

Internal Audit Annual Report for Fiscal Year 2019



Texas Department of Insurance
www.tdi.texas.gov

First printing, October 2019

Publication ID: Internal Audit Annual Report 20-02

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

Contents

Section I: 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	5
Section II: FY 2019 Internal Audit Plan	6
Section III: Consulting services and non-audit services completed	7
Section IV: External quality assurance review	8
Section V: FY 2020 Internal Audit Plan	9
Section VI: External Audit Services	13
Section VII: Reporting suspected fraud and abuse	14

Section I: 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 Division will post its approved fiscal year (FY) 2020 Internal Audit Plan and FY 2019 Internal Audit Annual Report online at www.tdi.texas.gov/reports.

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

Section II: FY 2019 Internal Audit Plan

Report number	Report date	Report title	Status
2018-101	November 2018	General and application controls	Completed
2018-102	November 2018	User-developed applications (insurance)	Completed
2018-303	December 2018	Records management and support	Completed
2019-302	November 2018	Seized/forfeiture property audit	Completed
2019-303	May 2019	Financial Analysis Section	Completed
2019-304	Not Applicable	Windstorm	In Progress

The Internal Audit Division did not start three projects during FY 2019 that were in the approved FY 2019 Internal Audit Plan. These projects include:

- Division-level risk assessment – project canceled because of agency reorganization
- Sunset assistance – project canceled because of change in timing of workers’ compensation Sunset review
- Purchasing and contracts – project canceled until process improvements in progress are completed.

As of October 2019, all planned activities approved in the FY 2019 Internal Audit Plan were either completed as an assurance or advisory activity or are in progress. Current status of carry-over projects from the FY 2019 Internal Audit Plan:

- Risk assessment for FY 2020 – completed September 2019
- User-developed applications (workers’ compensation) – not started

The Internal Audit Division will focus on agency contracts as part of the annual risk assessment process and will conduct audits of select contracts to ensure compliance with contract processes. In addition, the division will identify and document controls in place for monitoring agency contracts during the individual audit engagements.

Section III: 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 number	Project name	High-level objective	Observations / results and recommendations
N/A	ITS customer meetings	Participated in an advisory capacity at monthly meetings with staff that use applications	Information obtained can be used for audit planning and the annual risk assessment
N/A	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 brought to the panel's attention
2019-403	Mid-year follow-up of prior audit recommendations	Followed up on all outstanding internal audit recommendations	Satisfied Texas Internal Auditing Act requirements
2019-601	Internet postings	Provided advice on the agency's internet posting and reporting processes	Identified opportunities to improve training and access management processes and procedures
2019-603	Ethics review	<ul style="list-style-type: none"> • Worked with students from the McCombs School of Business to assess TDI's ethical climate by conducting interviews and an agency ethics survey • Compared survey results to 2015 and 2017 results • Evaluated and rated the effectiveness of the agency's current ethics compliance using a maturity model 	Obtained agency awareness of ethics and provided ideas to advance to the next level of the maturity model.
2019-605	Open records office processes and data analysis	<ul style="list-style-type: none"> • Analyzed and categorized open record requests • Determined what information could be made available other than through the open records process • Reviewed work processes to determine FTE needs 	<ul style="list-style-type: none"> • Identified characteristics of complex requests • Identified information requested and estimated the percentage that could be made available online • Identified FTEs needed based on staffing and workload trends

Section IV: 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.

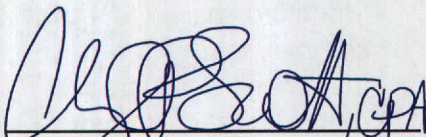
We found that the Internal Audit Division is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques;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

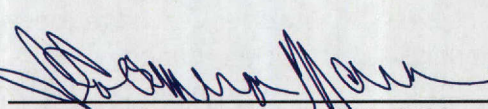
Acknowledgements

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

Section V: FY 2020 Internal Audit Plan

Overview

The Internal Audit Plan for Fiscal Year 2020 offers a strategy of the assurance and advisory projects to enhance and protect the Texas Department of Insurance's mission. It also includes the administrative activities the Internal Audit Division needs to perform TDI's internal audit function.

The Internal Audit Plan focuses on critical risk areas within TDI. It is designed to be flexible to respond throughout the year to requests from the Commissioner of Insurance, the Commissioner of Workers' Compensation, and executive management.

Professional auditing standards and the Texas Internal Auditing Act (Texas Government Code Section 2102.008) requires the Internal Audit Division to prepare an Internal Audit Plan each year.

Mission and strategic goals

The Internal Audit Division enhances and protects TDI's mission by providing risk-based and objective assurance, advice, and insight.

The Department of Insurance includes the Division of Workers' Compensation (DWC) and the State Fire Marshal's Office. The proposed projects outlined in this report align with the agency's mission statements:

Department of Insurance 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.

Division of Workers' Compensation mission

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

State Fire Marshal's Office mission

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

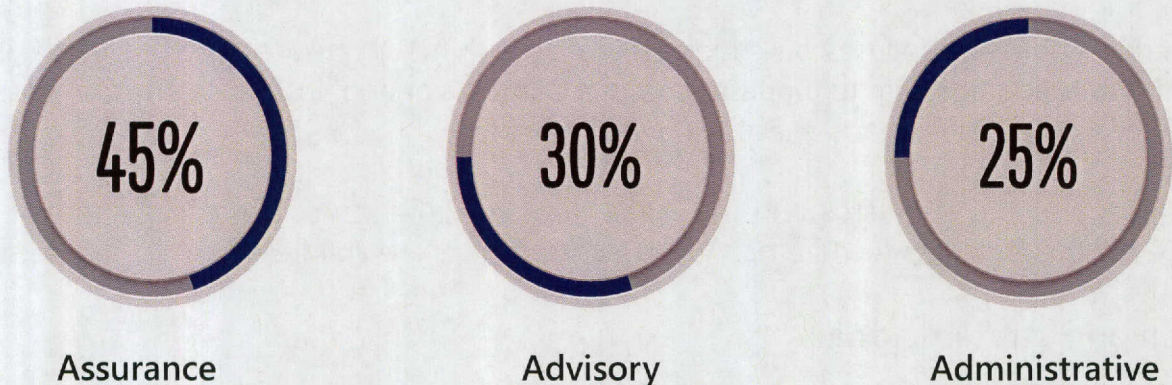
Developing the Internal Audit Plan

The Internal Audit Division developed the Internal Audit Plan after systematically assessing agency risk. We reviewed TDI's functions and processes, considered management input, and used our own professional judgment to identify key processes and risk areas to focus our proposed projects. We weighed available internal audit resources and built in flexibility to respond to special project requests from the commissioners and executive management and to add projects as additional resources become available.

Internal Audit projects

The following chart shows our preliminary estimate for allocation of Internal Audit resources by project type. We will develop more concrete information on project budgets and duration once we start and plan each project.

Estimated Internal Audit Division resource allocation by project type



Assurance services

We typically perform assurance service projects by conducting performance audits. These audits provide analysis, findings, and conclusions to help the commissioners and executive management improve program performance, reduce costs, facilitate decision making, and contribute to public accountability. Performance audit objectives can include assessments of program effectiveness, economy, and efficiency; internal controls; and compliance. Another objective might be to gauge the current status or condition of a program.

Projects

- Company Licensing and Registration processes
- Division of Workers' Compensation medical quality review process
- State Fire Marshal's Office inspections and reporting processes
- Procurement and General Services contract management processes¹
- Other assurance services as assigned or requested

¹ Addresses the SB65 (86th Legislative Session) requirement to "consider methods for ensuring compliance with contract processes and controls for monitoring agency contracts"

Advisory services

We generally provide advisory services at the specific request of a project client. Clients can include the commissioners, executive management, or a program area. We work with the client to agree on the objective, nature, and scope of the project. Conducting advisory services adds value to TDI beyond assurance services and helps improve the agency's governance, risk management, and control processes. To maintain objectivity and independence, we do not maintain, participate, or assume management responsibilities while conducting advisory services.

Projects

- Review Agent and Adjuster Licensing and Complaints policies and procedures
- Inventory user-developed DWC applications²
- Assist Enterprise Risk Management—Understanding business processes, risks, and controls
- Other advisory services as assigned or requested

Required administrative duties and 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.

Duty or activity

- Internal Audit staff required continuing education
- Quality Assurance Improvement Program
- Seized/forfeited property certification³
- Internal Audit administration
- Fiscal 2019 Internal Audit Annual Report
- Fiscal 2020 Internal Audit Plan
- Internal Audit Division risk assessment redesign
- Risk assessment to develop fiscal 2021 Annual Audit Plan

Acceptable level of risk

The Internal Audit Division 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 appropriately and best allocates Internal Audit Division resources to TDI's key processes and risks at this time.

² Carry-over from the Fiscal 2019 Internal Audit Plan

³ Code of Criminal Procedures Art 59.06

Professional standards

The Internal Audit Division 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.

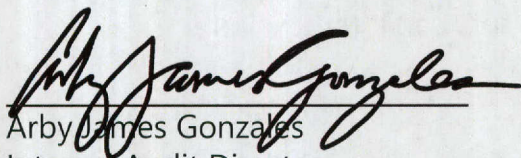
Plan approved



Kent C. Sullivan
Commissioner of Insurance

October 1, 2019

Date



Arby James Gonzales
Internal Audit Director

October 1, 2019

Date

Risk assessment process

The Internal Audit Division's annual risk assessment process consists of several activities. These activities include reviewing the agency's strategic goals and objectives, and identifying the activities and processes performed in each division. This information allowed us to develop an audit universe, which are the parts of the agency that could be the subject of a project. From there, weighted risk factors were developed to score each auditable unit. The auditable units were then ranked based on their overall risk scores. Information obtained through surveys and interviews with all levels of the agency—from staff up to the Commissioners—was considered and included in the risk assessment. The proposed assurance and advisory projects were then presented to the Commissioner of Insurance for his approval.

While we attempted to maximize resources to provide reasonable coverage of the business activities that require the most attention, the audit plan does not provide coverage for all areas of the agency. This plan allocates audit resources to the agency's priorities and risks that existed when the audit plan was developed.

Section VI: 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

Section VII: 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 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 remarkable is immediately reported to the SAO.



Internal Audit Annual Report for Fiscal Year 2020
Texas Department of Insurance
Internal Audit Division

Internal Audit Annual Report 20-02