

INTERNAL AUDIT  
FISCAL YEAR 2014  
ANNUAL REPORT



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](http://www.TDI.texas.gov)



**TEXAS DEPARTMENT OF INSURANCE**  
**INTERNAL AUDIT DIVISION**

October 31, 2014

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. Ryan Brannan, Commissioner of Workers' Compensation

Attached is the Fiscal Year 2014 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 division is a key element in assuring accountability, economy, efficiency, and effectiveness within TDI. The Internal Audit Division is committed to being a trusted resource and providing quality internal auditing services, and will aggressively pursue projects in fiscal year 2015 to continue improving controls, reducing risk, and enhancing TDI 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,

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

## TABLE OF CONTENTS

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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 2014
	A. INTERNAL AUDIT PLAN FOR FISCAL YEAR 2014
	B. DEVIATIONS FROM FISCAL YEAR 2014 AUDIT PLAN
IV.	COMPLETED CONSULTING ENGAGEMENTS AND NON-AUDIT SERVICES
V.	EXTERNAL QUALITY ASSURANCE REVIEW
VI.	INTERNAL AUDIT PLAN FOR FISCAL YEAR 2015
VII.	EXTERNAL AUDIT SERVICES
VIII.	REPORTING SUSPECTED FRAUD AND ABUSE

First printing, October 2014

Publication ID: IAAR | 1014

This document is available online at: [www.tdi.texas.gov/reports/report5.html](http://www.tdi.texas.gov/reports/report5.html)



# SECTION I: COMPLIANCE WITH HOUSE BILL 16



Internal Audit Fiscal Year 2014 Annual Report  
Texas Department of Insurance  
Internal Audit Division



## SECTION I: COMPLIANCE WITH HOUSE BILL 16

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To comply with the provisions of House Bill 16, the Texas Department of Insurance Internal Audit Division will post its approved fiscal year (FY) 2015 Internal Audit Plan and FY 2014 Internal Audit Annual Report online at [www.tdi.texas.gov/reports/report5.html](http://www.tdi.texas.gov/reports/report5.html).

This section provides all audit reports issued in FY 2014 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 2014

#### 1. 2014-101, Texas Administrative Code 202-Confidential Information, May 2014

##### High-Level Audit Objective(s)

Determine if confidential information collected and/or stored electronically by the agency is being safeguarded effectively and efficiently.

##### Observations/Findings and Recommendations

1.1 ITS has not maintained an up-to-date record of UDAs on the network. For the custodian to implement the proper controls and access restrictions it must work with the owners and review their requirements. To facilitate this shared responsibility for safeguarding the information collected, Internal Audit recommends that ITS should:

- Maintain an up-to-date list of UDAs by querying the program areas on an annual basis requesting changes to the list.
- On an annual basis, query the program areas to verify which network locations and UDAs contain confidential information to help ensure that the proper controls are in place.
- On a bi-annual basis, educate the program areas on the proper use and documentation requirements for UDAs and ensure that current UDA documentation is maintained and meets the required standards. General Counsel staff should work with divisions, the information owners, to classify what is confidential information in their areas.

##### Current Status and Updated Management Response: Incomplete/Ongoing

ITS has sent out a template for the program areas to update the list of their UDA's, along with the definition of a UDA and instructions on how to complete the template. ITS will complete implementation once the program areas have returned their updated UDA lists. Target Implementation Date is 10/15/2014.

1.2 ITS has an ineffective review of the Access Control List (ACL) to network resources. The policies and procedures for the review of the ACLs by the CSLs should be modified to include that management in each office/division should follow the guidelines in the TDI Computer Security Manual to ensure that reviews of access to their division data, applications, and network are completed. Confirmation of reviews should be sent to the ISO stating which reports have been reviewed, which changes were required and that CSR requests have been submitted. The policy should also indicate the steps that will be taken by the custodian of the data if there is no positive confirmation of reviews being performed. The ISO should track what corrections are needed to see if there are reoccurring issues and address those issues.

**Current Status and Updated Management Response: Substantially Implemented**

While gathering the documentation for 1.2, I realized that the Computer Security Manual with the changes I made for 1.2 hasn't been published. This is because we're going to wait to update it for both 1.2 and 1.3 once we're done with the tasks I mentioned in the follow-up answer for 1.3. We felt it would be confusing and too time consuming for those involved in the manual revision process to do a separate update for each issue, especially since the CSM was already revised earlier this year. As a result, I've changed our response for 1.2 to Mostly Completed and provided an explanation in the answer portion. Target Implementation Date is 01/01/2015.

1.3 There is a lack of confidential information policies and procedures that follow best practices. Internal Audit recommends that the agency develop policies regarding confidential information that follow best practices. These policies should address but not be limited to:

- the handling of printed data
- the storage of electronic data
- the transmission of electronic data
- the destruction of electronic and printed data
- the unauthorized access of data
- the discovery of confidential information in unauthorized areas
- the responsibility of the data owner, custodian, and TDI personnel.

The divisions should adopt these policies that follow best practices and reinforce them with procedures that are specific to the confidential information they handle. The ISO should work with Human Resources to train the agency on the updated confidential information policies.

**Current Status and Updated Management Response: Incomplete/Ongoing**

ITS, General Counsel, and Human Resources are meeting regularly and have developed a plan and timetable for implementation of the above. The plan and timetable will accompany these responses. Internal Audit has been invited to our October 3 meeting so ITS, General Counsel, and Human Resources can get their input to better ensure compliance. Target Implementation Date is 01/01/2015.

**2. 2014-303, Rehabilitation & Liquidation Oversight, April 2014**

**High-Level Audit Objective(s)**

Determine if internal controls are adequate to ensure Special Deputy Receivers (SDR) are in compliance with requirements for the Historically Underutilized Businesses (HUB) Subcontracting Plan (HSP).

Determine if internal controls are adequate for the collection and calculation of performance measures and that Performance Measure 2.1.1 Outcome Measure 3 is reported accurately and according to the measure definition.

**Observations/Findings and Recommendations**

2.1 During the audit IA obtained and tested data reported by RLO in FY 2013 for four SDR and SDR Subcontractor expenses. Two of the four receivership files reviewed included SDR and SDR Subcontractor total expenditures, which were incorrectly under reported by \$293,918; of this amount \$152,931 was under reported as SDR Subcontractor expenses for FY 2013 to Agency Procurement. RLO Analysts should timely review monthly Progress Assessment Reports for accuracy and document their review on a monthly basis. RLO analysts and the RLO Manager should timely review the Detail HUB Spreadsheet twice a year, before the March and September submission dates to Agency Procurement. Also, reconciliation of source documentation for the monthly Progress Assessment Reports with the Detail HUB Spreadsheet should be done to verify reported SDR and SDR Subcontractor expenses are accurate. In addition, the RLO Manager should document their reconciliation and review of the monthly Progress Assessment Reports and Detail HUB Spreadsheet.

A lack of reconciling monthly receivership financial statements SDRs provide to RLO was a finding in a prior audit report by the State Auditor's Office (SAO), issued in October 2009. SAO Report 10-009 made the following recommendation: RLO Management should consistently reconcile monthly receivership financial statements and quarterly financial reports filed by special deputy receivers.

A lack of documented management review was an issue in a prior report by TDI Internal Audit, issued in March 2009. TDI Internal Audit Report 2008-302 made the following recommendation: RLO management should develop and implement a process to ensure that analysts' reviews of reports submitted by SDRs are performed, documented, and reported to RLO management in a timely manner. This process should include a step for supervisory review.

**Current Status and Updated Management Response: Incomplete/Ongoing**

RLO has been subject to substantial changes since the audit findings were issued. RLO has become part of Financial Analysis and has a new Director. There was an SAO finding that the expenditures made by the Special Deputy Receivers "are not Department expenditures and should not be reported as such." As a Process Improvement Initiative RLO is undertaking a comprehensive review of RLO processes and procedures over the next 12 months or more to identify, evaluate, revise, consolidate and streamline processes including a reevaluation of the SDR HUB program. The updated Analyst Checklist referenced in the prior management response has been implemented for reviews beginning with September of the 2015 fiscal year. The checklist will be updated as necessary to reflect changes made as part of the process review. The HUB expenditures spreadsheet for fiscal year 2014 was modified to include a verification process and that improvement is working well. RLO will be working with senior management to review the impact of the SAO findings and determine new procedures to ensure compliance with §443 and the Agency's mission. Target Implementation Date is 11/01/2015.

- 2.2 RLO provided Internal Audit with several different sets of procedures for the calculation and reporting of the Performance Measure. One set of procedures is found in the RLO Accounting Manual on page 35, which is dated 12/08/2011. The set of procedures currently in use by RLO is from Fiscal Year 2010-2011. Additionally, an updated set of procedures for Fiscal Year 2014-2015, with suggested changes, is currently in track changes and draft form. RLO should update and finalize procedures for the calculation of Performance Measure 2.1.1 oc 3 "Percent of total dollars collected by Special Deputy Receivers expended on asset administration." Additionally, a formalized and approved consolidation of procedures is recommended.

**Current Status and Updated Management Response: Fully Implemented**

The Accounting Manual has been updated to include the current calculation methodologies for both PMD measures. Documentation was provided.

**3. 2014-302, Workforce Planning, April 2014**

**High-Level Audit Objective(s)**

Determine if TDI had an adequate program for Workforce Planning to address gaps between agency's current and future workforce identified in previous Workforce Plans.

Verify management's assertions to Texas Workforce Commission, Civil Rights Division's recommendation from a review completed May 2013 requiring discrimination and sexual harassment training within 30 days of hire and supplemental training every two years.

Determine whether agency's background check contract was specific and appropriately managed.

**Observations/Findings and Recommendations**

- 3.1 TDI does not have a current documented succession plan to address critical staffing needs of the agency. Responses from agency deputies to Internal Audit’s questions concerning succession plans were inconsistent. Some areas of the agency have plans that were established as much as six years ago while other areas have more recent plans. Currently, there is no structured documented review of all program areas and divisions with existing succession plans on a regular basis. Each program area and division should update and document a current succession plan to address critical staffing development needs of the agency. These plans should be reviewed regularly by HR with the divisions.

**Current Status and Updated Management Response: Incomplete/Ongoing**

This work will be on-going. Human Resources in concert with Office of Strategy Management and with input from Deputy Commissioners, finalized an agency Workforce Plan as part of the agency’s Strategic Plan this past summer. This Workforce Plan was also filed with the State Auditor’s Office.

The Human Resource Director has met with executive staff and obtained agreement to set the workforce plan gaps as initiatives in the agency’s balanced scorecard (People, Tools and Technology perspective.) As Human Resources committed, workforce planning meetings with divisions are occurring and the first round of meetings are expected to be completed this month. This is on-going and meetings will be conducted each six months to continually update information related to workforce planning issues and succession planning issues. Follow-up meetings with divisions will be scheduled for February 2015 and will occur each six months. Target Implementation Date is On-Going.

- 3.2 Prior state service was not correctly identified in the Retirement Eligibility Report (RER) for two employees. There is no review of USAS data entry into the RER. Only one HR specialist enters USAS data and previous employment information located in personnel files into the RER. There is no management or supervisory review of that data entry in place. Errors in the Retirement Eligibility Report years of state service column causes the employee’s earliest retirement date to be incorrect and could lead to the employee not being counted as eligible to retire for reporting purposes in the Workforce Plan. In order to ensure the accuracy of retirement data used in the Workforce Plan, which goes outside of the agency, a management or supervisory review of the data being entered in the Retirement Eligibility Report should be put into place and documented.

**Current Status and Updated Management Response: Substantially Implemented**

Human Resources went back to March 2013 to audit prior state service. We have completed March 2013 – July 2013 and are currently working on August 2013. We are making progress on this. Human Resources has written an auditing duty into the Payroll Officer job description and the Payroll Officer is responsible to report to the HR Director on these audits of prior state service. The Human Resources Director and the Human Resource Specialist II wrote a position objective for the HR Specialist II and it reads: accurately enter verified prior state service of employees (Measure: Audit reveals <5% error rate). Target Implementation Date is March 2015.

- 3.3 TDI does not comply with Labor Code or Texas Administrative Code (TAC) as they relate to supplemental training requirements for discrimination and sexual harassment. None of the 19 employee’s in our sample attended supplemental training for discrimination and sexual harassment within two years of attending the previous training course. HR should implement an automated tracking system that identifies when an employee is approaching a training due date and automatically send an alert to a HR representative, and the employee, so that training can be completed within the required time frame. The tracking system should include an aging report that will allow HR and division management to address staff that is not current with required training.

**Current Status and Updated Management Response: Incomplete/Ongoing**

Human Resources is making manager notifications for those staff that were delinquent and in advance of employees being delinquent for the training. We are also checking in with staff who were delinquent prior to training to remind them of the importance of their required attendance. This is on-going. Human Resources will develop the new training prior to January 2016 which is the target implementation date.

- 3.4 Documentation acknowledging new employee training was taken within 30 days of hire date was not filed in the employees personnel file for 11 of 43 (25.5%) files reviewed in our sample, even though the employee had attended the training, signed the appropriate document, and submitted the document to Human Resources. Human Resources is showing an inaccurate last completion date for supplemental discrimination and sexual harassment training. HR did not have the accurate date of the last training attended for 13 of the 19 files reviewed (68%). Human Resources management should implement and document a process for conducting periodic management or supervisory reviews of training documentation to ensure they are filed in the employee's personnel file. In order to ensure employees attend supplemental training on time, a management or supervisory review of the data being entered in the training log should be put into place and documented.

**Current Status and Updated Management Response: Incomplete/Ongoing**

Human Resources has two procedures to address tracking mandated training: Tracking Sexual Harassment/Discrimination Training and Tracking New Employee Trainings. Both procedures were updated by the Training Coordinator, and subsequently reviewed and approved by both the HR Project Manager and Assistant Director. Target Implementation Date is March 2015.

**4. 2014-304, Division of Workers' Compensation Field Operations, April 2014****High-Level Audit Objective(s)**

Determine whether Field Operation's Tier Three audits (peer reviews) are conducted according to the established auditing instructions across all regions and whether management is addressing issues identified during the Tier Three audits.

Determine whether official action forms 31, 33, and 57 were processed in accordance with established procedures.

Determine whether confidential information is physically secured and protected from unauthorized access.

**Observations/Findings and Recommendations**

- 4.1 Inconsistencies were identified in the way exceptions were noted on regional audit worksheets. Exceptions for attributes were identified on testing worksheets that were not recorded in the memos. At times, exceptions were removed from the audit worksheets after the rebuttal process. Other times, the exceptions remained on the audit worksheets even though the rebuttal worksheets stated that the exceptions had been removed. DWC Field Operations should establish and document audit instructions for each official action audited. Instructions should include a documented quality assurance review process so that results from regional audit worksheets reconcile to results reported in the memorandum.

**Current Status and Updated Management Response: Substantially Implemented**

To improve the accuracy of audit results and reports, we have developed a new template audit worksheet and new Audit Instructions. The new audit worksheet includes formulas that automatically calculate the accuracy rate for each employee evaluated. It also takes into account the employee's field office and region, which eliminates the need to calculate findings from multiple spreadsheets and decreases errors in transferring results into the audit report. The new Audit Instructions include a quality review of all final reports by another auditor. The new

spreadsheet has already been used in recent audits and the new Audit Instructions will be used during our next audit. Target Implementation Date is 12/31/14.

4.2 In general, staff followed steps documented in procedures for processing official action forms; however, some instances of deviations from procedures were identified. These issues are primarily due to lack of supervisory review of processed official actions. There was little evidence of supervisory review and approval of determinations made by Claims Service Officers when processing these particular official action requests. As a result, official actions were processed incorrectly by staff leading to the following: beneficiaries received more and less income or death benefits than they should have; the reduction in the amount of benefits being paid by the carrier was improperly calculated; and MMI dates were extended based on inaccurate calculations.

Management should conduct and document reviews of samples of processed form filings for completeness, accuracy, adherence to procedure, and proper documentation.

Management should discuss with DWC executive management their options for addressing the inaccurate benefit payments identified during the audit and what they will do with inaccurate benefit payments discovered during future peer reviews.

Management should update the procedure for processing form 33s and include a section for performing supervisory reviews of processed form 33s.

**Current Status and Updated Management Response: Incomplete/Ongoing**

We have completed drafts of both the 31 and 35 procedures, each of which requires a Team Lead review of all determinations prior to issuance of a determination letter. We are still working on the revision to the 33 procedure. We are currently evaluating alternative methods for conducting management reviews of processed forms considering our recent implementation of paperless processing. Target Implementation Date is 12/31/14.

**5. 2013-304, Historically Underutilized Business (HUB) Program, October 2013**

**High-Level Audit Objective(s)**

Determine if the TDI HUB program is in compliance with statutory requirements and rules established by the Office of the Comptroller of Public Accounts (Comptroller) to implement Historically Underutilized Business (HUB) program requirements and report complete and accurate data to the Comptroller.

Determine if Procurement and General Services is in compliance with requirements related to the Purchasing from People with Disabilities (State Use) program.

**Observations/Findings and Recommendations**

- 5.1 While performing testing of files, Internal Audit discovered there was a lack of consistency in the filing documentation for HUB contracts and purchases. Currently there are no well defined criteria for what documentation should be maintained for each procurement file. Also, there is inconsistent evidence of supervisory approval of contracts and purchase orders, as well as documented management quality assurance review of the procurement process. Management should implement additional policies and procedures to ensure HUB contract and purchase order files are properly documented with appropriate approvals and reviews by management, and that State Use program requirements are followed. These should include:
- The development of a checklist, which can be used to assure those documents and processes identified in the policies and procedures have been completed.
  - The implementation of a methodology for conducting and documenting the management review of

procurement documentation by supervisory staff. This should include ensuring staff members have documented their work in enough detail to allow an independent party to review the work and see that a process was followed.

**Current Status and Updated Management Response: Fully Implemented**

PCA Management has made changes to the TDI Operations Manual, effective January 2014, to clarify where approval information is maintained electronically as shown in this excerpt from the manual. PCA management has also developed a checklist that goes into each completed Purchase Order file as shown in the attached. In files selected for review, the Lead Purchaser reviews the file and signs off on the review checklist. The Lead Purchaser selects files for review based on multiple factors such as experience level of the purchaser, past purchaser performance, complexity and value of the PO, and on a random basis. When errors are found the Lead Purchaser returns the file to the applicable purchaser for correction and may conduct additional training as needed to ensure the purchaser understands what is required. In addition, Purchasing has initiated a work product review process.

- 5.2 TDI does not comply with monthly internal HUB usage report requirements. Specifically, TDI does not maintain accurate monthly HUB usage reports. Purchasing policies and procedures do not address reporting requirements, frequency, and management review processes. Management does not currently have documented procedures and processes for reconciling monthly TDI HUB expenditures to expenditures reported to the Comptroller on a semi-annual or annual basis. HUB management does not review monthly reports for accuracy and completeness.

Management should implement and document a monthly process related to HUB usage reports as required by the Texas Administrative Code and the Government Code. Processes should define reporting requirements, frequency, and reconciliation procedures between monthly reports and reports to the Comptroller.

Management should also maintain and review documentation necessary to support HUB expenditure amounts and other supplemental information it reports in its semi-annual and annual HUB reports.

**Current Status and Updated Management Response: Fully Implemented**

Purchasing and TDI's Financial Services staff jointly developed a new reporting capability to produce reports on demand that accurately reflect actual HUB expenditures made via treasury funds. This report supports monthly internal report requirements, quarterly reports as required by new Riders 17 and 18 of the General Appropriations Act, and to assist in validating final semi-annual and annual HUB reports produced by the Comptroller (CPA). This new Expenditure Report includes USAS Process payment dates, not just PO process dates. Therefore, the data is most current in CAPPs.

Reporting data for Expenditure and Supplemental Reports, was moved over to Statewide Reports by CPA for the use of all CAPPs agencies. During the transition, the report was revised and approved through the CAPPs governance process. HUB Reports are maintained on the Admin Ops N drive for current and previous years reports.

- 5.3 Auditors noted errors in data fields for expenditures made to TDI HUB vendors while reviewing Fiscal Year 2012 and Fiscal Year 2013 data included on TDI internal reports and Annual and Semi Annual reports from the Comptroller's Office. On the Comptroller reports there was missing vendor information. TDI internal reports contained duplicate information and vendor data coded incorrectly. Management should implement additional procedures to ensure HUB data reported by the Comptroller's Office is accurate and complete. These should include:
- Regular reconciliation of data reported to the Comptroller's Office.
  - The implementation of a methodology for conducting and documenting management review of data reported by the Comptroller's Office.

- The implementation of a methodology to report to the Comptroller’s Office those expenses made with HUB vendors when procurement cards are used.

**Current Status and Updated Management Response: Fully Implemented**

Purchasing now has the ability to identify and report HUB expenditures made via TDI procurement card accounts. Such expenditures are now included in TDI’s supplemental reports submitted to CPA on a semi-annual and annual basis. The procedure for reporting these expenditures from the CITI procurement card system is shown in a separate attached file titled “CITI HUB Data Reporting.” Purchasing initiated use of this reporting capability for the FY14 semi-annual HUB report.

As shown in the answer to item number 2, new internal reporting capabilities provide a methodology to reconcile final CPA HUB reports on a semi-annual and annual basis. Purchasing management uses this data to review initial CPA HUB reports for validation. In addition, purchasing management submits supplemental data for credit card and sub-contract expenditures to CPA. Attached below is the electronic version of this new procedure as previously detailed in our answer to item number 2.

Finally, based on initial results from the SAO HUB audit, TDI will no longer include in HUB expenses in our supplemental report from TDI’s Special Deputy Receiver program since these are not considered by SAO to be TDI expenses. This was implemented effective with TDI’s final FY 14 supplemental report data submitted on time to CPA on September 15, 2014. Purchasing now has the ability to identify and report HUB vendor usage via the procurement card.

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



Internal Audit Fiscal Year 2014 Annual Report  
Texas Department of Insurance  
Internal Audit Division



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

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N/A



SECTION IIIA:  
INTERNAL AUDIT PLAN FOR  
FISCAL YEAR 2014



Internal Audit Fiscal Year 2014 Annual Report  
Texas Department of Insurance  
Internal Audit Division



# 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

	<u>Page</u>
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

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1 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:

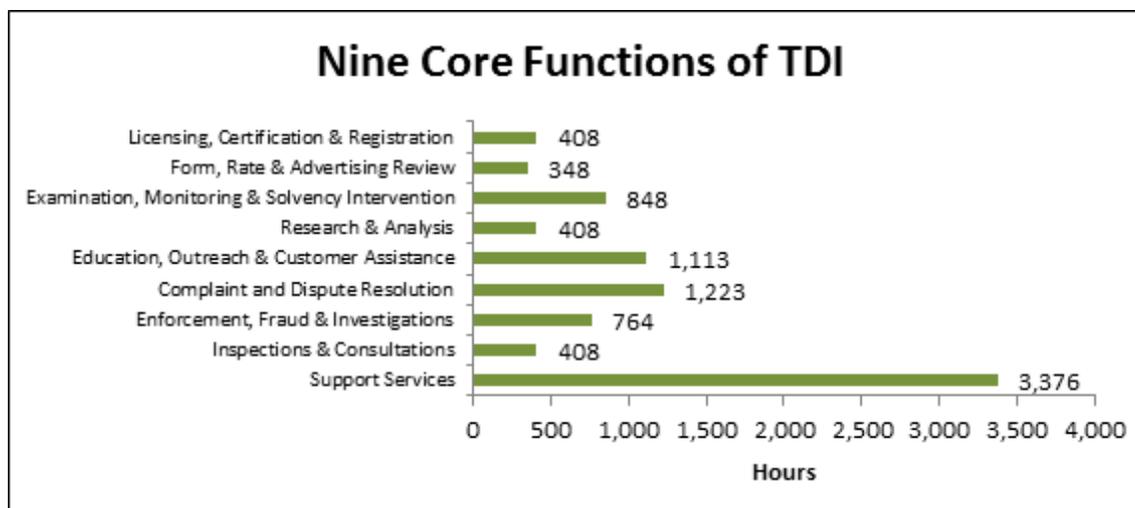
- Activities identified from questionnaires or interviews
- Business plans including Divisions' Enterprise Risk Management assessments

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:

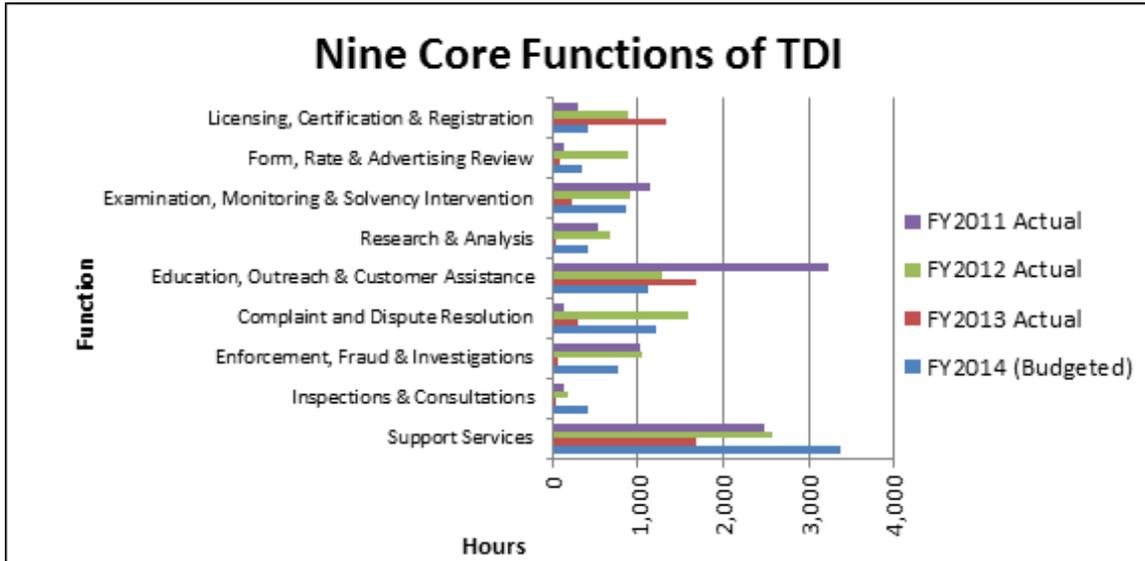
- Current utilization of the application
- Criticality of the application
- Business value of the application
- Interfacing with other applications
- Technological complexity of the application
- Number and level of users of the application
- Prior audits
- Vendor Support
- Auditor judgment

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.

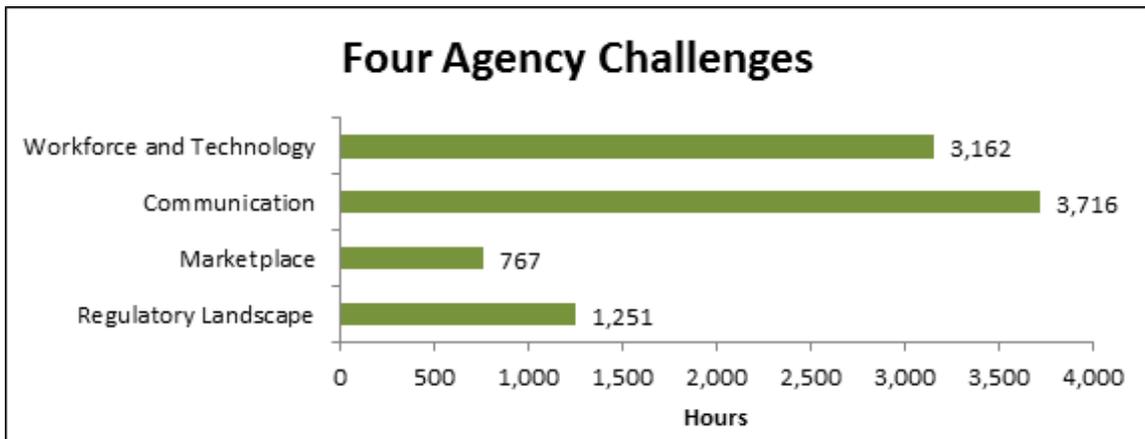
The graph below shows the number of audit hours within each of the nine core functions that comprise TDI's regulatory and administrative responsibilities. We allocated the 8,896 hours (8,116 hours for new projects, 780 hours for carry-over projects) that are dedicated to audit or consulting projects 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

PROJECT NUMBER	PROJECT DESCRIPTION	Division / Section (A)	BUDGETED FY 2014 HOURS
<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>			<b>780</b>
<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>			<b>2,300</b>
<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>			<b>3,656</b>
<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
			<hr/>
<b>Subtotal Advisory / Liaison Projects</b>			<b>1,660</b>
			<hr/>
Subtotal - Audits, Investigations and Advisory Projects			<b>8,896</b>
			<hr/>

**Administrative & Required Internal Audit Activities**

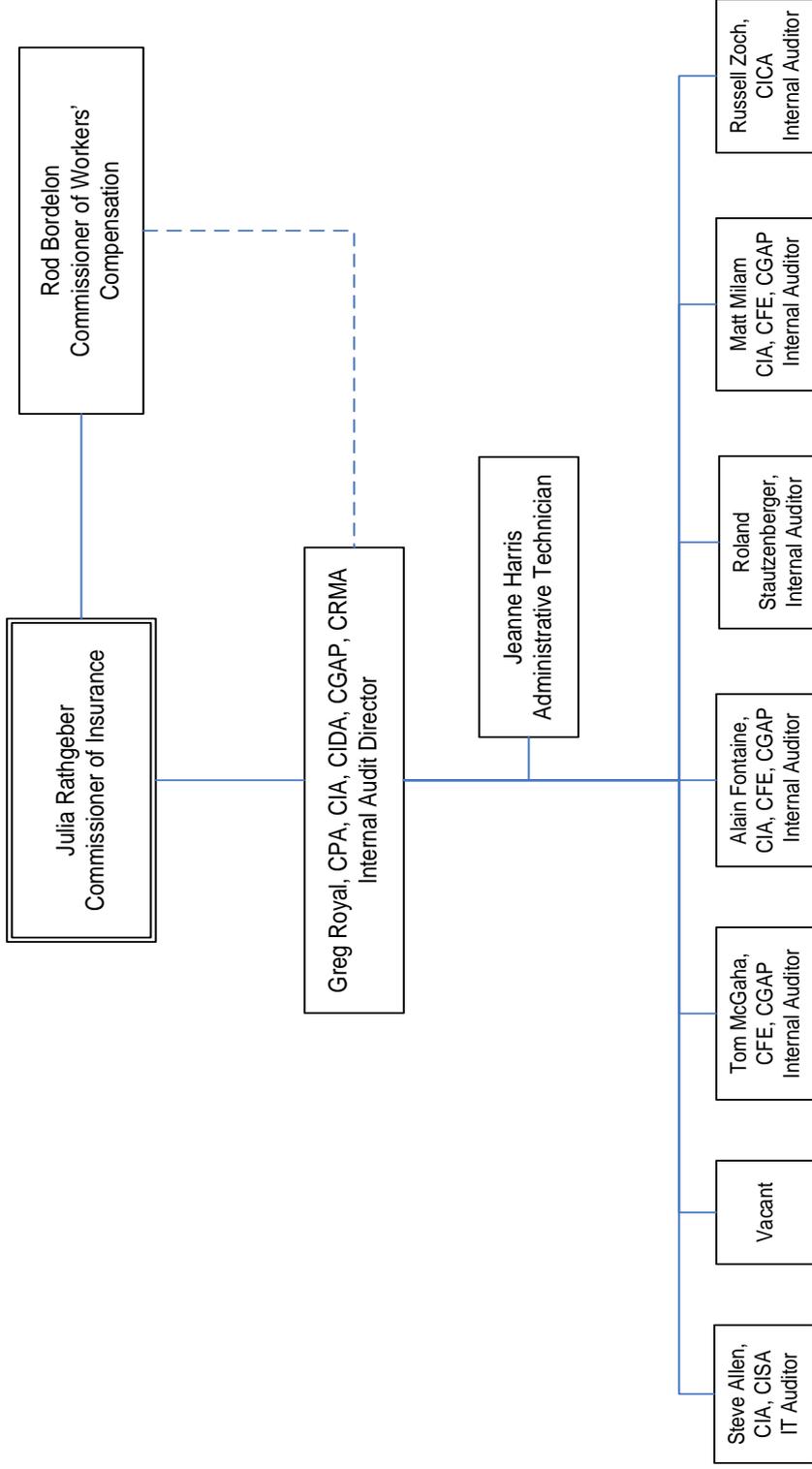
2014-400	General Administration (Note B)	N/A	2,200
2014-000	Leave (Note C)	N/A	1,820
Pending	External Peer Review - Part of SAIAF team	N/A	160
Pending	Internal Self Assessment	N/A	150
Pending	Risk Assessment for FY 2015	N/A	250
Pending	TeamMate buildout and staff training	N/A	460
2014-401	Staff Training	N/A	320
2014-403	Internal Audit Annual Report of FY 2013 to the Governor, LBB, Sunset, and SAO	N/A	100
<b>Subtotal - Administrative &amp; Other Internal Audit Projects</b>			<b>5,460</b>
			<hr/>
<b>Total Available Hours (Note D)</b>			<b>14,356</b>
			<hr/>

**Notes:**

- A** 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 IIIB:  
DEVIATIONS FROM  
FISCAL YEAR 2014 AUDIT PLAN



Internal Audit Fiscal Year 2014 Annual Report  
Texas Department of Insurance  
Internal Audit Division



## SECTION IIIB: DEVIATIONS FROM FISCAL YEAR 2014 AUDIT PLAN

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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 five projects during fiscal year (FY) 2014 that were in the approved FY 2014 Audit Plan. These projects include:

- Follow-up on Gartner Report and Prior Internal Audit Recommendations in ITS
- Management Control Audit
- ITS Governance (Consulting)
- Ethics Follow-up (Consulting)
- Office of the Medical Advisor (Consulting)

Elements of these projects are in the FY 2015 Audit Plan.

As of October 2014, all other planned activities approved in the FY 2014 Audit Plan were either completed as an assurance or advisory activity, or are in process. Current status of carry-over projects from the FY 2014 Audit Plan:

- SIRCON Complaints and Enforcement Modules – completed during October 2014.
- State Fire Marshal's Office – completed during September 2014.
- Risk Assessment for FY 2015 – completed during September 2014.
- Access and Security of Mobile Devices – currently in reporting stage.

In addition, Internal Audit completed five formal investigations that were not included in the approved FY 2014 Audit Plan.



SECTION IV:  
COMPLETED CONSULTING ENGAGEMENTS  
AND NON-AUDIT SERVICES



Internal Audit Fiscal Year 2014 Annual Report  
Texas Department of Insurance  
Internal Audit Division



## SECTION IV: COMPLETED CONSULTING ENGAGEMENTS & 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
2013-614	Business Continuity	<ul style="list-style-type: none"> <li>– Reviewed overall adequacy and completeness of TDI's business continuity plan.</li> <li>– Identified areas in need of attention.</li> <li>– Reviewed division-level business continuity plans for completeness, realistic and pertinent assumptions, and contingencies in the event that certain assumptions do not occur.</li> </ul>	<ul style="list-style-type: none"> <li>– Performed agreed upon procedure as requested.</li> <li>– Provided observations and eight suggestions for improvement in an internal report to agency management.</li> </ul>
2013-616	Performance Measures	<ul style="list-style-type: none"> <li>– Reviewed improvements in the self-audit template developed and updated by the Financial Services Division, which is used by program areas to document assurance of their reported performance measures.</li> <li>– Reviewed policies and procedures for the new performance measure reporting system developed by Financial Services.</li> </ul>	<ul style="list-style-type: none"> <li>– Performed agreed upon procedure as requested.</li> <li>– Provided observations and three suggestions for improvement in an internal report to agency management.</li> </ul>
2013-617	Chief Clerk's Office	<ul style="list-style-type: none"> <li>– Reviewed SIRCON and other data control activities that help ensure accuracy and correctness.</li> <li>– Identified possible reporting capabilities to assist with monitoring and self-auditing.</li> </ul>	<ul style="list-style-type: none"> <li>– Performed agreed upon procedure as requested.</li> <li>– Provided observations and one suggestion for improvement in an internal report to agency management.</li> </ul>
2014-301	Seized/Forfeited Property Audit FY 2013	<ul style="list-style-type: none"> <li>– Determined whether TDI's law enforcement divisions seized/forfeited any property during FY 2013. Neither TDI's Fraud Unit nor the State Fire Marshal's Office reported any seized/forfeited property in FY 2013.</li> <li>– A report on a prescribed form was issued to the Office of the Attorney General in September 2013.</li> </ul>	Review required by statute (Code of Criminal Procedures, Art. 59.06).
2014-305	Time Accounting	Determined whether agency personnel are accounting for the minimum required number of hours for salaried state employees.	Performed agreed upon procedure as requested and provided data to management. Agency personnel generally appeared to be working their required hours.
2014-405	External Peer Reviews: ERS and the Texas Comptroller's Office	The objective of the quality assurance review was to evaluate the Internal Audit Division's compliance with auditing standards and the Texas Internal Auditing Act for both agencies.	Satisfied the requirements of The Institute of Internal Auditors International Professional Practices Framework, U.S. Government Accountability Office Government Auditing Standards, and the Texas Internal Audit Act.
2014-406	Mid-Year Follow-Up of Prior Audit Recommendations	Followed up on all outstanding prior internal audit recommendations.	Satisfied Texas Internal Audit Act requirements.

Project	Engagement	High-Level Consulting Engagement Objective	Impact
2014-407	FY 2015 Risk Assessment	Assessed various risks throughout TDI in order to assist in the formation of the FY 2015 Internal Audit Plan.	Basis for forming the Internal Audit FY 2015 Annual Audit Plan.
2014-601	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.
2014-602	ITS Governance	Engagement put on hold based on management discussion and subsequent agreement.	N/A
2014-602	Office of Strategy Management	OSM coordinates agency planning and helps prioritize ITS projects and use of resources. Attended workgroup meetings to stay abreast of agency-wide related issues and provided 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.
2014-603	Enterprise Strategy Sessions – Balanced Scorecards	Participated in the Enterprise Strategy Sessions as well as the individual Balanced Scorecard implementation workgroups.	Allows auditor input on risks and controls and provides a better understanding on agency strategies.
2014-604	Executive Steering Committee	The Steering Committee drives projects for the limited resources of the ITS division and is the forum for discussion of other agency wide projects. 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.
2014-606	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.	IA acts as TDI’s liaison with the SAO, coordinating agency responses when appropriate.
Various	Investigations	Investigated five potential fraud, waste and abuse allegations within TDI.	Assists with detection and prevention of internal fraud, waste and abuse.
Various	SAO Audits of TDI	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.

# SECTION V: EXTERNAL QUALITY ASSURANCE REVIEW



Internal Audit Fiscal Year 2014 Annual Report  
Texas Department of Insurance  
Internal Audit Division



## 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



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



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



SECTION VI:  
INTERNAL AUDIT PLAN  
FOR FISCAL YEAR 2015



Internal Audit Fiscal Year 2014 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](http://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](http://www.tdi.texas.gov/reports/report5.html).

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

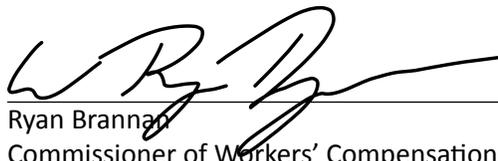
**PLAN APPROVED**



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

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## TABLE OF CONTENTS

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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

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## OVERVIEW OF TDI INTERNAL AUDIT FISCAL YEAR 2015 ANNUAL AUDIT PLAN

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### 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.<sup>1</sup>

### RISK ASSESSMENT

Internal Audit developed the Audit Plan by first conducting a comprehensive risk assessment of agency program activities. We then selected projects for FY 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

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<sup>1</sup> 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**

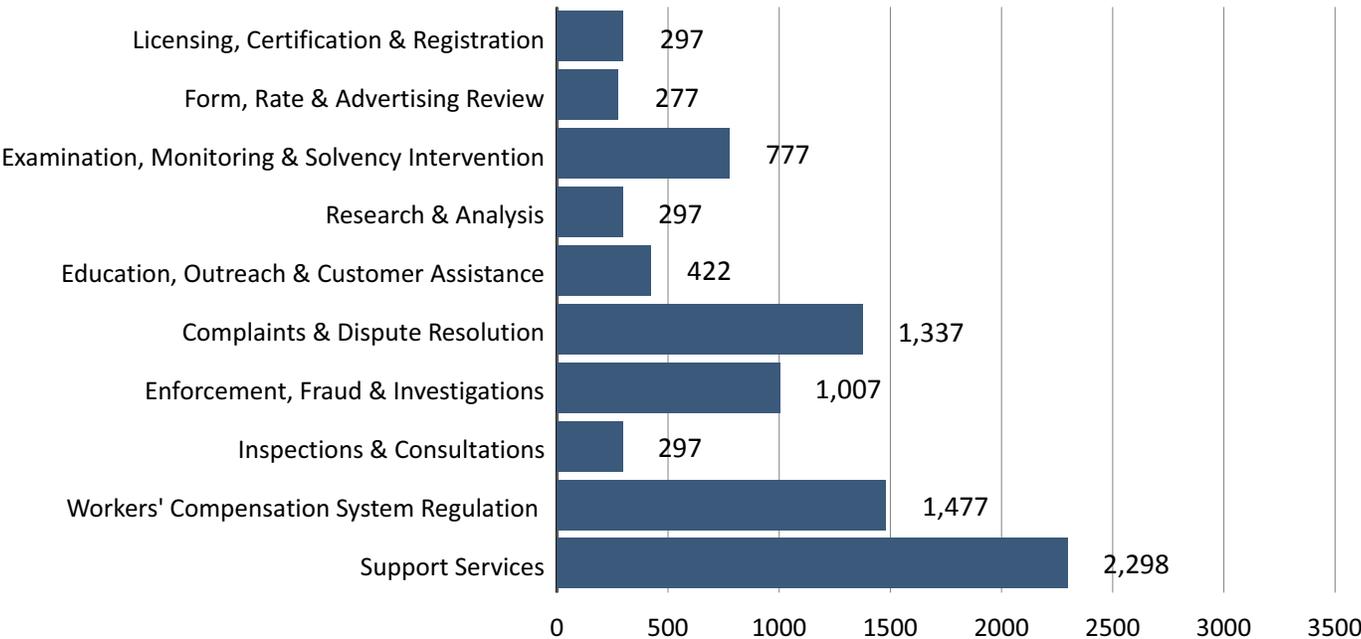
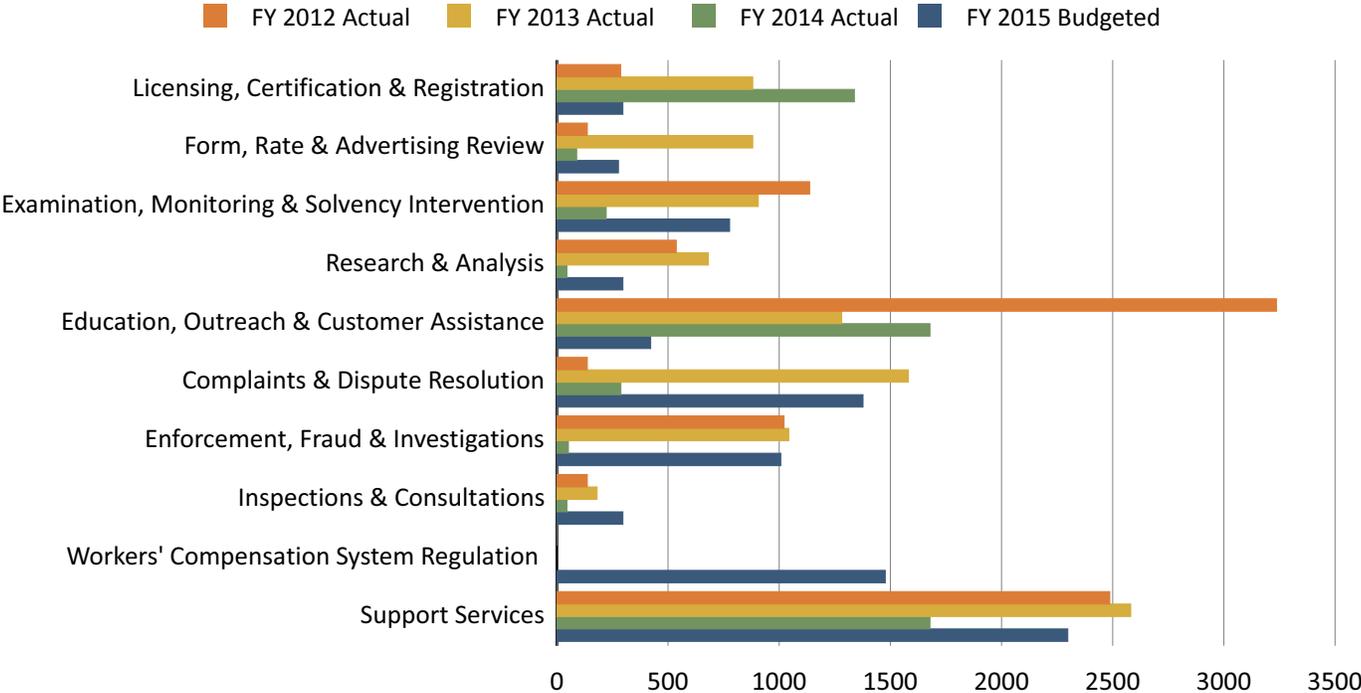


Figure 2 below compares Internal Audit’s actual coverage for FY 2012, FY 2013, FY 2014, and budgeted coverage for FY 2015. The latest Strategic Plan has Workers’ Compensation as a separate category for the first time.

**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](mailto:greg.royal@tdi.texas.gov).

## SCHEDULE 1 – FY 2015 INTERNAL AUDIT PLAN PROJECTS\*

Project #	Project Description	Area	FY 2015 Hours
<b>Projects Started and Carried Forward From FY 2014</b>			
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
<b>Subtotal Carry Forward Projects</b>			<b>770</b>
<b>Information Technology Services Projects</b>			
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
<b>Subtotal Information Technology Audits</b>			<b>875</b>
<b>Financial/Performance Assurance Activities</b>			
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
<b>Subtotal Financial/Performance Audits</b>			<b>5,010</b>
<b>Special Initiatives</b>			
Various	Hours Reserved for Special Assigned Audits, Investigations, or Management Requests	N/A	400
<b>Special Initiatives Subtotal</b>			<b>400</b>
<b>Consulting/Advisory Activities</b>			
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
<b>Subtotal Advisory/Liaison Projects</b>			<b>1,471</b>
<b>Subtotal - Audits, Investigations and Advisory Projects</b>			<b>8,526</b>

<b>Administrative and Required Internal Audit Activities</b>			
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
<b>Subtotal - Administrative &amp; Other Internal Audit Projects</b>			<b>5,530</b>
<b>Total Available Hours^</b>			<b>14,056</b>

\* 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

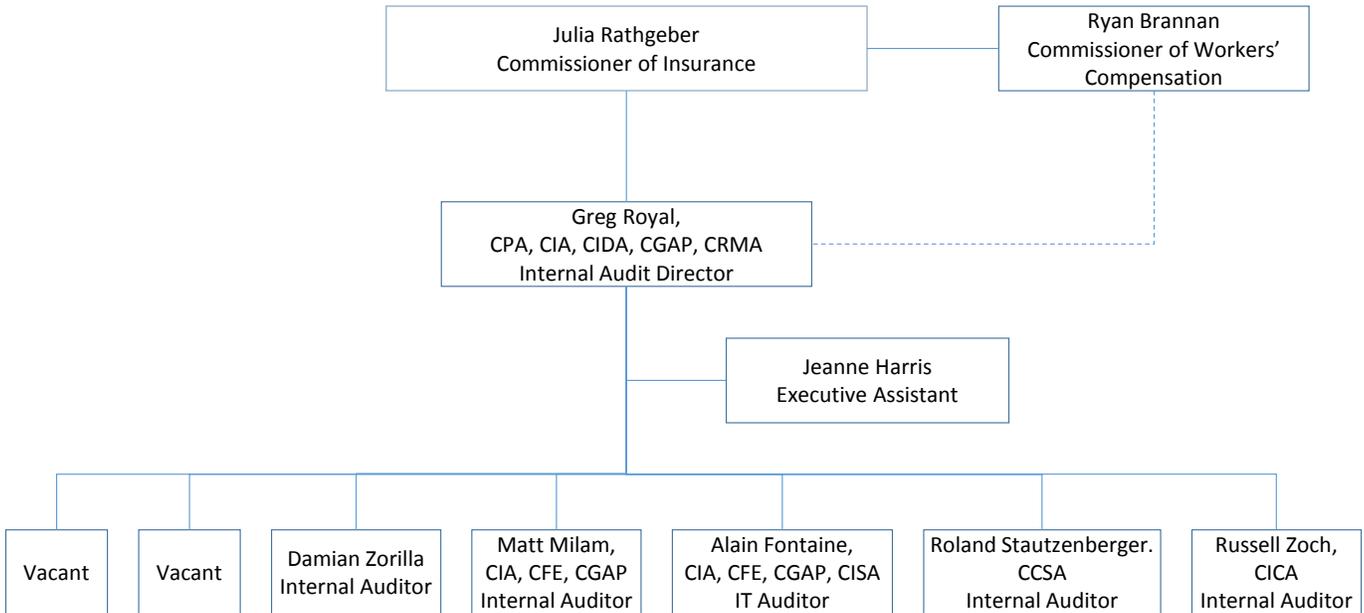
^ Available Hours:

(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

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





Internal Audit Fiscal Year 2015 Annual Audit Plan

Texas Department of Insurance  
Internal Audit Division

# SECTION VII: EXTERNAL AUDIT SERVICES



Internal Audit Fiscal Year 2014 Annual Report  
Texas Department of Insurance  
Internal Audit Division



## SECTION VII: EXTERNAL AUDIT SERVICES

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The following represents TDI external audit services procured or in progress in fiscal year 2014.

Auditee	Auditor
Special Deputy Receivers	Weaver and Tidwell LLP



# SECTION VIII: REPORTING SUSPECTED FRAUD AND ABUSE



Internal Audit Fiscal Year 2014 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 Fiscal Year 2014 Annual Report  
Texas Department of Insurance  
Internal Audit Division

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