

INTERNAL AUDIT 2015 ANNUAL REPORT



TEXAS DEPARTMENT OF INSURANCE

INTERNAL AUDIT DIVISION

OCTOBER 2015

Texas Department of Insurance
333 Guadalupe | Austin, Texas 78701
(800) 578-4677
www.TDI.texas.gov



TEXAS DEPARTMENT OF INSURANCE

Internal Audit Division (105-7A)

333 Guadalupe, Austin, Texas 78701 ★ PO Box 149104, Austin, Texas 78714-9104
(512) 676-6202 | F: (512) 490-1024 | (800) 578-4677 | TDI.texas.gov | @TexasTDI

October 30, 2015

Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Mr. John Keel, State Auditor
Mr. David C. Mattax, Commissioner of Insurance
Mr. Ryan Brannan, Commissioner of Workers' Compensation

Attached is the Fiscal Year 2015 Annual Report for the Texas Department of Insurance (TDI) Internal Audit Division. This report fulfills the requirements set forth in the Texas Internal Auditing Act (the Act). The Act mandates the State Auditor's Office prescribes the content, as such this report has been prepared in accordance with the State Auditor's content requirements.

The work performed by the Internal Audit Division is a key element in assuring accountability, economy, efficiency, and effectiveness within TDI. The division is committed to being a trusted resource by providing quality internal auditing services and aggressively pursuing projects in fiscal year 2016 to continue improving controls, reducing risk, and enhancing TDI operations.

Please contact me at (512) 676-6200 if you desire further information about the contents of this report or would like to request additional copies.

Sincerely,

A handwritten signature in black ink that reads "Greg Royal". The signature is written in a cursive style with a large initial "G".

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

TABLE OF CONTENTS

SECTION	DESCRIPTION
I.	COMPLIANCE WITH HOUSE BILL 16
II.	PLANNED WORK RELATED TO THE PROPORTIONALITY OF HIGHER EDUCATION BENEFITS
III.	INTERNAL AUDIT PLAN FOR FISCAL YEAR 2015
	A. INTERNAL AUDIT FISCAL YEAR 2015 ANNUAL AUDIT PLAN
	B. DEVIATIONS FROM FISCAL YEAR 2015 AUDIT PLAN
IV.	COMPLETED CONSULTING ENGAGEMENTS AND NON-AUDIT SERVICES
V.	EXTERNAL QUALITY ASSURANCE REVIEW
VI.	INTERNAL AUDIT FISCAL YEAR 2016 ANNUAL AUDIT PLAN
VII.	EXTERNAL AUDIT SERVICES
VIII.	REPORTING SUSPECTED FRAUD AND ABUSE

SECTION I: COMPLIANCE WITH HOUSE BILL 16



Internal Audit 2015 Annual Report
Texas Department of Insurance
Internal Audit Division

SECTION 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 its approved fiscal year (FY) 2016 Internal Audit Plan and FY 2015 Internal Audit Annual Report online at www.tdi.texas.gov/reports.

This section provides all audit reports issued in FY 2015 detailing the report name and number, issue month, objective(s), finding(s), recommendation(s), status of these recommendation(s), and updated management responses with proposed implementation dates.

REPORTS ISSUED IN FISCAL YEAR 2015

1. 2014-306, The Consumer Complaint Intake Process at TDI, October 2014

High-Level Audit Objective(s)

Determine whether the intake process and Sircon Consumer Complaints Module allow the Consumer Assistance and Special Assignments (CASA) office to meet its objectives of timely and accurately routing and entering new complaints.

Determine whether the Consumer Protection Section has adequate controls in place over the collection, calculation, and reporting of its performance measures.

Observations/Findings and Recommendations

- 1.1 Accuracy and efficiency of CASA complaint intake process could be improved. Consumer Protection Section management should:
- ★ Pursue the addition of an electronic means for the public to enter information directly into Sircon.
 - ★ Require complaints submitted through the online complaint form to contain all necessary information needed to be entered into Sircon before submittal to TDI.

Current Status and Updated Management Response: Fully Implemented

The Consumer Complaints Portal went live on February 19. Intake staff review the data entered by the consumer, and make any needed edits, for example, update the Respondent, the entity complained about, to be the exact name of the company or agent. Example: if a consumer enters Allstate, the staffer verifies “which” Allstate Company is the consumer’s insurer and enters it in Sircon. This process is working well. To access the Consumer Complaints Portal, go to the Complaints information web page at www.tdi.texas.gov/consumer/complfrm.html

- 1.2 The agency does not know the adequacy of a third-party providers’ control structure where agency data (Sircon) is maintained. The agency should:
- ★ Establish, document, and implement a process for obtaining assurance regarding the security, availability, confidentiality, processing integrity, and privacy of agency data that is maintained by third-party vendors. The documentation should make clear which division(s) are responsible for obtaining and reviewing such assurance.
 - ★ Require all third-party vendors to submit written documentation of the design and operating effectiveness of the control structures they have in place (such as, a Service Organization Control 2 Type 2 report).

Current Status and Updated Management Response: Fully Implemented

Standard language for contract provisions has been developed and is in use. The written procedure was finalized on June 24, 2015.

- 1.3 The CP Section Should Update Its Performance Measure Definition. Consumer Protection Section management should work with the Legislative Budget Board, the Governor’s Office of Budget, Planning and Policy, and the Financial Services Office to update the performance measure definition to remove from the calculation methodology any unnecessary language.

Current Status and Updated Management Response: Incomplete/Ongoing

TDI Financial Services will request this change to a CP performance measure definition during the FY 2016 performance measure definition update opportunity with LBB.

2. 2015-303, Internal Referrals and External Complaints at DWC, August 2015

High-Level Audit Objective(s)

Determine whether the Division of Workers’ Compensation System Monitoring & Oversight area is resolving complaints efficiently.

Determine whether there are adequate controls in place over the collection, calculation, and reporting of the Division of Workers’ Compensation System Monitoring & Oversight area’s key complaint-related performance measures.

Observations/Findings and Recommendations

- 2.1 Some options SMO should consider to reduce the duplication of tasks and increase closure efficiency while not compromising quality are:
 - ★ Cross train the CR section with completing and closing the less complex high priority confirmed complaints to allow AI staff to perform more audits.
 - ★ Train AI staff to perform indexing tasks on complaints sent from CR to allow the CR section more time to work complaints.
 - ★ Review the quality control (QC) process by both teams to ensure they are performing quality control on the same items.
 - ★ Perform a detailed assessment on current steps and tasks performed by CR and AI staff to determine if efficiencies can be gained.
 - ★ Explore changing the target in a key performance measure.

Current Status and Updated Management Response: Fully Implemented

SMO appreciates all the work conducted by Internal Audit in reviewing certain steps of the complaint investigation process. SMO believes the current goal of processing complaints with 120 days better represents the timeframe necessary to process and investigate a complaint. This timeframe accounts for all steps necessary to complete an investigation some of which were not observed in this review. SMO constantly monitors the investigative process to ensure that complaints are handled in the most efficient manner.

Based on this audit, SMO has already completed the following items:

- ★ Trained additional staff on performing indexing tasks. There are now multiple people who perform this task.
- ★ Reviewed checklist performed by both teams. Now both CR and AI perform a quality check on the same date elements to ensure a consistent review and a consistent finding.
- ★ Performed a detail assessment of current steps. Based on this assessment SMO: purchased software which will enable staff to scan documents more efficiently and increased cross educational training between staff. SMO will continue to review these steps for improvement opportunities.

At this time, SMO has elected not to cross train the CR staff on completing closing of less complex confirmed complaints since at this time, some of the CR staff has less than 1 year of experience. Once the staff have matured in their experience, SMO will re-visit this option.

- 2.2 The Agency Should Obtain Written Documentation of Third-party Providers' Control Structures. The Division of Workers' Compensation, System Monitoring and Oversight (SMO) area collects key data to calculate its performance measures from a vendor-hosted application called Sircon for States. Texas Department of Insurance (the agency) has not obtained written documentation of the control structure in place from the vendor of the Sircon application. This documentation should provide the agency with assurance regarding the design and operating effectiveness of the service provider's controls relevant to security, availability, processing, integrity, confidentiality, or privacy of a system.

The Guide to Performance Measure Management (State Auditor's Office Report No. 12-333, March 2012) states:

"Controls should exist over third-party sources of information.

- ★ The agency should obtain written documentation of third-party providers' control structures.
- ★ The agency should conduct inquiries concerning third-party providers' operations to obtain assurance that the information received is reliable."

The agency relies on the service organization to process and store personal or confidential customer information. It's possible that a breach may occur while such information is at the service organization. In spite of the fact that the breach may occur while the information is at the service organization, the agency retains responsibility for protecting such information.

The agency should:

- ★ Establish, document, and implement a process for obtaining assurance regarding the security, availability, confidentiality, processing integrity, and privacy of agency data that is maintained by third-party vendors. The documentation should make clear which division(s) are responsible for obtaining and reviewing such assurance.
- ★ Require all third-party vendors to submit written documentation of the design and operating effectiveness of the control structures they have in place (such as, a Statement on Standards for Attestation Engagements (SSAE) No. 11 AT sec. 101, Service Organization Control 2 Type 2 report).

Current Status and Updated Management Response: Fully Implemented

Standard language for contract provisions has been developed and is in use. The written procedure was finalized on June 24, 2015.

- 2.3 All of the authorized users in the Division of Workers' Compensation, System Monitoring and Oversight (SMO) area had "modify" access to the performance measure network folder, subfolders and files.

The Guide to Performance Measure Management (State Auditor's Office Report No. 12-333, March 2012) states:

"Data access controls, including:

- ★ Access authorization (e.g., a supervisor or department head approves certain individuals to use the system).
- ★ Limitations on uses of the system for authorized users (e.g., approved system users may be able to perform various levels of transactions within the system; some users may have read-only access, entry access, or approval access)."

Modifications or deletions could be made to this folder, subfolders and files by individuals that are not assigned performance measure duties. The data within this performance measure folder was used in calculations for two of the area's key performance measures. SMO staff maintains hard copies of the documentation stored in the performance measure network folder that is reported to Financial Services, which is verified and signed by SMO management staff. The auditors reviewed hard copies of these documents and did not find any evidence that the performance measure information was reported inaccurately to Financial Services.

Current Status and Updated Management Response: Fully Implemented

Prior to the completion of fieldwork, SMO management changed the performance measure network folder permissions to modify access for only those authorized users directly involved with the performance measure process. Further, SMO notes that the information in the folder was historical information only.

- 2.4 Inaccurate Dates Entered into Sircon. Division of Workers' Compensation, System Monitoring and Oversight (SMO) staff entered the received (open) date into Sircon incorrectly for three internal referrals reviewed. The SMO staff used the faxed date as the received (open) date, instead of the referral date on the TDI-DWC Internal Violation Referral forms, when creating a problem report in Sircon. SMO staff is dependent on other agency staff in providing these referrals once completed.

The auditors reviewed a random sample of 29 internal referrals and external complaints. The sample size and performance measure rating is based on criteria in the Guide to Performance Measure Management (Texas State Auditor's Office Report No. 12-333, March 2012).

The received (open) date was entered incorrectly in Sircon for 3 of 29 (10 percent) files reviewed. This resulted in key performance measure 4.1.1 Efficiency Measure 2 Average number of days to close a complaint involving workers' compensation system participants to be inaccurate."

SMO should modify its procedures to clearly define the received (open) date for the complaints being entered into Sircon. Also, SMO should educate all users of the TDI-DWC Internal Violation Referral form to ensure they are aware of the new form and procedure and the importance of sending internal referrals to SMO in a timely manner.

Current Status and Updated Management Response: Fully Implemented

SMO agrees that the definition in its procedures left too much room for interpretation. Based on IA's recommendation, SMO has already taken the following actions:

- ★ Clarified the definition of the received date on internal referrals in SMO's procedures.
- ★ Provided education to internal staff on the importance of sending internal referrals to SMO as soon as an alleged violation is discovered.

3. 2015-304, Records Management and Support Section of DWC, August 2015

High-Level Audit Objective(s)

Determine if resources utilized in the DIS and PKS program areas are being used efficiently in their day to day operations and in achieving the agency's objective of moving to an electronic environment.

Determine if confidential information collected, stored and processed within the RMS area was being safeguarded.

- 3.1 During the observation of the process to grant access to TxComp and Compass systems, Internal Audit noted that the data owners were not providing the approval for granting the non-standard access to the system. The data owner had provided approval for granting standard access to the system. A Business Process Improvement staff member and a Records Management staff member mentioned that they would update the procedure and work instruction to reflect that the TXCOM/COMPASS data owner, or their delegate would be contacted to obtain approval to grant the access for nonstandard access.

Internal Audit also noted that in addition to the manager of the person with access, the data owners should be reviewing the access control list report to ensure that only the staff that require access have the correct access. The Business Process Improvement and Records Management staff members are working on reviewing Compass access to ensure that currently granted access is correct to provide a baseline user access as the current system has users within incorrect access. The current process requiring only that the manager for a user approve access request could lead to users having more access to the data than the data owner would allow. This access may not be noticed without the data owner reviewing the access control list reports.

Records Management and Support should update its policies and procedures to:

- ★ Define who the information owners are and to include the information owner's approvals in the process for granting access to TxComp and Compass data.
- ★ Require the data owner to review access reports on a quarterly basis to ensure that users have the appropriate access granted.

Current Status and Updated Management Response: Fully Implemented

The TXCOMP and COMPASS Security Access Procedure (RM-03-PR) and existing work instructions have been updated to reflect current processes and the interactions with the Information Owner. Created a new work instruction to specify the Information Owner's responsibilities. Updated procedure specifies Information Owner's ability to delegate the responsibilities. The Information Owner is now reviewing all requests including non-standard access for approval or denial.

Current Status and Updated Management Response: Substantially Implemented

The TXCOMP and COMPASS Security Administrator and the Information Owner are monitoring SCOOPs to identify and track new hires, program activity changes and separations to ensure appropriate access changes are handled appropriately. Currently in the process of analyzing all individual's current access and meeting with program areas to identify employee access requirements based upon current organizational structure and job duties. This information will serve as the basis to update the standard access lists (RM-03-RS-01 and RM-03-RS-02) and to remove unnecessary access from employees. The Information Owner is reviewing all requests including non-standard access for approval or denial.

SECTION II:
PLANNED WORK RELATED TO THE
PROPORTIONALITY OF HIGHER
EDUCATION BENEFITS



Internal Audit 2015 Annual Report
Texas Department of Insurance
Internal Audit Division

SECTION II:
PLANNED WORK RELATED TO THE PROPORTIONALITY OF HIGHER EDUCATION BENEFITS

N/A

SECTION IIIA:
INTERNAL AUDIT FISCAL YEAR
2015 ANNUAL AUDIT PLAN



Internal Audit 2015 Annual Report
Texas Department of Insurance
Internal Audit Division

INTERNAL AUDIT
FISCAL YEAR 2015
ANNUAL AUDIT PLAN



TEXAS DEPARTMENT OF INSURANCE
INTERNAL AUDIT DIVISION

OCTOBER 2014

Texas Department of Insurance
333 Guadalupe | Austin, Texas 78701
(800) 578-4677
www.TDI.texas.gov

First printing, October 2014

Publication ID: IAAP | 1014

This document is available online at www.tdi.texas.gov/reports/report5.html.

TEXAS DEPARTMENT OF INSURANCE
INTERNAL AUDIT FISCAL YEAR 2015 ANNUAL AUDIT PLAN
OCTOBER 2014

PLAN APPROVED



Julia Rathgeber
Commissioner of Insurance

10/28/14

Date



Ryan Brannan
Commissioner of Workers' Compensation

10/28/14

Date



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

10/28/14

Date

This page is intentionally blank.

TABLE OF CONTENTS

OVERVIEW OF TDI INTERNAL AUDIT FISCAL YEAR 2015 ANNUAL AUDIT PLAN.....	3
SCHEDULE 1 – FY 2015 INTERNAL AUDIT PLAN PROJECTS*	9
SCHEDULE 2 – INTERNAL AUDIT ORGANIZATION CHART	11
SCHEDULE 3 – FY 2015 ANNUAL OPERATING BUDGET	12

This page is intentionally blank.

OVERVIEW OF TDI INTERNAL AUDIT FISCAL YEAR 2015 ANNUAL AUDIT PLAN

INTRODUCTION

This document provides the Fiscal Year (FY) 2015 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 2015, 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 2015.

AUDIT CHARTER AND DEFINITION

The Audit Charter approved by the commissioners in October 2014 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.

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.¹

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 2015 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. 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 risk within TDI by sending out agency-wide questionnaires and interviewing selected executive management. 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

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

- ★ Activities identified from questionnaires and interviews
- ★ Division-level Enterprise Risk Management footprint

¹ Institute of Internal Auditors – International Professional Practices Framework, January 2013

An information technology (IT) specific risk assessment was also performed. Internal Audit used similar criteria for the IT assessment to distinguish risk between application controls and general controls. The criteria used to rate applications included:

- ★ Current utilization
- ★ Criticality
- ★ Interfacing with other applications
- ★ Technological complexity
- ★ Number and types of users
- ★ Prior audits
- ★ Vendor support
- ★ Auditor judgment

The following criteria were used to rate IT general controls:

- ★ Control environment
- ★ Change management
- ★ Development life cycle
- ★ Logical access
- ★ Incident management
- ★ Technical support
- ★ Hardware and software
- ★ Disaster recovery and backup
- ★ Physical security

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

Figure 1 on the next page shows the number of audit hours within each of the 10 core functions that comprise TDI's regulatory and administrative responsibilities. We allocated 8,526 hours to audit or consulting projects identified across the ten core functions as shown in the agency's *Fiscal Year 2015-2019 Strategic Plan*, including 7,756 hours for new projects and 770 hours for carry-over projects. This graph reveals good agency-wide coverage of audit activities. All IT, legal, and administrative operations projects are included in Support Services. In addition, there are 400 hours reserved for special requests and 250 hours for miscellaneous advisory projects, which are dispersed evenly to each core functions in the chart.

Figure 1: FY 2015 Core TDI Function Coverage Hours

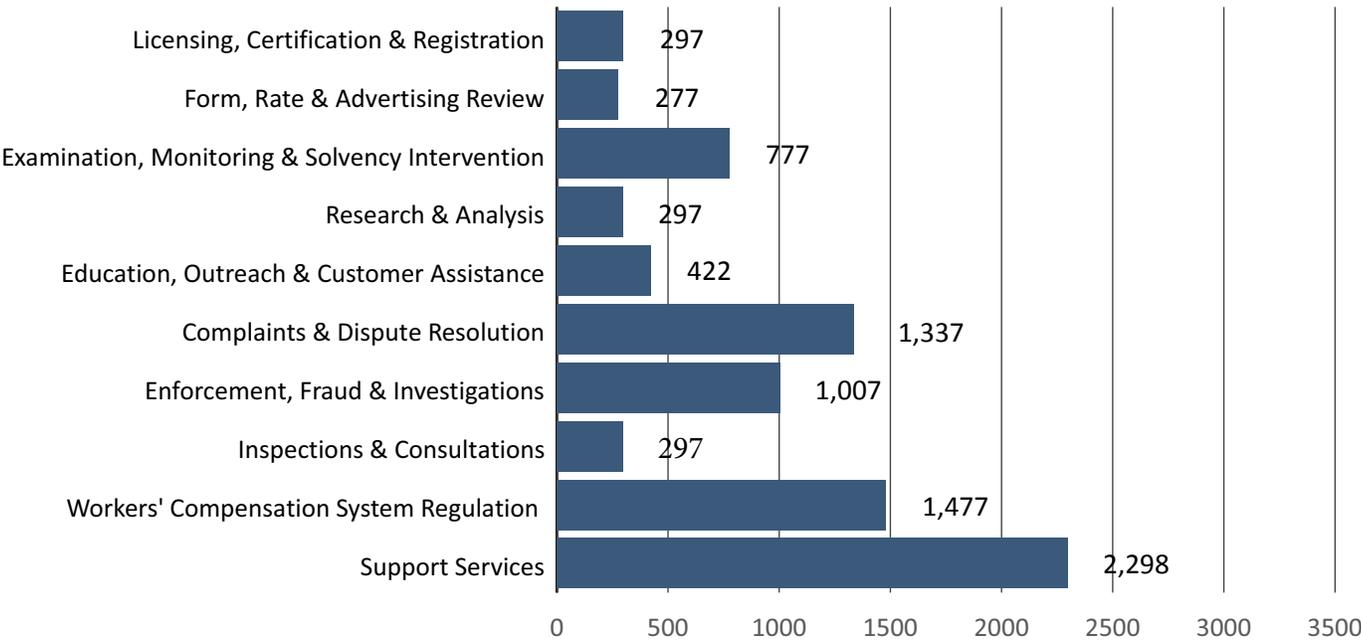
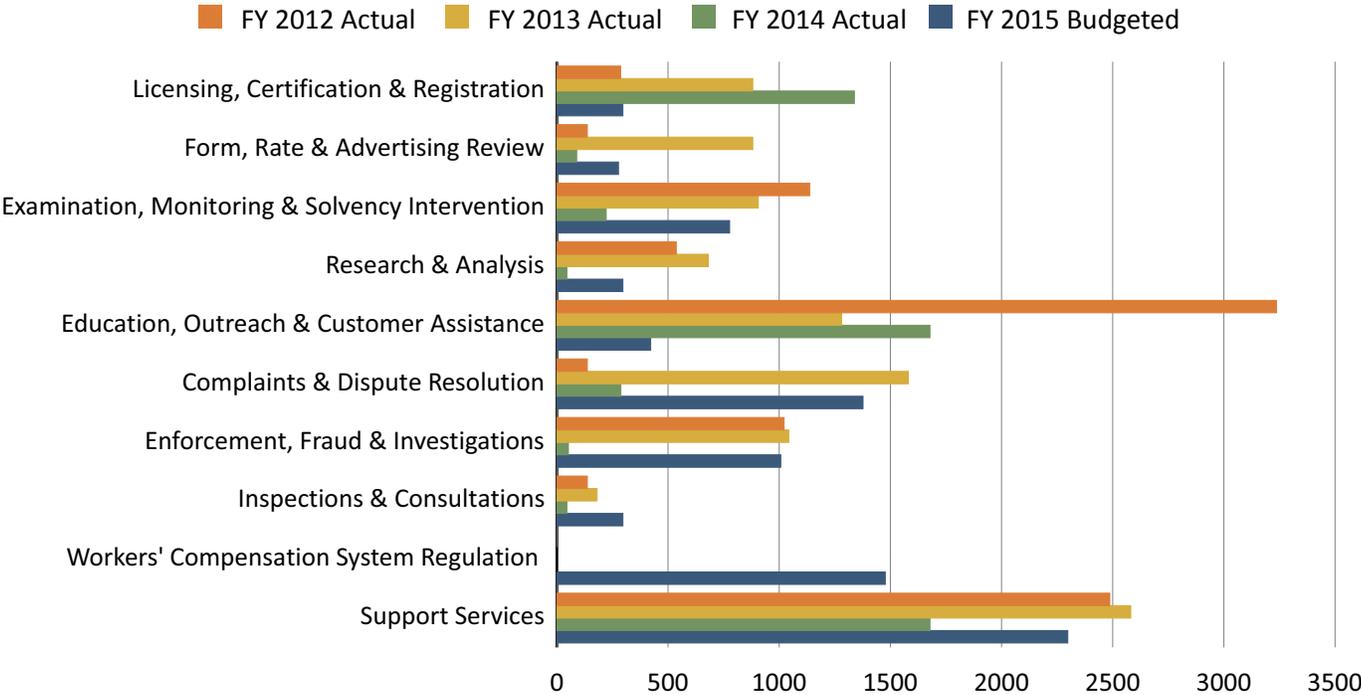


Figure 2 below compares Internal Audit’s actual coverage for FY 2012, FY 2013, FY 2014, and budgeted coverage for FY 2015. The latest Strategic Plan has Workers’ Compensation as a separate category for the first time.

Figure 2: Historical Core TDI Function Coverage Hours



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 the commissioners and management understand the limitations of the audit coverage and the risks they assume in unaudited areas. This plan allocates Internal Audit resources to the agency's most important priorities and risks at this point in time. The Audit Plan also includes 400 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, 8,526 hours are available for audits, consulting activities, investigations and special requests.

FY 2015 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 2014 were not completed by the end of the fiscal year. The following FY 2014 projects were started or completed in FY 2015 and have hours allocated in FY 2015 to complete the project: Sircon – Consumer Complaints at TDI, SFMO (Consulting), Mobile Devices (Consulting), and Risk Assessment for Fiscal Year 2015.

Information Technology Services Projects

The two projects and hours shown in this section are carry-over projects from prior audit plans. No other IT-specific audits 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 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 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. Department leave time 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 FY 2015 are as follows:

- ★ Complete development and approval of the Fiscal Year 2015 Audit Plan by September 30, 2014.
- ★ Complete the FY 2014 Annual Internal Audit Report by November 1, 2014.
- ★ Complete 80 percent of the scheduled FY 2015 Audit Plan projects.
- ★ Spend a minimum of 75 percent of total planned hours available on direct audit or consulting work.
- ★ Obtain management acceptance of 95 percent of audit issues and/or recommendations.
- ★ Obtain management satisfaction on at least 80 percent of audit assurance and consulting activities.

Internal Performance Measure results for Fiscal Year 2014 were:

- ★ FY 2014 Audit Plan was approved in September 2013.
- ★ FY 2013 Annual Internal Audit Report was completed in October 2013.
- ★ 19 of the 25 projects in the 2014 Audit Plan were completed by the end FY 2014 (66 percent). There were also five investigations completed that were not in the 2014 Audit Plan. There were four audit projects in progress at the end of the fiscal year, five projects carried over into the FY 2015 Audit Plan, and management performed the review of one project.
- ★ Internal Audit spent around 70 percent of total hours available on direct audit or consulting work in FY 2014, including 17 percent for general administration and 5 percent on required continuing professional education for the various licenses.
- ★ Management acceptance of audit issues and/or recommendations exceeded 95 percent.
- ★ Management satisfaction from returned surveys exceeded 80 percent 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's budget includes nine full-time equivalent positions: an audit director, seven auditors, and an executive assistant. The FY 2015 Internal Audit Plan was developed based on the assumption that the division would be fully staffed throughout the year, with the exception of two auditors starting in November. The division lost two senior auditors in August, just prior to the end of FY 2014. The FY 2015 budget is included in this plan and is shown in Schedule 3.

Current Internal Audit staff members collectively have over 51 years auditing experience, including over 22 years at TDI. In addition, audit staff possess the following 14 professional certifications:

- ★ 3 Certified Internal Auditors (CIA)
- ★ 3 Certified Government Auditing Professionals (CGAP)
- ★ 2 Certified Fraud Examiners (CFE)
- ★ 1 Certified Public Accountant (CPA)
- ★ 1 Certified Information Systems Auditor (CISA)
- ★ 1 Certification in Control Self Assessment (CCSA)
- ★ 1 Certified Investments and Derivatives Auditor (CIDA)
- ★ 1 Certification in Risk Management Assurance (CRMA)
- ★ 1 Certified Internal Controls Auditor (CICA)

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 FY 2015 Internal Audit Plan, please contact the Internal Audit Director, Greg Royal, at (512) 475-2984 or by email at greg.royal@tdi.texas.gov.

SCHEDULE 1 – FY 2015 INTERNAL AUDIT PLAN PROJECTS*

Project #	Project Description	Area	FY 2015 Hours
Projects Started and Carried Forward From FY 2014			
2014-306	Sircon - Consumer Complaints at TDI	Compliance	250
2014-609	SFMO (Consulting)	SFMO	100
2014-102	Mobile Devices (Consulting)	ITS	340
2014-407	FY 2015 Risk Assessment	Agency-Wide	80
Subtotal Carry Forward Projects			770
Information Technology Services Projects			
Pending	Follow-up on Gartner Report (project in FY 2013 and FY 2014 audit plans)	ITS	325
Pending	Management Control Audit (FY 2014 audit plan; hold pending ITS Governance-Gartner)	ITS	550
Subtotal Information Technology Audits			875
Financial/Performance Assurance Activities			
Pending	Sircon - Consumer Complaints at DWC	DWC	600
Pending	Enforcement	DWC	500
Pending	Fraud Unit	Compliance	450
Pending	Hearings	DWC-Hearings	400
Pending	Performance Measures	Agency-Wide	600
Pending	Records Management and Support	DWC	750
Pending	ERM Process Assessment	Agency-Wide	400
Pending	Purchasing & Contract Administration	AO	750
Pending	Title Examinations	FIN	500
Pending	Mid-Year Recommendations Follow-Up (Internal Audit Reports)	Agency-Wide	50
2015-301	Seized/Forfeited Property Audit - FY 2014 (Code of Criminal Procedures Art 59.06)	Fraud/SFMO	10
Subtotal Financial/Performance Audits			5,010
Special Initiatives			
Various	Hours Reserved for Special Assigned Audits, Investigations, or Management Requests	N/A	400
Special Initiatives Subtotal			400
Consulting/Advisory Activities			
2015-601	ITS customer meetings	Agency-Wide	21
Pending	Ethics Survey	Agency-Wide	150
Pending	Legal Open Records	Agency-Wide	250
Pending	Attorney Fees	DWC	300
Pending	Risk Management Training	N/A	250
Pending	Safety Violations Hotline	DWC	250
Pending	Miscellaneous Advisory Projects	Agency-Wide	250
Subtotal Advisory/Liaison Projects			1,471
Subtotal - Audits, Investigations and Advisory Projects			8,526

Project #	Project Description	Area	FY 2015 Hours
Administrative and Required Internal Audit Activities			
2015-400	General Administration†	N/A	2,200
2015-000	Leave‡	N/A	1,860
Pending	Internal Self-Assessment and Peer Review	N/A	150
Pending	FY 2016 Risk Assessment	N/A	400
2015-401	Staff Training	N/A	320
2015-403	FY 2014 Internal Audit Annual Report	N/A	100
Pending	Controls Surveys	N/A	300
Pending	TeamMate Build Out of Other Modules	N/A	200
Subtotal - Administrative & Other Internal Audit Projects			5,530
Total Available Hours^			14,056

* Acronyms: ALAS-Automated Leave Accounting System; AO-Administrative Operations Division; DWC-Division of Workers' Compensation; FIN-Financial Regulation; FY-Fiscal Year; HR-Human Resources; IA-Internal Audit; ITS-Information Technology Services; SAO-State Auditor's Office; SFMO-State Fire Marshal's Office; LBB-Legislative Budget Board

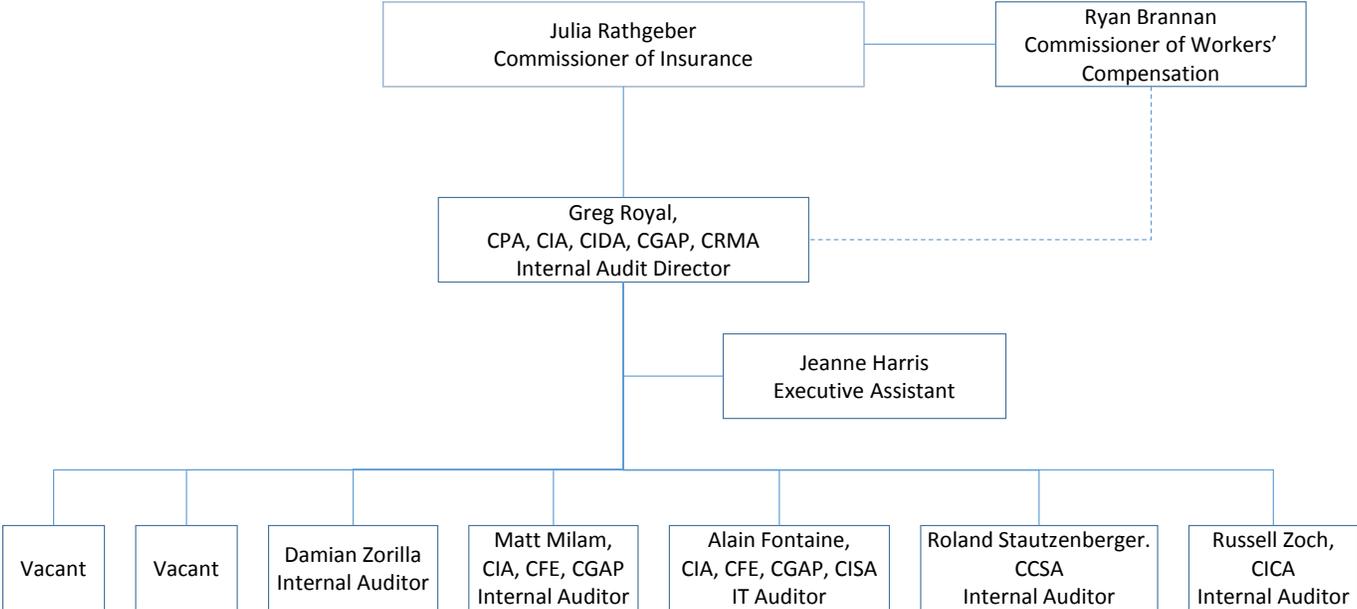
† Administration/Special Projects of the Internal Audit Function (Auditor staff average at 17.5 percent)

‡ Based on maximum annual vacation and sick accrual for each employee

^ Available Hours:
 (261 work days) - (15 holidays @ 8 hours/day) = 1,968 hours/year
 (1,968 hrs X 5 auditors, 2 auditors start Nov = 3,232 hours + 1,968 x .5 audit director) = 14,056 Total Hours

SCHEDULE 2 – INTERNAL AUDIT ORGANIZATION CHART

Internal Audit Division Organization Chart, October 2014



SCHEDULE 3 – FY 2015 ANNUAL OPERATING BUDGET

Expenditure Category	FY 2015
Salaries and Longevity (9.0 FTEs)	\$ 605,805.43
Other Operating Expenses	10,016.00
Total Operating Budget	\$ 615,821.43



Internal Audit Fiscal Year 2015 Annual Audit Plan
Texas Department of Insurance
Internal Audit Division
IAAP | 1015

SECTION IIIB:
DEVIATIONS FROM FISCAL
YEAR 2015 AUDIT PLAN



Internal Audit 2015 Annual Report
Texas Department of Insurance
Internal Audit Division

SECTION IIIB: DEVIATIONS FROM FISCAL YEAR 2015 AUDIT PLAN

In an effort 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 six projects during fiscal year (FY) 2015 that were in the approved FY 2015 Audit Plan. These projects include:

- ★ Follow-up on Gartner Report
- ★ Management Control Audit
- ★ ERM Process Assessment
- ★ Risk Management Training
- ★ Controls Survey
- ★ TeamMate build out of other modules

Elements of these projects are in the FY 2016 Audit Plan.

As of October 2015, all other planned activities approved in the FY 2015 Audit Plan were either completed as an assurance or advisory activity or are in process. Current status of carry-over projects from the FY 2015 Audit Plan:

- ★ Enforcement – currently in the fieldwork stage.
- ★ Title – currently in the fieldwork stage.
- ★ Fraud Unit – currently in the fieldwork stage.
- ★ Hearings – currently in the fieldwork stage.
- ★ Risk Assessment for FY 2016 – completed during September 2015.
- ★ Performance Measures – this consulting project is in the reporting stage.
- ★ Legal – Open Records – this consulting project is in the planning stage.

In addition, Internal Audit completed two formal investigations and three consulting projects requested by management that were not included in the approved FY 2015 Audit Plan.

SECTION IV:
COMPLETED CONSULTING ENGAGEMENTS
AND NON-AUDIT SERVICES



Internal Audit 2015 Annual Report
Texas Department of Insurance
Internal Audit Division

SECTION IV: COMPLETED CONSULTING ENGAGEMENTS AND NON-AUDIT SERVICES

The following list shows the high-level objectives and impact of completed consulting engagements and non-audit services.

Project	Engagement	High-Level Consulting Engagement Objective	Impact
2014-609	State Fire Marshal's Office	<ul style="list-style-type: none"> – Reviewed the efficiency and effectiveness of the licensing renewal process. – Reviewed the overall adequacy of gathering and storage of arson evidence 	<ul style="list-style-type: none"> – Performed agreed upon procedure as requested. – Provided observations and eight suggestions for improvement in an internal report to agency management.
2015-003	Balanced Scorecard	Participated on each perspective team and attended quarterly Balanced Scorecard meetings.	Keep abreast of agency activities and provide internal audit advice.
2015-004	ERM Workgroup	Participated in an agency-wide ERM workgroup.	Provided advice and counsel during the development of the agency's ERM framework.
2015-301	Seized/Forfeited Property Audit - FY 2014	<ul style="list-style-type: none"> – Determined whether TDI's law enforcement divisions seized/forfeited any property during FY 2014. Neither TDI's Fraud Unit nor the State Fire Marshal's Office reported any seized/forfeited property in FY 2014. – A report on a prescribed form was issued to the Office of the Attorney General in September 2014. 	Review required by statute (Code of Criminal Procedures, Art. 59.06).
2015-405	Mid-Year Follow-Up of Prior Audit Recommendations	Followed up on all outstanding prior internal audit recommendations.	Satisfied Texas Internal Audit Act requirements.
2015-407	FY 2016 Risk Assessment	Assessed various risks throughout TDI in order to assist in the formation of the FY 2016 Internal Audit Plan.	Basis for forming the Internal Audit FY 2016 Annual Audit Plan.
2015-601	ITS Customer Meetings	Participated in an advisory capacity at bi-weekly meetings with ITS staff and division staff that use applications.	Information obtained can be used in audit planning and the annual risk assessment.
2015-603	State Auditor's Office (SAO) Reports Follow-up	Acted as agency liaison to the SAO for follow-up to prior TDI-related audit report recommendations.	Helped to ensure management's responses addressed audit recommendations.

Project	Engagement	High-Level Consulting Engagement Objective	Impact
2015-604	Agency Training and Cost Allocation	<ul style="list-style-type: none"> – Determined distribution of training dollars, licenses, required training, and required training hours for all divisions in the agency. – Determined how agency training can be captured in the Balanced Scorecard objective to “Develop a More Skilled and Satisfied Workforce.” 	<ul style="list-style-type: none"> – Performed agreed upon procedure as requested. – Provided observations and two suggestions for improvement in an internal report to agency management.
2015-605	Comptroller’s Post Payment Audit	Assisted the Chief Financial Officer in coordinating responses to the Statewide Fiscal Services’ post-payment audit.	Helped to ensure management’s responses addressed audit recommendations
2015-607	Safety Violations Hotline	<ul style="list-style-type: none"> – Determined whether the Workplace Safety area is properly capturing all necessary information in a timely manner for calls received via the Safety Violations Hotline. – Consulted in the development of policies and procedures to ensure they provide for appropriate monitoring and oversight of the hotline. 	<ul style="list-style-type: none"> – Performed agreed upon procedure as requested. – Provided observations and five suggestions for improvement in an internal report to agency management.
2015-608	Ethics Review	<ul style="list-style-type: none"> – Assessed TDI’s ethical climate by conducting interviews and an agency-wide ethics survey. – Compared the survey results to the 2013 and 2011 results. – Evaluated and rated the effectiveness of the agency’s current ethics compliance using a maturity model. 	<ul style="list-style-type: none"> – Worked with students from the McCombs School of Business on the project. – Obtained agency awareness of ethics and provided ideas to advance to the next level of the maturity model.
2015-609	Agency Overtime and Comp Time	Analyzed agency comp time and overtime.	<ul style="list-style-type: none"> – Performed agreed upon procedure as requested. – Provided observations in an internal report to agency management.
2015-610	Attorney Fees	Consulting engagement cancelled per client’s request.	N/A
Various	SAO Audits of TDI	Acted as the agency liaison to the SAO for TDI management responses to audit report recommendations.	Helped to ensure management’s responses addressed audit recommendations.
Various	Investigations	Investigated two potential fraud, waste, and abuse allegations within TDI.	Assisted with detection and prevention of internal fraud, waste, and abuse.

SECTION V: EXTERNAL QUALITY ASSURANCE REVIEW



Internal Audit 2015 Annual Report
Texas Department of Insurance
Internal Audit Division

TEXAS DEPARTMENT OF INSURANCE
INTERNAL AUDIT DIVISION
EXTERNAL QUALITY ASSURANCE REVIEW - SEPTEMBER 2015

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 receives a rating of “pass” and is in compliance with the Institute of Internal Auditors (IIA) International Professional Practices Framework and Code of Ethics, the United States Government Accountability Office (GAO) Government Auditing Standards, and the Texas Internal Audit 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 providing assurance and consulting engagements in conformance with professional auditing standards.

The annual audit plan and individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are reported, as required.

Internal Audit has sufficient independence to perform its work. Surveys and interviews conducted during the quality assurance review indicated that management considers Internal Audit a useful part of the overall agency operations; however, opportunities to further communicate and engage management in the value proposition of Internal Audit were identified. Overall, management agreed that additional value could be gained through Internal Audit’s demonstrated focus on collaboration, while maintaining its independence.

ACKNOWLEDGEMENTS

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit staff, the Commissioner and TDI leaders who participated in the survey and interview processes. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Division and its relationship with management.



Benito Ybarra
Chief Audit and Compliance Officer
Texas Department of Transportation
SAIAF Peer Review Team Leader

09/22/15
Date



Chance Watson
Internal Audit Director
Texas Department of Family and Protective Services
SAIAF Peer Review Team Member

9/22/15
Date

September 2015

SECTION VI:
INTERNAL AUDIT FISCAL YEAR
2016 ANNUAL AUDIT PLAN



Internal Audit 2015 Annual Report
Texas Department of Insurance
Internal Audit Division

INTERNAL AUDIT
FISCAL YEAR 2016
ANNUAL AUDIT PLAN



TEXAS DEPARTMENT OF INSURANCE
INTERNAL AUDIT DIVISION

SEPTEMBER 2015

Texas Department of Insurance
333 Guadalupe | Austin, Texas 78701
(800) 578-4677
www.TDI.texas.gov

TEXAS DEPARTMENT OF INSURANCE
INTERNAL AUDIT FISCAL YEAR 2016 ANNUAL AUDIT PLAN
SEPTEMBER 2015

PLAN APPROVED



David C. Mattax
Commissioner of Insurance

9/30/15

Date



Ryan Branman
Commissioner of Workers' Compensation

9/30/15

Date



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

9/30/15

Date

This page is intentionally blank.

TABLE OF CONTENTS

OVERVIEW OF TDI INTERNAL AUDIT FISCAL YEAR 2016 ANNUAL AUDIT PLAN.....	3
SCHEDULE 1 – FY 2016 INTERNAL AUDIT PLAN PROJECTS*	9
SCHEDULE 2 – INTERNAL AUDIT ORGANIZATION CHART	11
SCHEDULE 3 – FY 2016 ANNUAL OPERATING BUDGET	12

This page is intentionally blank.

OVERVIEW OF TDI INTERNAL AUDIT FISCAL YEAR 2016 ANNUAL AUDIT PLAN

INTRODUCTION

This document provides the Fiscal Year (FY) 2016 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 2016, 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 2016.

AUDIT CHARTER AND DEFINITION

The Audit Charter approved by the commissioners in October 2014 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.

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.¹

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 2016 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. 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 risk within TDI by sending out agency-wide questionnaires and interviewing selected executive management, as well as other management responsible for championing the agency Balanced Scorecard and Enterprise Risk Management (ERM) 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

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

- ★ Activities identified from questionnaires and interviews
- ★ Prior division-level ERM footprints last obtained in 2013
- ★ Balanced Scorecard

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

An information technology (IT) specific risk assessment was also performed. Internal Audit used similar criteria for the IT assessment to distinguish risk between application controls and general controls. The criteria used to rate applications included:

- ★ Current utilization
- ★ Criticality
- ★ Interfacing with other applications
- ★ Technological complexity
- ★ Number and types of users
- ★ Prior audits
- ★ Vendor support
- ★ Auditor judgment

The following criteria were used to rate IT general controls:

- ★ Control environment
- ★ Change management
- ★ Development life cycle
- ★ Logical access
- ★ Incident management
- ★ Technical support
- ★ Hardware and software
- ★ Disaster recovery and backup
- ★ Physical security

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

Audit hours are distributed across the 10 core functions identified in the agency's *Fiscal Year 2015-2019 Strategic Plan*. As shown in Figure 1, we allocated 9,408 hours to audit and consulting projects, which includes 6,760 hours for new projects, 2,648 hours for carry-over projects, 250 hours for special requests, and 200 hours for miscellaneous advisory projects for FY 2016. All IT, legal, and administrative operations projects are included in Support Services.

Figure 1: FY 2016 Core TDI Function Coverage Hours

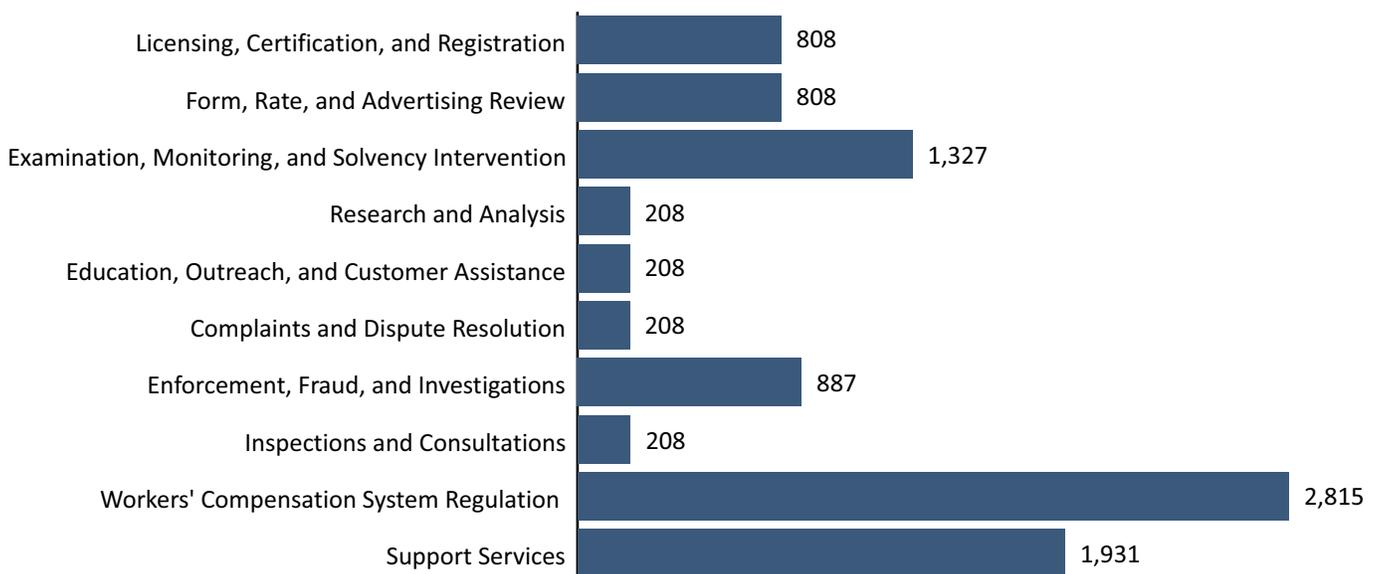


Figure 2 below compares Internal Audit’s actual coverage for FY 2013, FY 2014, FY 2015, and budgeted coverage for FY 2016. The latest Strategic Plan added Workers’ Compensation as a separate category for the first time.

Figure 2: Historical Core TDI Function Coverage Hours

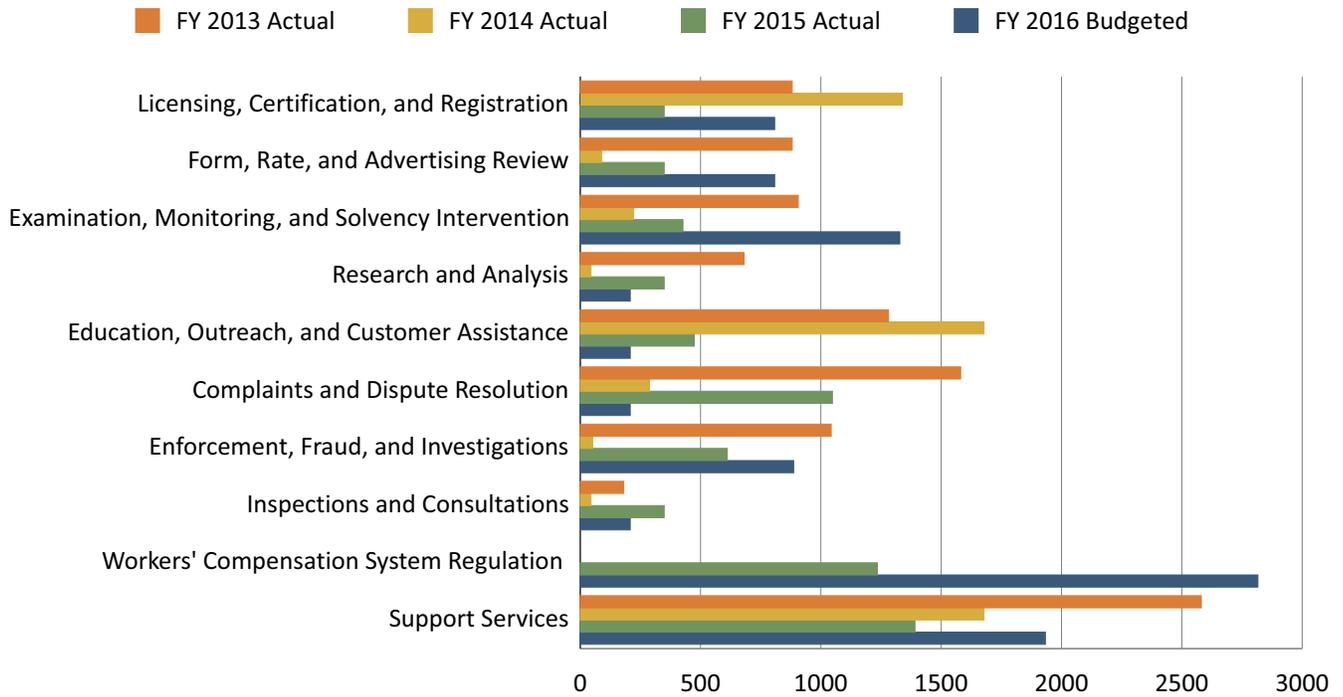
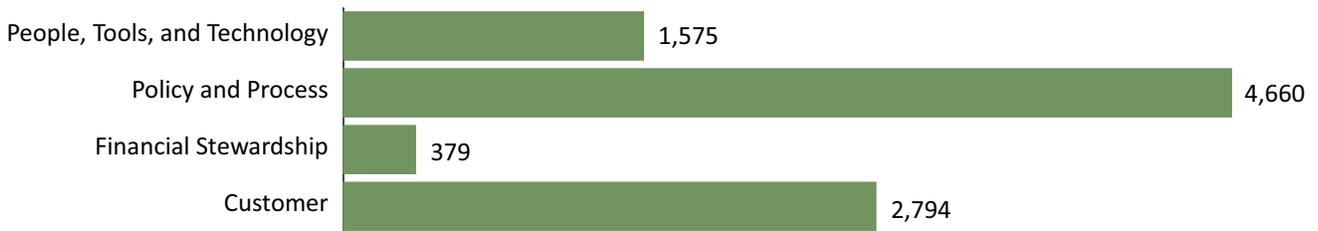


Figure 3 below shows the coverage of each of the four Balanced Scorecard Agency Perspectives.

Figure 3: TDI Balanced Scorecard Perspectives Coverage Hours



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 the commissioners and management understand the limitations of the audit coverage and the risks they assume in unaudited areas. This plan allocates Internal Audit resources to the agency's most important priorities and risks at this point in time. The Audit Plan also includes 250 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, 9,408 hours are available for audits, consulting activities, investigations, and special requests.

FY 2016 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 2015 were not completed by the end of the fiscal year. The following FY 2015 projects were started in FY 2015 and have hours allocated in FY 2016 to complete the project: Enforcement, Fraud Unit, Hearings, performance measures, Title, legal – open records, and risk assessment for FY 2016. Other projects that were not started in FY 2015, yet are still included in the FY 2016 Audit Plan include Gartner Project follow-up (combined two projects from FY 2015), ERM process assessment, controls survey, and TeamMate build-out of other modules. In addition, the division underwent an independent quality assurance review, which was completed with a report issued in September 2015.

Information Technology Services Projects

One of the projects and hours shown in this section combine two carry-over projects from prior audit plans. Two other IT-specific audits 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 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 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. Department leave time 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 FY 2016 are as follows:

- ★ Complete development and approval of the Fiscal Year 2015 Audit Plan by September 30, 2015.
- ★ Complete the FY 2015 Annual Internal Audit Report by November 1, 2015.
- ★ Complete 80 percent of the scheduled FY 2016 Audit Plan projects.
- ★ Spend a minimum of 75 percent of total planned hours available on direct audit and consulting work.
- ★ Obtain management acceptance of 95 percent of audit issues and/or recommendations.
- ★ Obtain management satisfaction on at least 80 percent of audit assurance and consulting activities.

Internal Performance Measure results for FY 2015 were:

- ★ FY 2015 Audit Plan was approved in October 2014.
- ★ FY 2014 Annual Internal Audit Report was completed in October 2014.
- ★ Seventeen of the 29 projects in the 2015 Audit Plan were completed by the end of FY 2015 (59 percent). There were also two investigations completed that were not in the 2015 Audit Plan and three consulting projects requested by management completed during the year. There were seven on-going projects carried over into the FY 2016 Audit Plan.
- ★ Internal Audit spent less than 60 percent of total hours available on direct audit or consulting work in FY 2015, as we experienced significant turnover of senior level staff. Due to training new staff, approximately 40 percent of recorded time was spent on administrative or staff development activities.
- ★ Management acceptance of audit issues and/or recommendations exceeded 95 percent.
- ★ Management satisfaction from returned surveys exceeded 80 percent 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 includes nine full-time equivalent positions: an audit director, seven auditors, and an executive assistant; we currently have a vacancy for a senior auditor. The FY 2016 Internal Audit Plan was developed based on the assumption that the division would be fully staffed throughout the year, with the exception of one auditor starting in November. The division lost a senior auditor in August, just prior to the end of FY 2015. The FY 2016 budget is included in this plan and is shown in Schedule 3.

Current Internal Audit staff members collectively have over 58 years auditing experience, including over 23 years at TDI. In addition, audit staff possess the following 16 professional certifications:

- ★ Four Certified Internal Auditors (CIA)
- ★ Three Certified Government Auditing Professionals (CGAP)
- ★ Two Certified Public Accountants (CPA)
- ★ Two Certifications in Risk Management Assurance (CRMA)
- ★ One Certified Fraud Examiner (CFE)
- ★ One Certified Information Systems Auditor (CISA)
- ★ One Certification in Control Self-Assessment (CCSA)
- ★ One Certified Investments and Derivatives Auditor (CIDA)
- ★ One Certified Internal Controls Auditor (CICA)

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 FY 2016 Internal Audit Plan, please contact the Internal Audit Director, Greg Royal, at (512) 676-6200 or by email at greg.royal@tdi.texas.gov.

SCHEDULE 1 – FY 2016 INTERNAL AUDIT PLAN PROJECTS*

Project #	Project Description	Area	FY 2016 Hours
Projects Started and Carried Forward From FY 2015			
2015-305	Enforcement	DWC	490
2015-306	Title	FIN	420
2015-307	Fraud Unit	FRAUD	424
2015-308	Hearings	DWC	588
2015-407	FY 2016 risk assessment	Agency-Wide	230
2015-611	Performance measures (consulting)	Agency-Wide	246
2015-612	Legal – open records (consulting)	Gen. Counsel	250
Subtotal Carry-Forward Projects			2,648
Information Technology Services Projects			
Pending	Gartner Report follow-up (security assessment and ITS governance; projects in prior audit plans)	ITS	325
Pending	Asset management	AO	600
Pending	User-developed applications (consulting)	ITS	300
Subtotal Information Technology Audits			1,225
Financial/Performance Assurance Activities			
Pending	Rehabilitation and Liquidation Oversight Program	FIN	700
Pending	Agent and Adjuster Licensing Office	FIN	600
Pending	Regulatory Policy	Reg Policy	600
Pending	Designated doctor exam scheduling	DWC	400
Pending	Appeals panel	DWC	400
Pending	Workplace safety	DWC	500
Pending	Business continuity	AO	500
Pending	ERM process assessment (FY 2015 Audit Plan project)	Agency-Wide	400
Pending	Mid-year recommendations follow-up (Internal Audit reports)	Agency-Wide	50
2016-301	Seized/forfeited property audit - FY 2014 (Code of Criminal Procedures Art 59.06)	Fraud/SFMO	10
Subtotal Financial/Performance Audits			4,160
Special Initiatives			
Various	Hours reserved for special assigned audits, investigations, or management requests	N/A	250
Special Initiatives Subtotal			250
Consulting/Advisory Activities			
Pending	DWC succession planning	DWC	400
Pending	Controls survey (FY 2015 Audit Plan project)	Agency-Wide	250
2016-601	ITS customer meetings	Agency-Wide	150
Pending	Investigations – Complaints Audit follow-up	DWC	75
Pending	Confidential information	Agency-Wide	50
Pending	Miscellaneous advisory projects	Agency-Wide	200
Subtotal Advisory/Liaison Projects			1,125
Subtotal - Audits, Investigations and Advisory Projects			9,408

Project #	Project Description	Area	FY 2016 Hours
Administrative and Required Internal Audit Activities			
2016-400	General administration†	N/A	2,243
2016-000	Leave‡	N/A	1,775
Pending	FY 2017 risk assessment	N/A	400
2016-401	Staff training	N/A	320
Pending	TeamMate build-out of other modules	N/A	200
Pending	External peer review – part of State Agency Internal Audit Forum Team	N/A	150
2016-403	FY 2015 Internal Audit Annual Report	N/A	100
Subtotal - Administrative & Other Internal Audit Projects			5,188
Total Available Hours^			14,596

* Acronyms: AO-Administrative Operations Division; DWC-Division of Workers’ Compensation; FIN-Financial Regulation; ITS-Information Technology Services; SFMO-State Fire Marshal’s Office

† Administration/Special Projects of the Internal Audit function (auditor staff at 17.5 percent)

‡ Based on maximum annual vacation and sick accrual for each employee

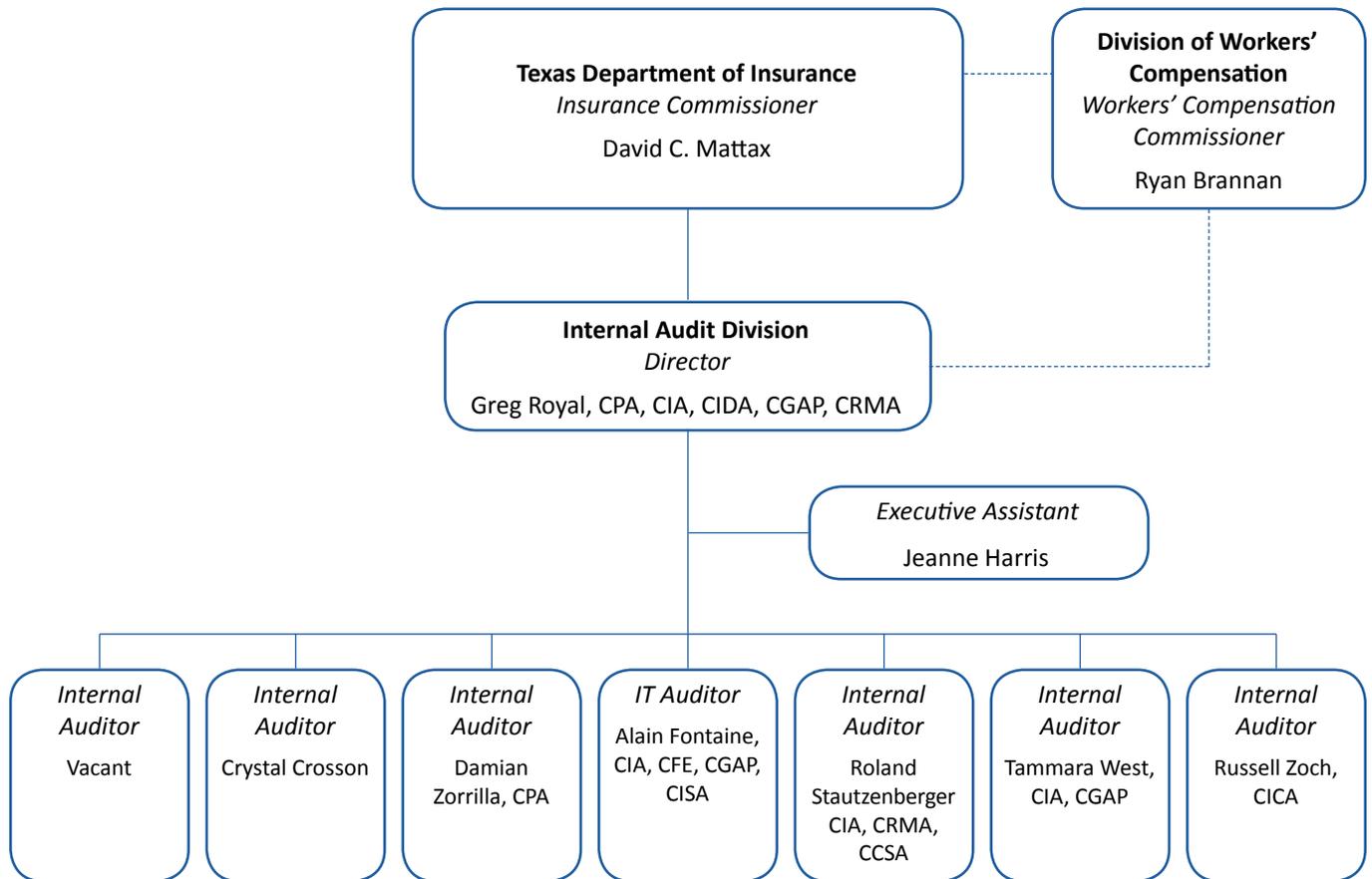
^ Available Hours:

(262 work days) - (13 holidays @ 8 hours/day) = 1,992 hours/year

(1,992 hours x 6 auditors, 1 auditor start Nov = 1,648 hours, + 1,992 x .5 audit director hours to projects) = 14,596 Total Hours

SCHEDULE 2 – INTERNAL AUDIT ORGANIZATION CHART

As of September 2015



SCHEDULE 3 – FY 2016 ANNUAL OPERATING BUDGET

Expenditure Category	FY 2016
Salaries and Longevity (9.0 FTEs)	\$ 631,239.40
Other Operating Expenses	10,016.00
Total Operating Budget	\$ 641,255.40



Internal Audit Fiscal Year 2016 Annual Audit Plan
Texas Department of Insurance
Internal Audit Division
IAAP | 0915

SECTION VII: EXTERNAL AUDIT SERVICES



Internal Audit 2015 Annual Report
Texas Department of Insurance
Internal Audit Division

SECTION VII: EXTERNAL AUDIT SERVICES

The following represents TDI external audit services procured or in progress in fiscal year 2015.

Auditee	Auditor
N/A	N/A

SECTION VIII: REPORTING SUSPECTED FRAUD AND ABUSE



Internal Audit 2015 Annual Report
Texas Department of Insurance
Internal Audit Division

SECTION VIII: REPORTING SUSPECTED FRAUD AND ABUSE

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

Requirement	Actions Taken
Reporting Requirements: Article IX, Section 7.09, Fraud Reporting, General Appropriations Act (83rd Legislature)	The agency received no American Recovery and Reinvestment Act funds, but has provided a link to the SAO fraud hotline on the home page of TDI's websites. In addition, the agency has internal procedures for staff to report fraud, waste, or abuse.
Texas Government Code, Section §321.022	The Internal Audit director sits on the agency Fraud Panel and sends quarterly reports to the SAO Special Investigative Unit of any suspected fraud, waste, or abuse that is brought to the attention of the panel. Any incident considered remarkable is immediately reported to the SAO.



Internal Audit 2015 Annual Report
Texas Department of Insurance
Internal Audit Division
IAAR | 1015