internal Audit operating budget is also included in this plan and is shown in Schedule 3.

Internal Audit staff members collectively have over 89 years auditing experience with over 30 years at TDI. In addition, audit staff possess the following:

- ✓ 3 graduate degrees, and 15 professional certifications including:
- ✓ 4 Certified Internal Auditors (CIA)
- ✓ 1 Certified Public Accountant (CPA)
- ✓ 3 Certified Information Systems Auditors (CISA)
- ✓ 4 Certified Government Auditing Professionals (CGAP)
- ✓ 1 Certified Investments and Derivatives Auditor (CIDA)
- ✓ 1 Certified Fraud Examiner (CFE)
- ✓ 1 Certification in Risk Management Assurance (CRMA)

### **Closing**

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

As discussed previously 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 this point in time.

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

Texas Department of Insurance  
Internal Audit Fiscal Year 2013 Annual Audit Plan

---

further information on the Fiscal Year 2013 Internal Audit Plan, please contact the Internal Audit Director, Greg Royal, at (512) 475-2984 or by email at [greg.royal@tdi.state.tx.us](mailto:greg.royal@tdi.state.tx.us).

**Schedule 1 - Fiscal Year 2013 Internal Audit Plan**

<b>PROJECT NUMBER</b>	<b>PROJECT DESCRIPTION</b>	<b>Division (A)</b>	<b>BUDGETED FY 2013 HOURS</b>
<b>Projects Started and Carried Forward From Fiscal Year 2012</b>			
2012-309	Audit of Rate Filings - Intake	P&C/LAH	100
2012-311	Medical Fee Dispute Resolution	DWC	25
2012-313	Agent and Adjuster Licensing	FIN	550
2012-314	DWC Designated Doctor Outreach & Oversight	DWC	725
2012-315	Process Agency Revenues	AO	600
2012-407	Risk Assessment for Fiscal Year 2013	Agency-Wide	300
2013-605	Legal - Rule making process	Legal	300
<b>Subtotal Carry Forward Projects</b>			<u>2,600</u>
<b>Information Technology Services Projects</b>			
<b>Pending</b>	Security of Web Applications	DWC	850
<b>Pending</b>	Gartner risk assessment follow up	ITS	350
<b>Pending</b>	Access and Security of Mobile Devices	Agency-Wide	850
<b>Subtotal Information Technology Audits</b>			<u>2,050</u>
<b>Financial / Performance Assurance Activities</b>			
<b>Pending</b>	Business Continuity	ITS/Agency	850
<b>Pending</b>	Financial Examiners Process for Reviewing Company Internal Controls	FIN	550
<b>Pending</b>	HUB	AO	550
<b>Pending</b>	Subsequent Injury Fund	DWC	700
<b>Pending</b>	Mid-year follow-up on prior Recommendations (Internal Audit Reports)	Agency-Wide	100
2013-301	Seized / Forfeited Property Audit - FY 2012 (Code of Criminal Procedures Art 59.06)	Fraud/SFMO	14
<b>Subtotal Financial / Performance Audits</b>			<u>2,764</u>
<b>Special Initiatives</b>			
<b>Various</b>	Hours Reserved for Special Assigned Audits, Investigations or Advisory Projects	N/A	<u>500</u>
<b>Consulting / Advisory Activities</b>			
2013-601	Users/Power Users Meetings	Agency-Wide	25
<b>Pending</b>	Performance Measures	Agency-Wide	350
<b>Pending</b>	Ethics Survey	Agency-Wide	150
<b>Pending</b>	Self Directed Budget	FIN / AO	300

**Schedule 1 - Fiscal Year 2013 Internal Audit Plan**

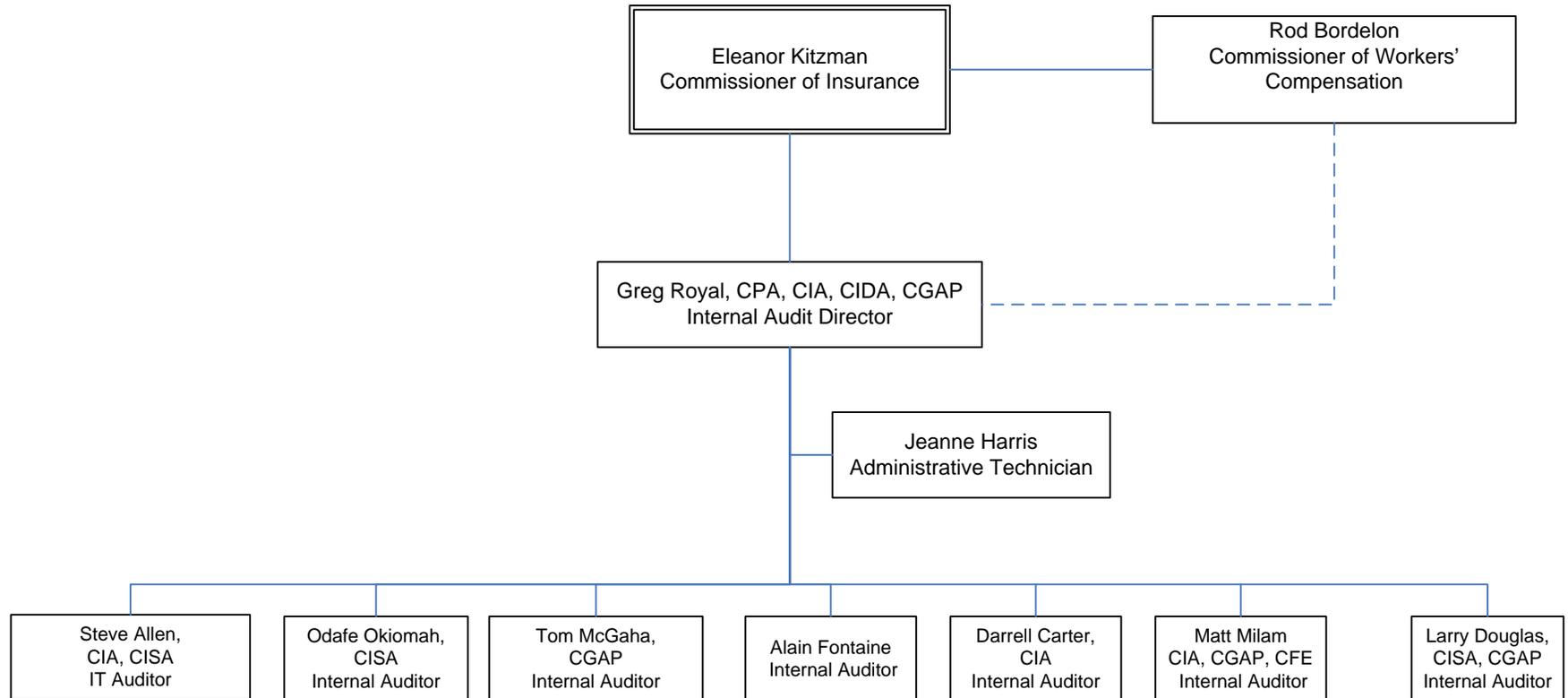
<b>Pending</b>	Analysis of Continuances	DWC-Hearings	300
<b>Pending</b>	COSO and ERM Training	Agency-Wide	375
<b>Pending</b>	Miscellaneous Advisory Projects	Agency-Wide	300
	<b>Subtotal Advisory / Liaison Projects</b>		<u>1,800</u>
	Subtotal - Audits, Investigations and Advisory Projects		<u><u>9,714</u></u>
<b>Administrative &amp; Required Internal Audit Activities</b>			
2013-400	General Administration (Note B)	N/A	2,277
2013-000	Leave (Note C)	N/A	1,839
<b>Pending</b>	Internal Self Assessment	N/A	150
<b>Pending</b>	Risk Assessment for FY 2014	N/A	400
2013-401	Staff Training	N/A	320
2013-403	Internal Audit Annual Report of FY 2012 to the Governor, LBB, Sunset, and SAO	N/A	120
	Subtotal - Administrative & Other Internal Audit Projects		<u>5,106</u>
	Total Available Hours (Note D)		<u><u>14,820</u></u>

**Notes:**

- A** Acronyms: LAH-Life, Accident & Health Program; AO-Admin. Operations Program; FIN-Financial Regulation; ITS-Information Technology Services; P&C-Property & Casualty; DWC - Division of Workers' Compensation
- B** Administration / Special Projects of the Internal Audit Function (Ave 17.5% for auditor staff)
- C** Based on maximum annual accrual for each employee (vacation & sick)
- D** Available Hours: (260 work days)-(13 holidays @ 8 hrs / day) = 1,976 hrs/yr; (1,976 hrs X 7 auditors + 1,976 x .5 audit director) = **14,820 Total Available Hours**

## Schedule 2. Internal Audit Organization Chart

Texas Department of Insurance  
Internal Audit Division  
Organization Chart October 2012



### Schedule 3

#### INTERNAL AUDIT FISCAL YEAR 2013 OPERATING BUDGET

<u>Expenditure Category</u>	<u>Fiscal Year 2013</u>
Salaries and Longevity**	\$571,516.08
Other Operating	10,016.00
Total Operating Budget**	\$581,532.08

\*\*Note: 9.00 FTEs.

**Section II.B**

**DEVIATONS FROM FISCAL YEAR 2013 AUDIT PLAN**

## **II.B. Deviations from Fiscal Year 2013 Audit Plan**

In its efforts to be responsive to the agency's needs and timely address areas posing higher risk to the agency, the Internal Audit Division did not start two projects during fiscal year 2013 that were in the approved *Fiscal Year 2013 Audit Plan*; the *Gartner risk assessment follow-up* audit and the *Access and Security of Mobile Devices* audit. Elements of both of these projects are in the *Fiscal Year 2014 Audit Plan*.

All other planned activities approved in the *Fiscal Year 2013 Audit Plan* were either completed as an assurance or advisory activity, or as of this report date, are currently in process. Current status of carry over projects from the *Fiscal Year 2013 Audit Plan*:

- ♦ *Performance Measures* – currently in fieldwork stage.
- ♦ *Business Continuity* – completed during fiscal year 2014.
- ♦ *Chief Clerk's Office* – currently in planning stage.
- ♦ *Historically Underutilized Businesses* – completed during fiscal year 2014.
- ♦ *Security of Web Applications* – completed during fiscal year 2014.
- ♦ *Risk Assessment for FY 2014* – completed during fiscal year 2014.

In addition, Internal Audit completed four formal investigations and an *Agency Travel Expenses* audit that were not included in the approved *Fiscal Year 2013 Audit Plan*.

**Section III.**

**LIST OF CONSULTING ENGAGEMENTS AND  
NON-AUDIT SERVICES COMPLETED**

### III. List of Consulting Engagements and Non-audit Services Completed Showing High-Level Objectives and Impact

Project	Engagement	High Level Consulting Engagement Objective	Impact
2013-301	Seized / Forfeited Property Audit - FY 2012	Determine whether TDI's law enforcement divisions seized/forfeited any property during FY 2012. Neither TDI's Fraud Unit nor the State Fire Marshal's Office reported any seized/forfeited property during FY 2012. A report on a prescribed form was issued to the Office of the Attorney General in September 2012.	This review is required by statute (Code of Criminal Procedures, Art. 59.06).
2013-601	Users and Power Users Advisory Meetings	IA participated in an advisory capacity at bi-weekly meetings with ITS staff and division users of applications.	IA participation keeps the division informed of ongoing and planned IT application projects. Information obtained can be used in audit planning and the Annual Risk Assessment.
2013-602	Office of Strategy Management (OSM)	OSM coordinates agency planning and helps prioritize ITS projects and use of resources. IA attends workgroup meetings to stay abreast of agency-wide related issues and provides updates as necessary.	IA participation keeps the division informed of ongoing and upcoming IT and planning issues in program areas. Information obtained can be used in audit planning and the Annual Risk Assessment.
2013-603	Executive Steering Committee	The Steering Committee drives projects for the limited resources of the ITS division. Attended meetings and module demonstrations and provided analysis when needed.	Assisted management as requested on projects approved by the Steering Committee and provided observations to assist in identifying any control issues or bottlenecks.
2013-604	Legislative Session	IA provided bill analysis on proposed bills that impacted internal audit.	IA participation keeps the division informed of issues affecting TDI.
2013-605	Legal Services	Review relevant statutes to assist in the development and recommendation of a formalized review timeline and a review documentation tool to carry out and track TDI's review of all rules.	Performed agreed upon procedure as requested with two suggestions for improvement provided. This review is required by statute (TX Gov't Code § 2001.039 and the agency Operations Manual).
2013-606	Sunset	IA assisted DWC management with implementation responses to the Sunset Advisory Commission recommendations.	IA ensured management responses met Sunset's requirements.

### III. List of Consulting Engagements and Non-audit Services Completed Showing High-Level Objectives and Impact

Project	Engagement	High Level Consulting Engagement Objective	Impact
2013-607	Analysis of Continuances	Review and analyze system generated data regarding continuances to identify historical trends and patterns.	Performed agreed upon procedure as requested. Observations and five suggestions for improvement provided in an internal report to agency management.
2013-608	SAO Reports Follow-up	IA acted as the agency liaison to the SAO for follow-up to prior TDI-related audit report recommendations.	IA acts as TDI's liaison with the SAO, coordinating agency responses when appropriate.
2013-609	Enterprise Strategy Sessions – Balanced Scorecards	IA participated in the Enterprise Strategy Sessions as well as the individual Balanced Scorecard implementation workgroups.	IA participation allows auditor input on risks and controls and provides a better understanding to the IA division on agency strategies.
2013-610	Gartner Security Assessment	IA provided information to Gartner to facilitate the assessment of TDI's IT infrastructure.	IA will monitor ITS' actions to implement Gartner recommendations.
2013-611	Ethics Review	Assess TDI's ethical climate by conducting interviews and an agency-wide ethics survey. Compare the survey results to the 2011 & 2008 results. Evaluate and rate the effectiveness of the agency's current ethics compliance using a maturity model.	IA worked with students from the McCombs School of Business on the project. Agency awareness of ethics maintained and ideas to increase to the next level of the maturity model provided.
2013-612	Self-Directed Budget	Analyze and assess processes for appropriateness of internal controls to ensure proper approval and management of Self Directed Budget operations.	Performed agreed upon procedure as requested. Observations and four suggestions for improvement provided in an internal report to agency management.
2013-613	SAO Performance Measures at the Office of Injured Employee Counsel (OIEC)	IA acted as the agency liaison to the SAO for TDI management responses to audit report recommendations.	IA acts as TDI's liaison with the SAO, coordinating agency responses when appropriate.
2013-615	Financial Regulation's Review of Internal Controls	Engagement cancelled based on information reviewed during planning.	N/A

### III. List of Consulting Engagements and Non-audit Services Completed Showing High-Level Objectives and Impact

Project	Engagement	High Level Consulting Engagement Objective	Impact
Various	Investigations	Internal Audit investigated potential fraud, waste or abuse within TDI during an audit this fiscal year. There were also three hotline complaints forwarded by the SAO that Internal Audit investigated.	IA assists in the detection and prevention of fraud, waste and abuse within the agency.

**Section IV.**

**EXTERNAL QUALITY ASSURANCE REVIEW**

## 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 (TDI) Internal Audit Department *fully complies* with the Institute of Internal Auditors (IIA) *International Professional Practices Framework (Standards)*, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (*Texas Government Code, Chapter 2102*). This opinion is the highest of the three possible ratings and means that the Internal Audit Department has achieved their major objectives in the provision of the internal audit function.

We found that overall, the Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. Staff members are qualified, proficient, and knowledgeable in the areas they audit. 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. These findings are based on the preponderance of data and the comments gathered during the peer review process. We note that some members of governance and management listed some concerns with the audit function.

The Internal Audit Department is well managed internally. In addition, the audit function has effective relationships with the agency commissioners and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers the Internal Audit Department a useful part of the overall agency operations. Management finds that the audit process and report recommendations add value and help improve the agency's operations. As noted above, management expressed some concerns, but the Internal Audit Director is aware and has acknowledged opportunities to address the concerns with management.

## ACKNOWLEDGEMENTS

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, TDI Internal Audit Department's staff, TDI and Division of Workers' Compensation (DWC) Commissioners, the executive team and the senior managers who participated in the interview process. We would also like to thank staff who completed surveys for the quality assurance review. The feedback from the process provided valuable information regarding the operations of the Internal Audit Department and its relationship with management.

Signed on April 10, 2012



---

Carlos Contreras, CIA, CISA,  
CGAP, CCSA, CICA  
Chief Audit Executive  
Texas Commission on  
Environmental Quality  
SAIAF Peer Review Team Leader



---

Steve Goodson, CIA, CISA,  
CGAP, CCSA, CLEA, CRMA  
Chief Audit Executive  
Texas Department of Public  
Safety  
SAIAF Peer Review Team  
Member

**Section V.**

**INTERNAL AUDIT PLAN FOR FISCAL YEAR 2014**

# INTERNAL AUDIT

## Fiscal Year 2014 Annual Audit Plan



TEXAS DEPARTMENT OF INSURANCE  
Internal Audit Division  
333 Guadalupe  
Austin, TX 78714-9104

# TEXAS DEPARTMENT OF INSURANCE

## Internal Audit Fiscal Year 2014 Annual Audit Plan

September 2013

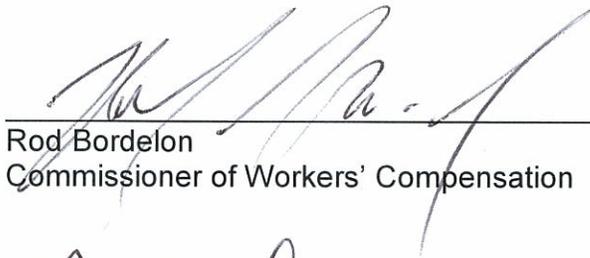
Plan Approved:



Julia Rathgeber  
Commissioner of Insurance

9/27/13

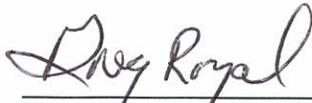
Date



Rod Bordelon  
Commissioner of Workers' Compensation

9/27/13

Date



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

9/27/13

Date

## TABLE OF CONTENTS

	<b><u>Page</u></b>
Overview of TDI Internal Audit Fiscal Year 2014 Annual Audit Plan	1
Schedule 1 – Fiscal Year 2014 Annual Audit Plan	7
Schedule 2 – Organization Chart	9
Schedule 3 – Fiscal Year 2014 Annual Operating Budget	10

## **Overview of TDI Internal Audit Fiscal Year 2014 Annual Audit Plan**

### **Introduction**

This document provides the Fiscal Year 2014 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 the fiscal year, 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 in prioritizing projects for the coming year.

### **Audit Charter and Definition**

The Audit Charter approved by the Commissioners in September 2013 remains current, and 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, the scope of audit work, and audit reporting and follow-up responsibilities.

As the internal audit profession has evolved, so has the definition of our work efforts.

*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 the coming year based on relative risk and available hours.

Risk assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events. The risk assessment process provides a means of organizing and integrating professional judgments for development of the work schedule. Activities with higher risk were assigned higher audit priorities. Internal Audit used the risk assessment results for recommending projects.

We assessed risk within TDI by sending out agency-wide questionnaires and interviewing selected executive management. The following criteria were then used in determining the relative risk of each program activity and selecting projects:

- Criticality to agency Mission
- Prior audits or studies
- Size or complexity of operations
- Quality of internal controls

---

<sup>1</sup> Institute of Internal Auditors – *International Professional Practices Framework*, January 2013

- Program's completed Enterprise Risk Management (ERM) assessments
- Other high risk indicators
- Auditor judgment

The activities used in our analysis came from the following sources:

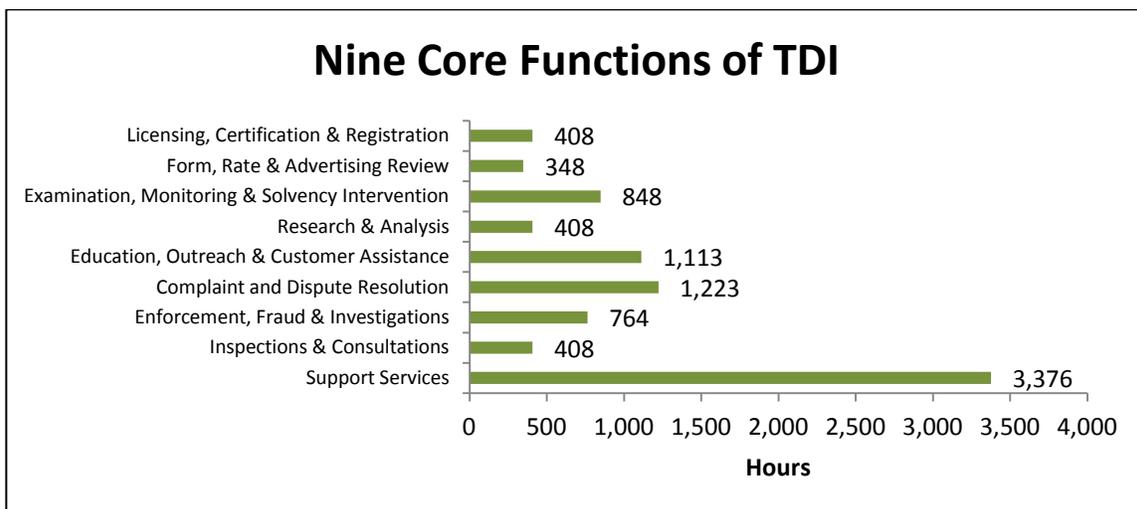
- Activities identified from questionnaires or interviews
- Business plans including Divisions' Enterprise Risk Management assessments

An Information Technology (IT) specific risk assessment was also performed. In performing the IT risk assessment, Internal Audit used similar criteria mentioned above to distinguish risk between general controls and application controls. The following criteria were used to identify IT projects:

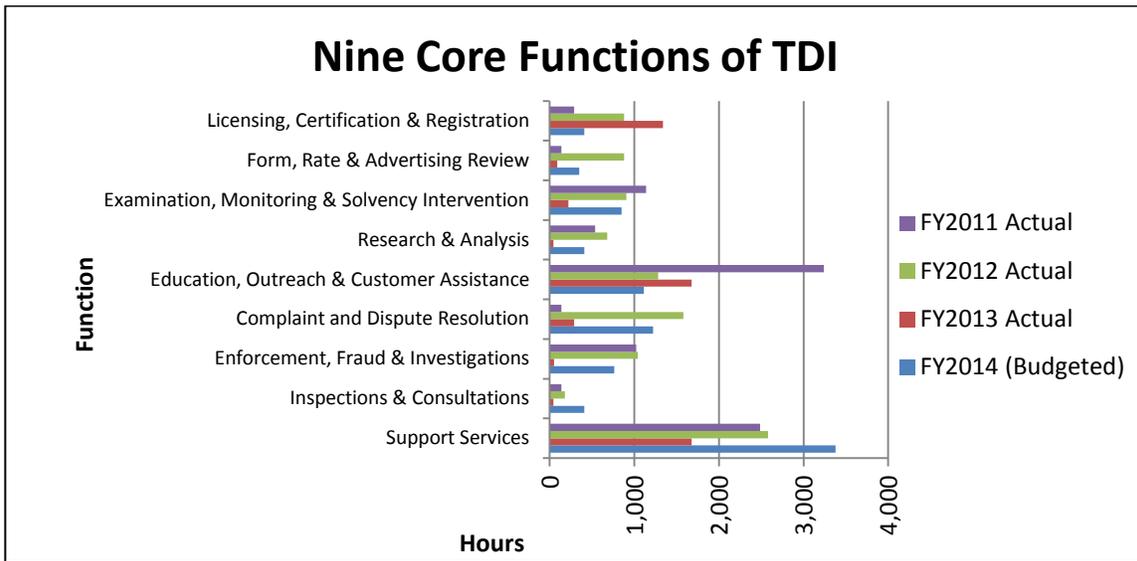
- Current utilization of the application
- Criticality of the application
- Business value of the application
- Interfacing with other applications
- Technological complexity of the application
- Number and level of users of the application
- Prior audits
- Vendor Support
- Auditor judgment

General controls are control procedures that exist in the IT environment as a whole, while application controls are control procedures that exist specifically for each application. Projects selected will cover both general and application level controls.

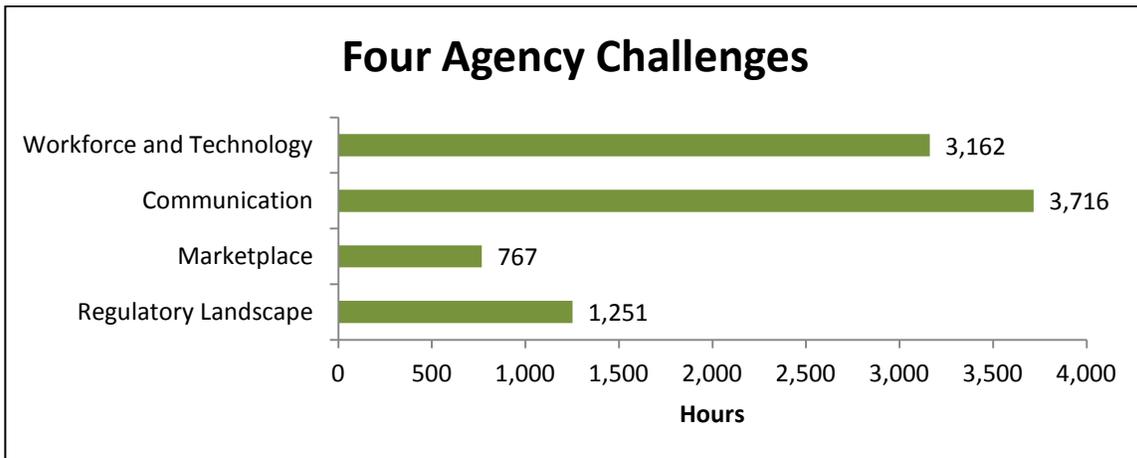
The graph below shows the number of audit hours within each of the nine core functions that comprise TDI's regulatory and administrative responsibilities. We allocated the 8,896 hours (8,116 hours for new projects, 780 hours for carry-over projects) that are dedicated to audit or consulting projects identified across the nine core functions as shown in the agency Fiscal Year 2013-2017 Strategic Plan. This graph reveals good agency-wide coverage of audit activities. All Information Technology, Legal and Administrative Operations projects are shown in Support Services. In addition, there are 500 hours reserved for special requests and miscellaneous advisory projects shown on the graph split evenly among the nine core functions.



The graph below shows Internal Audit’s coverage for the last three fiscal years and its coverage for Fiscal Year 2014.



This final graph shows the audit coverage in each of the four broad challenges identified in the Fiscal Year 2013-2017 Strategic Plan the agency faces in its efforts to accomplish its mission.



**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 we believe require the most attention.

However, because we cannot address every risk area, it is important for the Commissioners and management to understand the limitations of the audit coverage and the risks they assume in areas not audited. We believe that this plan allocates resources of the Internal Audit Division to the most important priorities and risks of the agency at this point in time. The Audit Plan also includes 500 hours for special 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, 8,896 hours are available for audits, consulting activities, investigations and special requests.

### **Fiscal Year 2014 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 were begun in fiscal year 2013 were not completed by the end of the fiscal year. The following fiscal year 2013 projects were started or completed in fiscal year 2014 and have hours allocated in fiscal year 2014 to complete the project: *Performance Measures, Business Continuity, Chief Clerk's Office, Historically Underutilized Businesses, Security of Web Applications, and Risk Assessment for Fiscal Year 2014.*

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

The four projects and hours shown in this section were selected through the IT-specific risk assessment and subsequent discussions with management. Although most audit projects have an IT component included in the audit scope, these projects have a scope and objectives specific to IT controls in place.

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

Internal Audit provides assurance services for the agency 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 organization. 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 agency-wide risk assessment.

#### **Special Initiatives**

In addition to assurance and consulting engagements, Internal Audit allocates resources toward special initiatives. These initiatives include any liaison activities which may occur during the year and special requests to be responsive to the immediate needs of the Commissioners and management.

#### **Consulting / Advisory Activities**

By definition, internal auditing includes the provision of consulting services. Consulting services are advisory and related client service activities, the nature and scope of which are agreed upon with the client. These activities are intended to add value and improve an organization's governance, risk management, and

control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Progressive Internal Audit departments provide additional management assistance or consulting services to their organizations. We 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, we will provide both formal and informal advice and suggestions on management issues, concerns, and draft policies and procedures.

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. Leave time for the department is also included to show a full picture of hours to be used by Internal Audit during the year.

### **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 Fiscal Year 2014 are as follows:

- Complete development and approval of the Fiscal Year 2014 Audit Plan by September 30, 2013
- Complete the Fiscal Year 2013 Annual Internal Audit Report by November 1, 2013
- Complete 80% of the scheduled Fiscal Year 2014 Audit Plan projects
- Spend a minimum of 75% of total planned hours available on direct audit or consulting work
- Obtain management acceptance of 95% of audit issues and/or recommendations
- Obtain management satisfaction on at least 80% of audit assurance and consulting activities

Internal Performance Measure results for Fiscal Year 2013 were:

- Fiscal Year 2013 Audit Plan was approved in October 2012.
- Fiscal Year 2012 Annual Internal Audit Report was completed in October 2012.
- Of 25 projects in the 2013 Audit Plan, 17 were completed by the end of the fiscal year (68%). There were also four investigations and one audit completed during the fiscal year that were not on the 2013 Audit Plan. There were 6 audit projects in progress at the end of the fiscal year.

- Internal Audit spent 70% of total hours available on direct audit or consulting work this fiscal year; 17% was spent on general administration with 7% on special projects or staff development.
- Management acceptance of audit issues and/or recommendations exceeded 95%
- Management satisfaction from returned surveys exceeded 80% of audit assurance and consulting activities

### **Audit Organization Staffing and Budget**

A current organization chart for Internal Audit is attached to this plan and shown in Schedule 2. The Division is budgeted nine full-time equivalent positions: an audit director, seven auditors, and an executive assistant. The fiscal year 2014 Internal Audit Plan was developed based on the assumption that the Division would be fully staffed throughout the entire year, with the exception of one auditor starting in November. The fiscal year 2014 Internal Audit operating budget is also included in this plan and is shown in Schedule 3.

Internal Audit staff members collectively have over 77 years auditing experience with over 23 years at TDI. In addition, audit staff possess the following:

- 15 professional certifications including:
- 4 Certified Internal Auditors (CIA)
- 1 Certified Public Accountant (CPA)
- 1 Certified Information Systems Auditor (CISA)
- 4 Certified Government Auditing Professionals (CGAP)
- 1 Certified Investments and Derivatives Auditor (CIDA)
- 3 Certified Fraud Examiners (CFE)
- 1 Certification in Risk Management Assurance (CRMA)

### **Closing**

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

As discussed previously 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 this point in time.

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 Fiscal Year 2014 Internal Audit Plan, please contact the Internal Audit Director, Greg Royal, at (512) 475-2984 or by email at [greg.royal@tdi.texas.gov](mailto:greg.royal@tdi.texas.gov).

**Schedule 1 - Fiscal Year 2014 Internal Audit Plan**

<b>PROJECT NUMBER</b>	<b>PROJECT DESCRIPTION</b>	<b>Division / Section (A)</b>	<b>BUDGETED FY 2014 HOURS</b>
<b>Projects Started and Carried Forward From Fiscal Year 2013</b>			
2013-616	Performance Measures (consulting)	Agency-Wide	250
2013-614	Business Continuity (consulting)	ITS/Agency	200
2013-617	Chief Clerk's Office (consulting)	GC	120
2013-304	HUB	AO	80
2013-101	Security of Web Applications	DWC	50
2013-406	FY 2014 Risk Assessment	Agency-Wide	80
<b>Subtotal Carry Forward Projects</b>			780
<b>Information Technology Services Projects</b>			
Pending	Follow up on Gartner report (2013 audit plan) and prior IA recommendations in ITS	ITS	450
Pending	Mobile Devices (2013 audit plan)	Agency-Wide	600
Pending	Management Control Audit	ITS	550
Pending	TAC 202 - Confidential Data	Agency-Wide	700
<b>Subtotal Information Technology Audits</b>			2,300
<b>Financial / Performance Assurance Activities</b>			
Pending	DWC Field Operations	DWC-FO	600
Pending	Time Accounting (ALAS)	HR/Agency	650
Pending	Workforce Planning	HR/Agency	650
Pending	Hearings	DWC-Hearings	500
Pending	Rehabilitation & Liquidation Oversight	FIN	500
Pending	Sircon - Complaints and Enforcement Modules	Compliance	700
Pending	Mid-year follow-up on prior Recommendations (Internal Audit Reports)	Agency-Wide	50
2014-301	Seized / Forfeited Property Audit - FY 2013 (Code of Criminal Procedures Art 59.06)	Fraud/SFMO	6
<b>Subtotal Financial / Performance Audits</b>			3,656
<b>Special Initiatives</b>			
Various	Hours Reserved for Special Assigned Audits, Investigations or Management Requests	N/A	500
<b>Consulting / Advisory Activities</b>			
2014-601	ITS customer meetings	Agency-Wide	10
Pending	ITS Governance	ITS	350
Pending	Survey Monkey - COSO Evaluations	Agency-Wide	100

**Schedule 1 - Fiscal Year 2014 Internal Audit Plan**

Pending	Enterprise Risk Management	OSM/Agency	450
Pending	Ethics follow-up	Agency-Wide	150
Pending	State Fire Marshal's Office	SFMO	300
Pending	Office of the Medical Advisor	DWC-HCBM	50
Pending	Miscellaneous Advisory Projects	Agency-Wide	250
	<b>Subtotal Advisory / Liaison Projects</b>		<u>1,660</u>
	Subtotal - Audits, Investigations and Advisory Projects		<u><u>8,896</u></u>
<b>Administrative &amp; Required Internal Audit Activities</b>			
2014-400	General Administration (Note B)	N/A	2,200
2014-000	Leave (Note C)	N/A	1,820
Pending	External Peer Review - Part of SAIAF team	N/A	160
Pending	Internal Self Assessment	N/A	150
Pending	Risk Assessment for FY 2015	N/A	250
Pending	TeamMate buildout and staff training	N/A	460
2014-401	Staff Training	N/A	320
2014-403	Internal Audit Annual Report of FY 2013 to the Governor, LBB, Sunset, and SAO	N/A	100
	Subtotal - Administrative & Other Internal Audit Projects		<u>5,460</u>
	Total Available Hours (Note D)		<u><u>14,356</u></u>

**Notes:**

Acronyms: ALAS-Automated Leave Accounting System; AO-Admin. Operations Division; COSO-Committee of Sponsoring Organizations of the Treadway Commission; DWC - Division of Workers' Compensation; FIN-Financial Regulation; FO-Field Operations; FY-Fiscal Year; GC-General Counsel; HCBM-Health Care Business Management; HR-Human Resources; HUB-Historically Underutilized Business; IA-Internal Audit; ITS-Information Technology Services; OSM-Office of Strategy Management; SAIAF-State Agency Internal Audit Forum; SAO-State Auditor's Office; SFMO-State Fire Marshal's Office; TAC-Texas Administrative Code; LBB-Legislative Budget Board

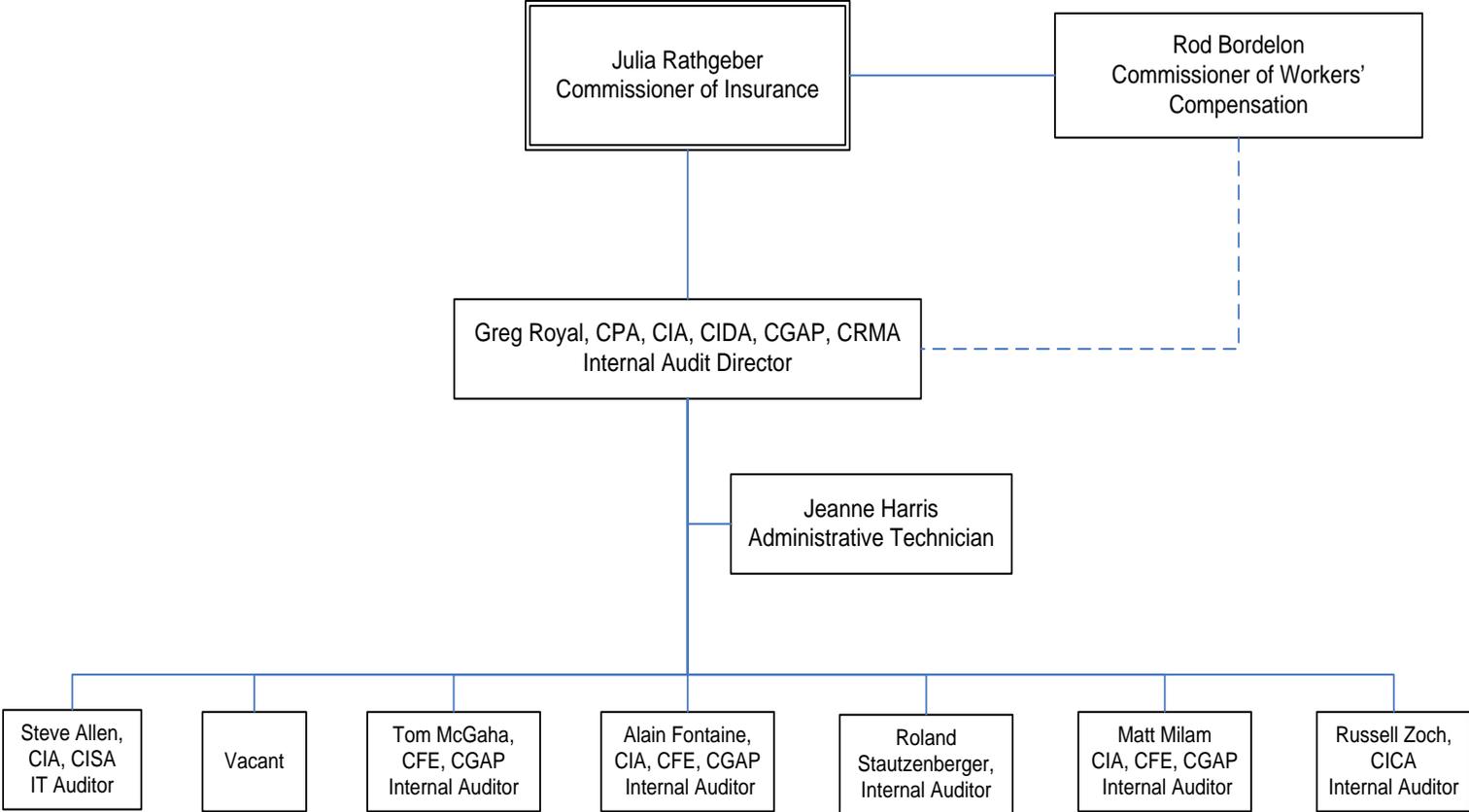
**B** Administration / Special Projects of the Internal Audit Function (Ave 17.5% for auditor staff)

**C** Based on maximum annual accrual for each employee (vacation & sick)

**D** Available Hours: (260 work days)-(15 holidays @ 8 hrs / day) = 1,960 hrs/yr; (1,960 hrs X 6 auditors, 1 auditor start Nov = 1,633 hrs + 1,960 x .5 audit director) = **14,356 Total Available Hours**

**Schedule 2 - Internal Audit Organization Chart**

Texas Department of Insurance  
 Internal Audit Division  
 Organization Chart September 2013



### Schedule 3

#### INTERNAL AUDIT FISCAL YEAR 2014 OPERATING BUDGET

<u>Expenditure Category</u>	<u>Fiscal Year 2014</u>
Salaries and Longevity**	\$572,696.08
Other Operating	10,016.00
Total Operating Budget**	\$582,712.08

\*\*Note: 9.00 FTEs.

**Section VI.**

**EXTERNAL AUDIT SERVICES**

## **VI. External Audit Services**

The following represents TDI external audit services procured or in progress in fiscal year 2013.

<b>Auditee</b>	<b>Auditor</b>
Texas Department of Insurance	Gartner
Special Deputy Receivers	Weaver and Tidwell LLP

**Section VII.**

**REPORTING SUSPECTED FRAUD AND ABUSE**

## VI. External Audit Services

The following represents TDI external audit services procured or in progress in fiscal year 2013.

<b>Auditee</b>	<b>Auditor</b>
Texas Department of Insurance	Gartner
Special Deputy Receivers	Weaver and Tidwell LLP