Plan Approved

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Overview of TDI Internal Audit Fiscal Year 2017 Annual Audit Plan

Introduction
This document provides the Fiscal Year (FY) 2017 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 2017, 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 2017.

Audit Charter and Definition
The Audit Charter approved by the commissioners in November 2015 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. The mission of Internal Audit is to enhance and protect organizational value by providing risk based and objective assurance advice and insight. The definition states:

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.

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 2017 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
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.

**Allocation of Hours**

Previous audit plans distributed project hours into 10 core functions that comprised TDI’s regulatory and administrative responsibilities which followed the agency Strategic Plans. The chart in Figure 2 depicting historical data reflects this allocation. The agency changed the *Fiscal Year 2017-2021 Agency Strategic Plan* and project hours are allocated to the current goals and action plans, shown in Figure 1. We allocated 9,246 hours to audit and consulting projects, including 5,826 hours for new projects and 3,420 hours for carry-over projects. All IT, legal, and administrative operations projects are included in agency-wide operations. In addition, there are 400 hours for special requests and 250 hours for miscellaneous advisory projects, which are dispersed evenly to each core function area. The last chart in Figure 3, allocates hours to the four agency balanced scorecard perspectives.

Figure 1 below allocates hours among the agency goals and action plans as depicted in the *Fiscal Year 2017-2021 Agency Strategic Plan*.

**Figure 1: FY 2017 Agency Goals and Action Plan Coverage Hours**

<table>
<thead>
<tr>
<th>Insurance Operations</th>
<th>Workers’ Comp System Regulation</th>
<th>Agency-wide Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,763</td>
<td>3,793</td>
<td>1,689</td>
</tr>
</tbody>
</table>
Figure 2 below compares Internal Audit’s actual coverage for FY 2014, FY 2015, FY 2016, and budgeted coverage for FY 2017. These 10 core functions were from prior strategic plans. The 2015-2019 Agency Strategic Plan had Workers’ Compensation as a separate category for the first time.

![Figure 2: Historical Core TDI Function Coverage Hours](image)

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

![Figure 3: TDI Balanced Scorecard Perspectives Coverage Hours](image)

**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, 9,426 hours are available for audits, consulting activities, investigations, and special requests.

FY 2017 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 2016 were not completed by the end of the fiscal year. The following projects were started in FY 2016 and have hours allocated in FY 2017 to complete the project: Business Continuity, Regulatory Policy, Designated Doctor Exam Scheduling, Workplace Safety, Agent & Adjuster Licensing, and Risk Assessment for FY 2017. Other projects that were not started in FY 2016, yet are still included in the FY 2017 Audit Plan in some format include Rehabilitation, Liquidation & Oversight, 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 and the division obtained the highest rating. Internal Audit staff participated in a quality assurance review of another state agency in FY 2016 and plans to participate in FY 2017.

Information Technology Services Project

The project listed will assess IT general and application controls and is specific to the agency environment and specific applications. Although most audit projects have an IT component included in the audit scope, this project 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 2017 are as follows:

- Complete development and approval of the Fiscal Year 2017 Audit Plan by September 30, 2016.
- Complete the FY 2016 Annual Internal Audit Report by November 1, 2016.
- Complete 80 percent of the scheduled FY 2017 Audit Plan projects.
- Spend at least 60 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 2016 were:

- FY 2016 Audit Plan was approved in September.
- FY 2015 Annual Internal Audit Report was completed in October.
- Seventeen of the 29 projects in the 2016 Audit Plan were completed by the end of FY 2016 (59 percent). There were six on-going projects carried over into the FY 2017 Audit Plan along with two projects carried forward that had not started, two projects combined and carried forward and two projects canceled.
- Internal Audit spent less than 60 percent of total hours available on direct audit or consulting work in FY 2016, as we experienced significant turnover of senior level staff; during the fiscal year four new auditors and a new executive assistant replaced staff leaving or retiring. Due to training new staff, approximately 33 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. The FY 2017 Internal Audit Plan was developed based on the assumption that the division would be fully staffed throughout the year. The FY 2017 budget is included in this plan and is shown in Schedule 3.
Current Internal Audit staff members collectively have over 63 years auditing experience, including over 26 years at TDI. In addition, audit staff possess the following 11 professional certifications and advanced education:
★ Three masters degrees
★ Three Certified Internal Auditors (CIA)
★ Three Certified Government Auditing Professionals (CGAP)
★ One Certified Public Accountant (CPA)
★ One Certification in Risk Management Assurance (CRMA)
★ One Certified Fraud Examiner (CFE)
★ One Certified Investments and Derivatives Auditor (CIDA)
★ One Certified Internal Controls Auditor (CICA)

Current staff are also actively pursuing the following certifications: CPA, CIA, CGAP, and CFE in order to enhance skills.

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 2017 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 2017 Internal Audit Plan Projects

<table>
<thead>
<tr>
<th>Project #</th>
<th>Project Description</th>
<th>Program Area</th>
<th>FY 2017 Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit, Investigation, and Advisory Projects</strong></td>
<td><strong>Projects Started and Carried Forward from FY 2016</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016-302</td>
<td>Regulatory Policy (P&amp;C, LAH)</td>
<td>Reg. Policy</td>
<td>500</td>
</tr>
<tr>
<td>2016-304</td>
<td>Designated Doctor Exam Scheduling</td>
<td>DWC</td>
<td>500</td>
</tr>
<tr>
<td>2016-305</td>
<td>Business Continuity</td>
<td>Admin. Ops</td>
<td>300</td>
</tr>
<tr>
<td>2016-306</td>
<td>Workplace Safety</td>
<td>DWC</td>
<td>500</td>
</tr>
<tr>
<td>2016-407</td>
<td>FY 2017 Risk Assessment</td>
<td>Agency-wide</td>
<td>320</td>
</tr>
<tr>
<td>2017-302</td>
<td>Agent and Adjuster Licensing Office</td>
<td>Financial Reg.</td>
<td>800</td>
</tr>
<tr>
<td><strong>Carry-Forward Project Subtotal</strong></td>
<td></td>
<td></td>
<td>2,920</td>
</tr>
<tr>
<td><strong>Information Technology Services Project</strong></td>
<td><strong>Pending General Controls/Application Controls</strong></td>
<td>Agency-wide</td>
<td>760</td>
</tr>
<tr>
<td><strong>Information Technology Services Project Subtotal</strong></td>
<td></td>
<td></td>
<td>760</td>
</tr>
<tr>
<td><strong>Financial/Performance Assurance Projects</strong></td>
<td><strong>Pending Rehabilitation and Liquidation Oversight Program (FY 2016 Audit Plan)</strong></td>
<td>Financial Reg.</td>
<td>800</td>
</tr>
<tr>
<td><strong>Financial/Performance Assurance Project Subtotal</strong></td>
<td></td>
<td></td>
<td>2,560</td>
</tr>
<tr>
<td><strong>Special Initiatives</strong></td>
<td><strong>Various Reserved for special assigned audits, investigations, or management requests</strong></td>
<td>N/A</td>
<td>400</td>
</tr>
<tr>
<td><strong>Special Initiatives Subtotal</strong></td>
<td></td>
<td></td>
<td>400</td>
</tr>
<tr>
<td><strong>Consulting/Advisory Projects</strong></td>
<td><strong>Pending Agency Strategy - Balanced Scorecard Workgroups</strong></td>
<td>Admin. Ops</td>
<td>100</td>
</tr>
<tr>
<td><strong>Consulting/Advisory Project Subtotal</strong></td>
<td></td>
<td></td>
<td>2,606</td>
</tr>
<tr>
<td><strong>Audit, Investigation, and Advisory Project Subtotal</strong></td>
<td></td>
<td></td>
<td>9,246</td>
</tr>
<tr>
<td><strong>Administrative and Required Internal Audit Projects</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pending Internal Audit General Administration (Auditor staff at 17.5 percent)</strong></td>
<td>N/A</td>
<td></td>
<td>2,604</td>
</tr>
<tr>
<td><strong>Pending Maximum Annual Vacation and Sick Leave Accrual for Each Employee</strong></td>
<td>N/A</td>
<td></td>
<td>1,800</td>
</tr>
<tr>
<td><strong>Pending FY 2018 Risk Assessment</strong></td>
<td>N/A</td>
<td></td>
<td>400</td>
</tr>
<tr>
<td><strong>2017-401 Staff Training</strong></td>
<td>N/A</td>
<td></td>
<td>320</td>
</tr>
<tr>
<td><strong>Pending TeamMate Build-out of Other Modules</strong></td>
<td>N/A</td>
<td></td>
<td>240</td>
</tr>
<tr>
<td><strong>Pending External Peer Review – Part of the State Agency Internal Audit Forum Team</strong></td>
<td>N/A</td>
<td></td>
<td>150</td>
</tr>
<tr>
<td><strong>2017-403 FY 2016 Internal Audit Annual Report</strong></td>
<td>N/A</td>
<td></td>
<td>120</td>
</tr>
<tr>
<td><strong>Administrative and Other Internal Audit Project Subtotal</strong></td>
<td></td>
<td></td>
<td>5,634</td>
</tr>
<tr>
<td><strong>Total Available Hours</strong></td>
<td></td>
<td></td>
<td>14,880</td>
</tr>
</tbody>
</table>

*Available Hours: (261 work days) - (13 holidays @ 8 hours/day) = 1,984 hours/year
(1,984 hours x 7 auditors + 1,984 x .5 audit director hours to projects) = 14,880 Total Hours
Schedule 2 – Internal Audit Organization Chart

As of September 2016

Texas Department of Insurance
Insurance Commissioner
David C. Mattax

Division of Workers’ Compensation
Workers’ Compensation Commissioner
W. Ryan Brannan

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

Executive Assistant
Carrie Strmiska

Internal Auditor
Kaelie Gonzales

Internal Auditor
Crystal Crosson

Internal Auditor
Nathan Beavers

Internal Auditor
Matt Milam, CIA, CGAP, CFE

Internal Auditor
Laura Cavazos

Internal Auditor
Tammara West, CIA, CGAP

Internal Auditor
Russell Zoch, CICA

Schedule 3 – FY 2017 Annual Operating Budget

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>FY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Longevity (9.0 FTEs)</td>
<td>$636,007.20</td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>$10,016.00</td>
</tr>
<tr>
<td><strong>Total Operating Budget</strong></td>
<td><strong>$646,023.20</strong></td>
</tr>
</tbody>
</table>