

# Internal audit annual report

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fiscal year 2020

Texas Department of Insurance  
[www.tdi.texas.gov](http://www.tdi.texas.gov)



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## **Part 1 | Compliance with Texas Government Code, Section 2102.015**

Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web site

To comply with the provisions of Texas Government Code, Section 2102.015, the Texas Department of Insurance Internal Audit will post its approved fiscal year (FY) 2021 Internal Audit Plan and FY 2020 Internal Audit Annual Report online at [www.tdi.texas.gov/reports](http://www.tdi.texas.gov/reports).

No weaknesses or concerns were raised by the audit plan or the annual report.

## **Part 2 | Internal audit plan for fiscal year 2020**

<b>Report Number</b>	<b>Report Date</b>	<b>Report Title</b>	<b>Status</b>
IA20A	September 2020	Company Licensing and Registration process	Completed
IA20B	September 2020	State Fire Marshal's Office inspections and reporting	Completed

We cancelled the Procurement and General Services contract management process assurance project due to changes in priority because of COVID-19. We included a project on the bid review process in the internal audit plan for FY 2021.

We started but have not completed two projects from the Internal audit plan for fiscal year 2020. We included them as carryover projects in the Internal audit plan for fiscal year 2021.

- Enterprise Risk Management – Advisory project.
- Review Agent and Adjuster Licensing and Complaints policies and procedures – We changed the scope of the project to an advisory project on the Complaints division's training and policies and procedures as an advisory project. The AAL and Complaints sections were updating their policies and procedures in FY 2020, and an audit on changing processes would lose its relevance.

### Part 3 | Consulting services and non-audit services completed

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

Project Name	High-Level Objective	Results
Fraud panel investigations	Provided advice to ensure compliance regarding the reporting of suspected fraud, waste, or abuse.	Helped to ensure the investigation of any reported fraud, waste, or abuse that is brought to the attention of the panel.
Seized/forfeited property certification	Ensure TDI reports seized and forfeited property to the Criminal Justice Reporting System.	Worked with TDI Fraud unit and the State Fire Marshal's Office to report seized and forfeited property to the Office of Attorney General.
State Fire Marshal's Office	Provide information related to how states perform Public Protection Classification surveys.	Provided information on how states either perform their own surveys or utilize the Insurance Service Organization.
Division of Worker's Compensation user-developed application review	Identified a population of user-developed applications and provided a list of key controls based on best practices.	Created a list of all user-developed applications for DWC. Made recommendations of controls to key user-developed applications based on best practice.
Follow-up of prior audit recommendations	Followed up on prior internal audit recommendations.	Satisfied Texas Internal Auditing Act requirements.

## Part 4 | External quality assurance review

Texas Department of Insurance Internal Audit Division  
External Quality Assurance Review – December 2018

### Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Department of Insurance Internal Audit Division (the Internal Audit Division) receives a rating of "**Pass/Generally Conforms**" and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

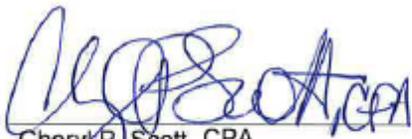
We found that the Internal Audit Division is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

The Internal Audit Division is well managed internally. In addition, the Internal Audit Division has effective relationships with the Commissioners and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.

The Internal Audit Division has reviewed the results of the peer review team's work and has accepted them to be an accurate representation of the Internal Audit Division's operations.

### Acknowledgements

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit staff, the Commissioner of Insurance, Commissioner of Workers' Compensation, and the senior managers who participated in the interview process. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Division and its relationship with management.



Cheryl P. Scott, CPA  
Director of Internal Audit  
Texas Comptroller of Public  
Accounts  
SAIAF Peer Review Team  
Leader

12/21/18  
Date



Henrietta Cameron-Mann, CPA, CISA  
Internal Auditor  
Texas General Land Office  
SAIAF Peer Review Team Member

12/21-18  
Date

# Internal audit plan for fiscal year 2021

## Part 5 | Internal audit plan for fiscal year 2021

### Overview

The Internal audit plan for fiscal year 2021 offers a strategy for the assurance and advisory projects Internal Audit (IA) will conduct to enhance and protect TDI’s mission.

We designed a flexible plan to respond to Commissioner of Insurance, Commissioner of Workers’ Compensation, or executive management requests, and to address any critical risks that occur during the year. With that design in mind, the Internal audit plan for fiscal year 2021 functions as a working document, and we will update it—no less than semi-annually—throughout the year.

We believe this plan provides coverage of key risks given our capabilities and resources.

Version one sets the table for FY 2021. We present nine projects—including carryover projects from fiscal year 2020—that we’ll perform and five “themes” that allow us to continuously assess risk and develop into projects, if needed.

TDI   internal audit	
Arby James Gonzales, CPA, CFE	Director
Isaac Barajas	Assistant Director
Nathan Beavers, CIA, CISA	Internal Auditor
Laura Bryan, FLMI	Internal Auditor
Kristina Cleaver	Internal Auditor
Jessica Hirn	Internal Auditor
Jonathan Gonzalez	Internal Auditor
Daniel Wykes	Internal Auditor

# Internal audit plan for fiscal year 2021

## Mission

IA enhances and protects TDI's mission by providing risk-based and objective assurance, advice, and insight.

The Department of Insurance includes the Division of Worker's Compensation (DWC) and the State Fire Marshal's Office (SFMO). The projects in this plan align with the agency's mission statements.



### **TDI mission**

*To protect insurance consumers by regulating the industry fairly and diligently, promoting a stable and competitive market, and providing information that makes a difference.*

### **DWC mission**

*Regulate Texas workers' compensation efficiently, educate system participants, and achieve a balanced system in which everyone is treated fairly with dignity and respect.*

### **SFMO mission**

*The Texas State Fire Marshal's Office will reduce the loss of life and property through prevention, education, and protection.*

# Internal audit plan for fiscal year 2021

## Projects

We developed projects in this plan by systematically assessing agency risk, including:

- Reviewing TDI functions and processes
- Discussing program risks with commissioners and executive management
- Surveying associate commissioners, directors, and managers
- Considering information from our current Enterprise Risk Management project
- Using our own professional judgment

We weighed available internal audit resources and built in flexibility to respond to special project requests from executive management and to add projects as risks present themselves.



# Internal audit plan for fiscal year 2021

## Projects

Project	Description
Independent Dispute Resolution portal	Senate Bill 1264 (2019 legislative regular session) outlines arbitration and mediation processes for certain billing disputes. TDI developed the Independent Dispute Resolution (IDR) portal to handle the arbitration and mediation process between providers and carriers. We want to ensure that the portal does what it's supposed to do.
Cybersecurity	Our current environment forced us to change the way—and from where—we work, which increases cybersecurity threats. We want to ensure that TDI's cybersecurity protocols are up to task.
Mozart artificial intelligence project	The Property and Casualty division spearheaded an artificial intelligence project through the National Association of Insurance Commissioners, called Mozart, that's designed to accelerate form review. We want to ensure the project does what it's designed to do, and we want to provide assurance early.
Bid evaluation process	We want to ensure that TDI does what it's supposed to do in this critical purchasing process. This project addresses the requirement to consider methods to ensure compliance with contract processes.

# Internal audit plan for fiscal year 2021

## Projects

Project	Description
Investigations at the SFMO	We want to ensure that the State Fire Marshal's Office conducts investigations according to statute, rules, and its policies & procedures.
Penalty fees at DWC	We want to assist the Compliance and Investigations division at the Division of Workers' Compensation in reviewing how it ensures consistent and supportable penalty fees.
Medical Quality Review <sup>a</sup>	We are currently reviewing DWC's Medical Quality Review to ensure it meets its objectives.
Customer Operations training and procedures <sup>a</sup>	We are currently assisting Customer Operations - Complaints Processing Office by compiling best practice information related to training and procedures.
Enterprise risk management <sup>a</sup>	We are currently assisting TDI's Enterprise Risk Management efforts by providing information on program processes and risks based on reviews and facilitated discussions.

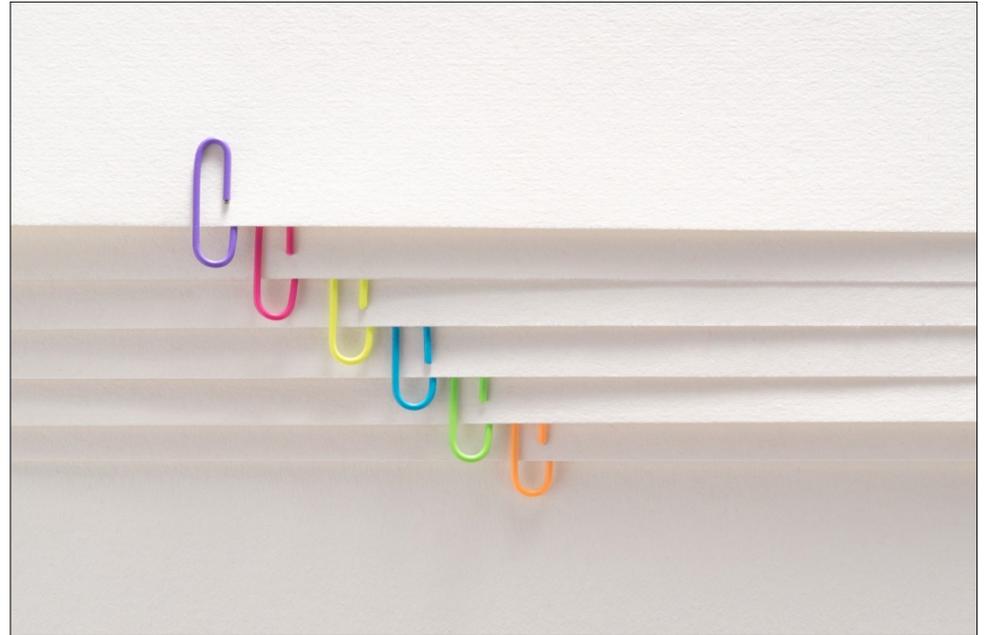
<sup>a</sup> Carryover from FY2020 plan, in progress.

# Internal audit plan for fiscal year 2021

## Themes

We developed themes based on our risk assessment process and through our Enterprise Risk Management project. We noticed certain risks that either crossed divisional lines or affected multiple divisions.

We focused on the following five themes, and overall, these themes can affect agency culture. To uphold IA's strategic goal for a more dynamic audit plan, we will monitor TDI processes and develop projects as needed in these themes throughout the fiscal year.



# Internal audit plan for fiscal year 2021

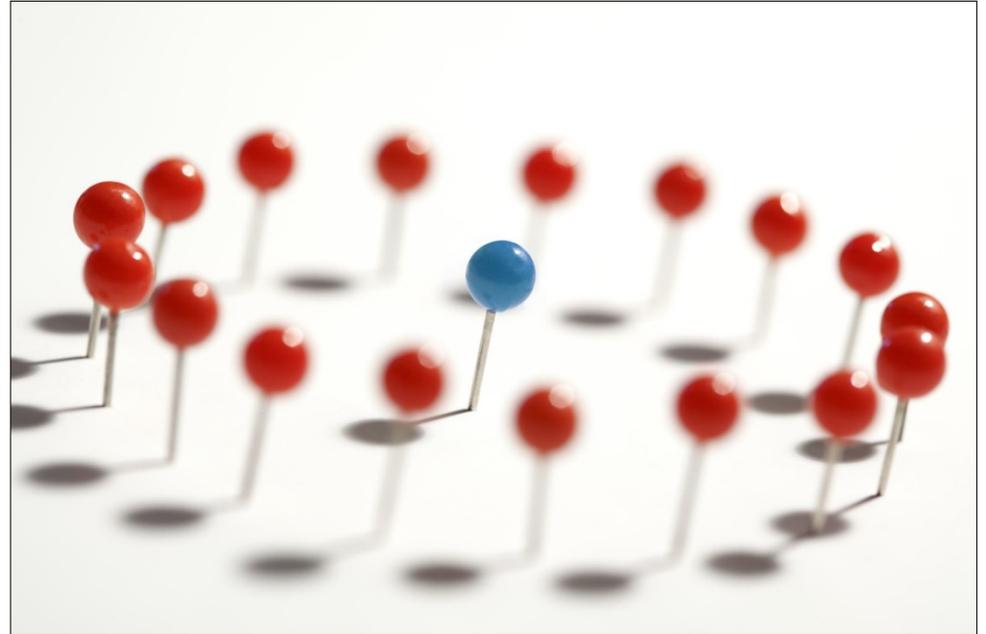
## Themes

	Themes	Description
CULTURE	People	TDI understands that people are its most valuable assets. This theme focuses on how TDI recruits, retains, and prepares its people.
	Decisions	TDI makes decisions that can significantly impact people, companies, and industries. This theme focuses on how TDI makes those decisions, whether they're consistent, whether they're supportable, and how it communicates information up and down the chain.
	Reporting	TDI deals in data. This theme focuses on how TDI turns that data into important information for the public, companies, and decision makers.
	Systems	TDI emphasizes modernization. This theme focuses on how TDI's information systems function the way they're supposed to.
	Change	TDI adapted to changes brought on by COVID-19. This theme focuses on ensuring TDI produces quality work during our changing environment.

# Internal audit plan for fiscal year 2021

## Other activities

General administrative activities help the division operate as efficiently and effectively as possible and enable us to meet our goals and objectives. Audit standards require us to develop and maintain our professional competence by completing continuing education. The standards also require us to maintain a quality assurance improvement program to ensure that we comply with professional standards when conducting assurance and advisory services.



# Internal audit plan for fiscal year 2021

## Other activities

### Activities

Continuing Education

Continuous risk assessment

Quality assurance improvement program

Follow-up on internal audit recommendations

TeamMate+ Migration

Seized/forfeited property certification

Fiscal 2020 internal audit annual report

# Internal audit plan for fiscal year 2021

## Acceptable level of risk

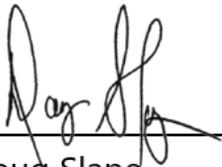
IA does not—nor do we intend to—cover all TDI functions or risks in its internal audit plan. Our goal is to use current resources to cover key processes and risk areas we identified during our risk assessment and to develop and improve division processes.

Because we cannot address every key process and risk area, the commissioners and executive management should understand the limits of the audit coverage and risks they assume in the areas we do not audit. We believe this plan provides coverage of key risks given our capabilities and resources.

## Professional Standards

IA adheres to the U.S. Government Accountability Office's *Government Auditing Standards* and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, which includes the *Code of Ethics*. In addition, we conform to the Texas Internal Auditing Act requirements and comply with TDI policies and procedures.

## Approval



10/20/2020

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Doug Slape  
Chief Deputy Commissioner



10/19/2020

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Arby James Gonzales, CPA, CFE  
Internal Audit Director

## Part 6 | External audit services

The following represents TDI external audit services procured or in progress in FY 2019.

Auditee	Auditor
Office of Injured Employee Counsel	McConnell & Jones LLP

## Part 7 | 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 7.09, Fraud Reporting, General Appropriations Act (86th Legislature)	The agency has provided a link to the State Auditor's Office (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 Investigations and Audit Support of any suspected fraud, waste, or abuse that is brought to the attention of the panel. Any incident considered significant is immediately reported to the SAO.





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