

# INTERNAL AUDIT 2016 ANNUAL REPORT



TEXAS DEPARTMENT OF INSURANCE  
INTERNAL AUDIT DIVISION

OCTOBER 2016

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 (105-7A)

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

October 31, 2016

Honorable Greg Abbott, Governor  
Members of the Legislative Budget Board  
Members of the Sunset Advisory Commission  
Ms. Lisa Collier, First Assistant State Auditor  
Mr. David C. Mattax, Commissioner of Insurance  
Mr. W. Ryan Brannan, Commissioner of Workers' Compensation

Attached is the Fiscal Year 2016 Annual Report for the Texas Department of Insurance (TDI) Internal Audit Division. This report fulfills the requirements set forth in the Texas Internal Auditing Act (the Act). The Act mandates the State Auditor's Office prescribes the content, as such this report has been prepared in accordance with the State Auditor's content requirements.

The work performed by the Internal Audit Division is a key element in assuring accountability, economy, efficiency, and effectiveness within TDI. The division is committed to being a trusted resource by providing quality internal auditing services and aggressively pursuing projects in fiscal year 2017 to continue improving controls, reducing risk, and enhancing TDI operations.

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

Sincerely,

A handwritten signature in black ink that reads "Greg Royal".

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

## TABLE OF CONTENTS

---

SECTION	DESCRIPTION
I.	COMPLIANCE WITH HOUSE BILL 16
II.	INTERNAL AUDIT PLAN FOR FISCAL YEAR 2016
	A. INTERNAL AUDIT FISCAL YEAR 2016 ANNUAL AUDIT PLAN
	B. DEVIATIONS FROM INTERNAL AUDIT FISCAL YEAR 2016 ANNUAL AUDIT PLAN
III.	COMPLETED CONSULTING ENGAGEMENTS AND NON-AUDIT SERVICES
IV.	EXTERNAL QUALITY ASSURANCE REVIEW
V.	INTERNAL AUDIT FISCAL YEAR 2017 ANNUAL AUDIT PLAN
VI.	EXTERNAL AUDIT SERVICES
VII.	REPORTING SUSPECTED FRAUD AND ABUSE



SECTION I:  
COMPLIANCE WITH HOUSE BILL 16



Internal Audit 2016 Annual Report  
Texas Department of Insurance  
Internal Audit Division

## SECTION I: COMPLIANCE WITH HOUSE BILL 16

To comply with the provisions of House Bill 16, the Texas Department of Insurance Internal Audit Division will post its approved fiscal year (FY) 2017 Internal Audit Plan and FY 2016 Internal Audit Annual Report online at [www.tdi.texas.gov/reports](http://www.tdi.texas.gov/reports).

This section provides all audit reports issued in FY 2016 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 2016

#### 1. 2015-302 - Purchasing and Contract Administration, September 2015

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

Determine whether TDI planned, procured, and established selected contracts in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts (Comptroller's Office) requirements, and TDI policies and procedures to help ensure that the State's interests were protected.

Determine whether TDI managed and monitored selected contracts to help ensure that contractors performed according to the terms of the contracts and that contractor billings were valid and supported, in accordance with applicable statutes, rules, Comptroller's Office requirements, and TDI policies and procedures.

##### Observations/Findings and Recommendations

- 1.1 Purchasing and Contract Administration should establish and document a method to track vendor performance in-house to ensure program contract administrators or monitors are tracking vendor performance as established in the monitoring schedule for each contract.

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

Internal procedures were established in April 2016. A new Agency Contract Administrator is now responsible for application of these procedures on an ongoing basis.

- 1.2 Purchasing and Contract Administration should strengthen monitoring processes to ensure that the agency and the contractor comply with contract requirements (i.e. renewals and payment of services), and terms and conditions until CAPPs can become fully functional.

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

Procedures for manual monitoring were drafted in April 2016 but not fully implemented due to an unexpected vacancy in the Agency Contract Administrator position. That position is now filled and full implementation of manual monitoring methods will be completed by the new due date shown below. In addition, the new contract module in CAPPs was put into production in August 2016 by the Comptroller's Office, and we are currently uploading TDI contract data into this new module. We will determine if this new capability can meet the requirements to more closely monitor overall contract expenditures. Target implementation date is January 31, 2017.

- 1.3 Purchasing and Contract Administration should update and resume its training program for agency staff involved in all of the contracting processes. This training should detail processes such as:
- ★ Monitoring and enforcing a contract
  - ★ Approving payments consistent with the contract terms
  - ★ Ensuring contractors comply with requirements or goals contained in the contract
  - ★ Completing risk analysis evaluations
  - ★ Documenting vendor performance

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

Initial quarterly meetings were held April 27th and 28th, 2016. The next scheduled meeting will take place in November. Due to the vacancy in the Agency Contract Administrator position, no meeting took place in Q4 FY 2016.

**2. 2016-102 - Gartner Reports Follow-up, January 2016**

---

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

Determine the status of the Gartner recommendations presented during the IT Security Program evaluation.

Determine the status of the Gartner recommendations presented during the IT Governance evaluation.

Due to the confidential nature of the original report, recommendations and management responses are not included in the public document.

The report was finalized during February 2016. Since then, one of the remaining 22 security recommendations has been fully implemented. The majority of the remaining security recommendations are projected to be completed within the next two fiscal years. Similarly, eight of the nine governance recommendations have been fully implemented since the report was issued. Supporting documentation was provided by management and verified by Internal Audit for recommendations shown as fully implemented.

**3. 2016-306 - Title Examinations, January 2016**

---

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

Determine whether Title Examinations monitors title agents for compliance and identifies title agents with potential solvency problems in accordance with state laws and agency rules, policies and procedures.

Determine whether Title Examinations has adequate controls in place over the collection, calculation and reporting of operations information reported to the Texas Title Insurance Guaranty Association (TTIGA).

**Observations/Findings and Recommendations**

- 3.1 Title Examinations should update their policies and procedures to reflect current business processes. These processes should include specific steps concerning confidential information encountered before, during and after the performance of a title agent audit. Also, Title Examinations should consult with TDI's Accounting section to obtain clarification on shredding costs reimbursement and discuss the most appropriate and reasonable method for addressing shredding costs. Additionally, procedures pertaining to fully documenting audit steps and uploading relevant workpapers into TeamMate should be incorporated into the audit program and audit guidelines.

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

Revisions to the Title Exams TeamMate procedures are being worked on, which will involve moving away from the hard copy audit worksheets currently used by the field auditors. Shifting to a paperless audit would eliminate the need for buying any additional shredders and developing shredder policies. The current thought is that all of the audit procedures currently being documented on the paper worksheets can be added as procedure steps in TeamMate. The auditors would sign-off on each step in TeamMate, instead of checking off each item on each paper worksheet. Target implementation date is January 31, 2017.

- 3.2 Title Examinations should provide TeamMate training to title auditors in order to fully utilize the software as an audit project management and documentation tool. Also, periodic "refresher" training should be provided to address weak areas in workpaper documentation, workpaper placement and audit step documentation.

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

Initial training about the new TeamMate process was done on August 10th. Auditors were shown how global tick-marks will be used, so that all audits will utilize uniform tick-marks. An auditor has volunteered to do the initial pilot projects using the new Title Template, as soon as the procedures and TeamStore have been updated. After the new process is established in TeamMate, the pilot projects will be used to test the new set-up and associated procedure changes. After the pilot projects are completed, the new TeamMate process will be explained to the other field auditors and will be utilized by all staff. Target implementation date is January 31, 2017.

- 3.3 Title Examinations should obtain fraud awareness training for title auditors in order for them to better identify signs of possible fraud and escalate the matter as appropriate.

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

Fraud Training sessions were completed on August 9th and August 11th. A Senior Auditor facilitated a training session on August 9th where she discussed several audits where fraud was detected and how the problems were discovered. A Sergeant from TDI's Fraud Unit also facilitated a training session on August 9th and she discussed several warning signs of fraud that auditors should be aware of when conducting their compliance audits. Another individual hosted a training session on August 11th that focused on Cyber Crime in the Title Industry. The training included a video about how strong passwords can help cut down on email account hacking and how the links in suspicious emails should never be clicked. Fraud Training by the Fraud Unit and outside speakers will continue to be included in all of the annual training sessions. Also, any auditors discovering fraud in their audits will be asked to do a presentation on what they found and how the fraud was detected.

**4. 2015-305 - Enforcement, April 2016****High-Level Audit Objective(s)**

Determine if the Enforcement Section's internal case processing standard was measured consistently and if resources were sufficiently available to process cases within the prescribed timeframe.

Determine if communication and coordination of information and documentation between the Enforcement Section, Workers' Compensation Litigation Office, and the Office of the Medical Advisor (OMA) promoted efficient processing of medical standard of care cases.

**Observations/Findings and Recommendations****4.1 Internal Case Processing Consistency.**

- ★ Develop and implement policies and procedures to involve more than one staff member in the case creation and auditing processes in order to promote segregation of duties and succession planning.
- ★ Update policies and procedures to specify the various types of documents that should be marked as privileged or confidential.
- ★ Ensure current policies and procedures relating to case closure approvals are followed. Additionally, the Enforcement Section should implement policies and procedures specifying when orders and warning letters are to be submitted to the respondent.

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

- ★ Additional staff members are trained in the case creation process. In efforts to address the audit process, the case creation audit is formally conducted at the Director level and is signified by the activity entry of 'Director File Review'. These changes became effective February 10 and the Policy and Procedures Manual has been updated.
- ★ In coordination with Enforcement's open records liaison attorney, a comprehensive list was established to identify those documents that should be stamped accordingly. All staff members have been provided



a 'confidential' stamp to identify documents listed in our Policy and Procedures Manual. Staff were notified April 15th of these new procedures. Training and education were also provided.

- ★ The Enforcement Audit team met with the administrative staff on February 25, to emphasize the importance of following our established closing guidelines. The Policy and Procedures Manual was amended to include specific language. Staff were reminded of these procedures in the April 7th staff meeting.

#### **DWC**

- ★ DWC Enforcement agrees with the recommendation and has developed and implemented procedures to provide a Director level audit review of each case before assignment. The referrals to enforcement are opened and a file created by staff members. The Director reviews each enforcement file created and performs an audit of the file prior to assignment and amends as needed.
- ★ Pursuant to the Texas Labor Code both claim file and investigative files are confidential. The entire enforcement file may contain claim information and is also considered and asserted as an investigative file. Enforcement files are identified and marked as confidential due to §402.083, §402.085, and §402.092.
- ★ The Enforcement Audit team met with the administrative staff on February 25, to emphasize the importance of following established closing guidelines. The Policy and Procedures Manual was amended to include specific language. Additionally, DWC Enforcement procedures have been approved by DWC Commissioner which reinforce the goal of the file closing dates matching the order dates or other documentation which resolves the case (i.e. warning letter or education letter).

#### **4.2 Coordination and Communication with the Office of the Medical Advisor (OMA).**

- ★ Establish policy to require staff to maintain sufficient documentation of the program area's proposed enforcement penalty action and any deviations thereof, if applicable.
- ★ Update its policies and procedures to require staff to mail out the OMA consent orders only after the Medical Advisor has given approval of the proposed order. Enforcement Section staff should document all reviews and sign-offs of orders within the case file. Furthermore, the Enforcement Section should also update the Division of Workers' Compensation Enforcement Flowchart in order to reflect current workflow processes.

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

##### **TDI**

- ★ The Policy and Procedures Manual was updated to ensure staff documents significant changes from the program area's initial recommendations. Staff were informed of these changes in the April 7 staff meeting.

##### **DWC**

- ★ DWC Enforcement agrees and staff is cognizant of tracking and maintaining documentation of overall status of cases including status of penalties in Sircon. DWC Commissioner approved new procedures for DWC Enforcement. Instead of creating a separate and unique process for review and sign off of actions from the Medical Advisor the procedure for all referrals to enforcement and accompanying recommended penalties has been streamlined and is more in line with TDI model of enforcement actions. Enforcement will review all referrals for legal sufficiency before opening an enforcement action. The Deputy Commissioner for Enforcement must review recommended penalties, confer with program area, modify when appropriate, and finally approve penalties on enforcement cases. In the event of a dispute which cannot be resolved (between program and deputy commissioner for enforcement) as to penalty the issue may be referred to a commissioner designee.
- ★ The Policy and Procedures Manual was updated to reflect the DWC procedures approved and implemented.

#### 4.3 System Access and Functionality.

- ★ Utilize the history log during case closure audits to identify unauthorized or inadvertent data entries. During the closure audit, special attention should be paid to entries which are critical when reporting on overall performance. The Enforcement Section's policies and procedures should be updated accordingly.
- ★ Ensure the Enforcement Case Module Coordinator has access to the agency's internal notification of staffing changes, "scoops." These email notifications should be used to revoke system access when a user's employment or role status within the agency has changed.
- ★ Present system access issues during an upcoming State Insurance Regulators Consortium (SIRC) Enforcement Case Committee meeting to determine if representatives and stakeholders from other states have similar concerns.

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

##### **TDI**

- ★ The Policy and Procedure Manual has been updated to include the additional closure audit step of reviewing the history. Staff conducting the closure audit have been informed of the changes.
- ★ The Enforcement Case module coordinator was granted access February 13 to the agency's internal staff changes, "scoops" and has been using them to verify access changes.
- ★ On February 23, 2016, the Enforcement Case Module Coordinator presented the system access issues to the Enforcement Case Module SIRC Committee, but the committee did not have access concerns and would not support it as an enhancement.

##### **DWC**

- ★ Agree that the Policy and Procedures Manual has been updated to include the additional closure audit step of reviewing history. Staff conducting closure audits have been informed of the changes. DWC enforcement has been working through overall Sircon access issues and is working towards a more integrated approach in order to fully implement new DWC Enforcement procedures. Due to the previous structure, DWC Enforcement did not have full access to DWC information relevant to DWC enforcement actions. That issue has been addressed and corrected. All DWC Enforcement access issues appear to be resolved. However, it points to a need for a DWC Enforcement to have a voice or representation in all Sircon issues including the Sircon committee. Similar to the need to have DWC Enforcement representation in the document management project which has been addressed and resolved.
- ★ DWC Enforcement agrees that the issue was presented. DWC Enforcement is working towards creating in-house representation of DWC Enforcement for Sircon issues.

#### 4.4 Tracking Case Referrals.

- ★ Use the system of record to document all instances in which the vendor removes a problem report from an existing case. Corresponding procedures should be incorporated within policies and procedures.
- ★ Provided education to internal staff on the importance of sending internal referrals to SMO as soon as an alleged violation is discovered.

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

##### **TDI**

- ★ The Policy and Procedures Manual was updated to include procedures for documenting instances in which Vertafore removes a problem report. All manual changes were conveyed at the April 7th staff meeting.

##### **DWC**

- ★ DWC Enforcement is currently monitoring the timeframes through an access program and some are monitored manually. Additionally, goal for DWC Enforcement is to have in house representation for Sircon issues in order to be fully informed of all reporting issues.

## 5. 2016-101, Asset Management, August 2016

---

### High-Level Audit Objective(s)

Determine if controls were in place and working as intended for tracking technology assets from receipt to disposal.

Verify managements' assertions to Internal Audit's recommendations from a prior Asset Management audit conducted.

- 5.1 Information Technology Services (ITS) should create and implement a policy for Help Desk staff that provides guidance on office moves so that the proper room number will be captured and updated in SDE in all relevant places.

ITS should periodically run a report to identify all instances where the room numbers in SDE do not reconcile in MW Client and MW CI Assembly. Further research should identify the correct room number location of an asset and be changed accordingly so that SDE can be accurate and consistent.

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

The procedure has been updated and staff have been trained on the procedure. The report has been created/run to identify all instances where room numbers in SDE do not reconcile in MW Client and MW CI Assembly.

- 5.2 Communication needs to improve between Asset Management staff in Procurement and General Services (PGS) and Information Technology Services (ITS). Both groups need to discuss and conclude on the proper time frame for ITS to report to PGS that a property item is missing. PGS should send ITS a copy of the Missing Property Report(s) used for the Annual Inventory to review prior to submitting the final report to the Comptroller.

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

ITS and PGS are working together/meeting to implement a plan. Target implementation date is December 31, 2016.

- 5.3 Due to the sensitive information that can be maintained on agency issued tablets, TDI management should re-consider the practice of not assigning an asset tag number to tablets even though they fall below the dollar threshold required by the Comptroller for asset tagging. If these items are tagged, they will need to be tracked in SDE.

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

All incoming tablets, per the new process have started getting tagged and ITS is working on a project to back tag all existing tablets. Target implementation date is December 31, 2016.

SECTION IIA:  
INTERNAL AUDIT FISCAL YEAR  
2016 ANNUAL AUDIT PLAN



Internal Audit 2016 Annual Report  
Texas Department of Insurance  
Internal Audit Division

INTERNAL AUDIT  
FISCAL YEAR 2016  
ANNUAL AUDIT PLAN



TEXAS DEPARTMENT OF INSURANCE  
INTERNAL AUDIT DIVISION

SEPTEMBER 2015

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

First printing, September 2015  
Publication ID: IAAP | 0915  
This document is available online at [www.tdi.texas.gov/reports](http://www.tdi.texas.gov/reports)

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

PLAN APPROVED



David C. Mattax  
Commissioner of Insurance

9/30/15

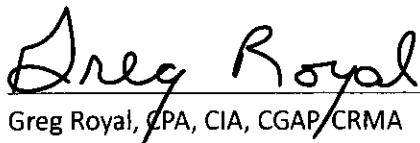
Date



Ryan Bramman  
Commissioner of Workers' Compensation

9/30/15

Date



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

9/30/15

Date

*This page is intentionally blank.*



TABLE OF CONTENTS

---

OVERVIEW OF TDI INTERNAL AUDIT FISCAL YEAR 2016 ANNUAL AUDIT PLAN..... 3

SCHEDULE 1 – FY 2016 INTERNAL AUDIT PLAN PROJECTS..... 9

SCHEDULE 2 – INTERNAL AUDIT ORGANIZATION CHART ..... 11

SCHEDULE 3 – FY 2016 ANNUAL OPERATING BUDGET ..... 12

*This page is intentionally blank.*

## OVERVIEW OF TDI INTERNAL AUDIT FISCAL YEAR 2016 ANNUAL AUDIT PLAN

---

### INTRODUCTION

This document provides the Fiscal Year (FY) 2016 Audit Plan as required by professional auditing standards and the Texas Internal Auditing Act (Texas Government Code, Ch. §2102.008). This plan provides our vision of Internal Audit efforts for FY 2016, allocating resources to the most critical areas within the Texas Department of Insurance (TDI).

Projects were identified for the Audit Plan by using a risk assessment model that considered input from TDI management, commissioners, and the State Auditor's Office. Using that input, staff exercised auditor judgment to prioritize projects for FY 2016.

### AUDIT CHARTER AND DEFINITION

The Audit Charter approved by the commissioners in October 2014 provides authorization to Internal Audit personnel for full, free, and unrestricted access to any of the agency's systems, records (manual or electronic), functions, property, and personnel relevant to the performance of statutory responsibilities and duties assigned by the Commissioner of Insurance and the Commissioner of Workers' Compensation. The charter also defines reporting relationships and the scope of audit work, as well as audit reporting and follow-up responsibilities.

As the internal audit profession has evolved, so has the definition of our work efforts.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.<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 2016 based on relative risk and available hours.

Risk assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events. This process provides a means to organize and integrate professional judgments for project selection and work schedule development. Activities with higher risk were assigned higher audit priorities. Internal Audit used the risk assessment results for recommending projects.

We assessed risk within TDI by sending out agency-wide questionnaires and interviewing selected executive management, as well as other management responsible for championing the agency Balanced Scorecard and Enterprise Risk Management (ERM) programs. Then, staff used the following criteria to determine the relative risk of each program activity and select projects:

- ★ Criticality to agency mission
- ★ Prior audits or studies
- ★ Size or complexity of operations
- ★ Quality of internal controls
- ★ Other high-risk indicators
- ★ Auditor judgment

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

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

---

<sup>1</sup> Institute of Internal Auditors – International Professional Practices Framework, July 2015

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

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

The following criteria were used to rate IT general controls:

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

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

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

**Figure 1: FY 2016 Core TDI Function Coverage Hours**

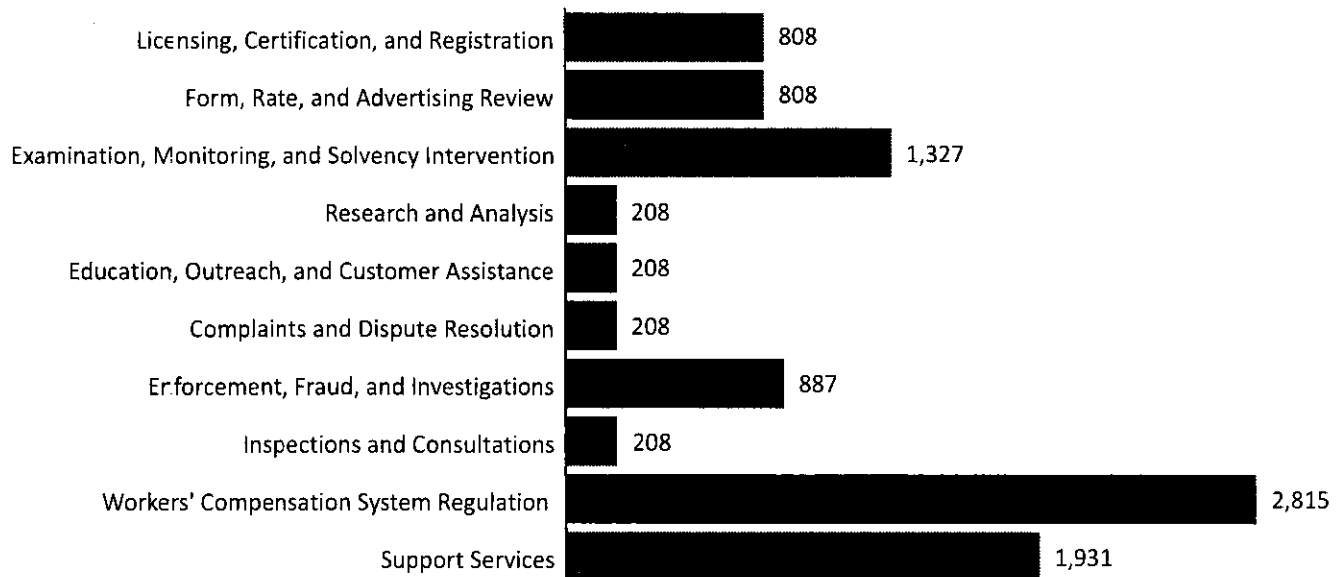


Figure 2 below compares Internal Audit’s actual coverage for FY 2013, FY 2014, FY 2015, and budgeted coverage for FY 2016. The latest Strategic Plan added Workers’ Compensation as a separate category for the first time.

**Figure 2: Historical Core TDI Function Coverage Hours**

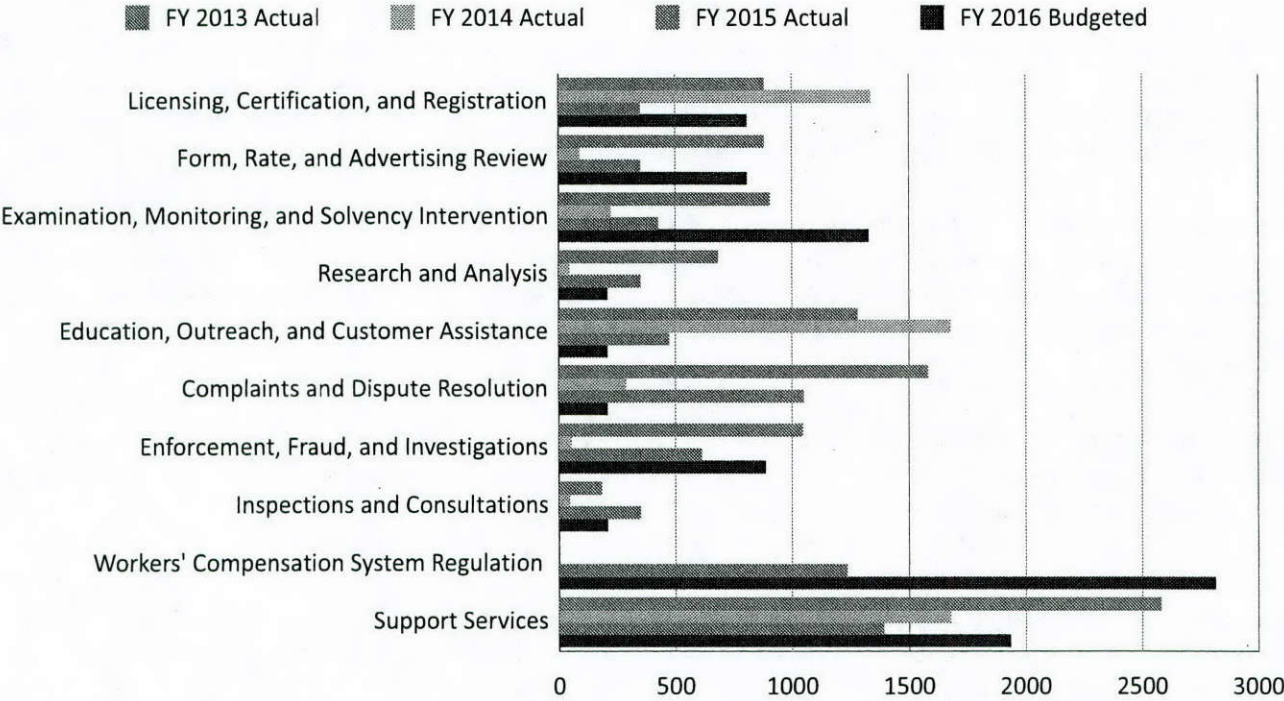
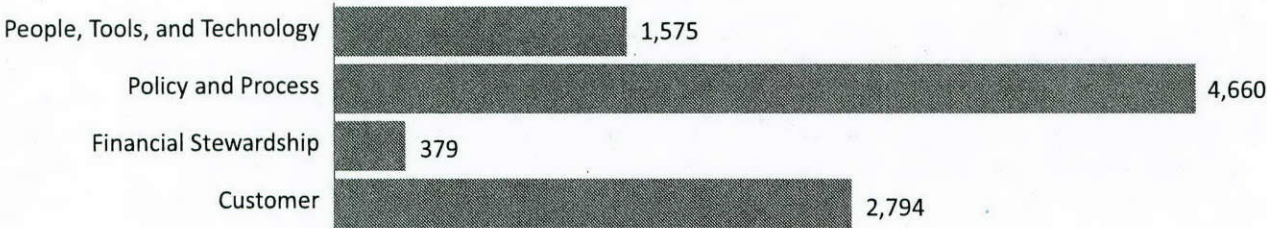


Figure 3 below shows the coverage of each of the four Balanced Scorecard Agency Perspectives.

**Figure 3: TDI Balanced Scorecard Perspectives Coverage Hours**



### **ACCEPTABLE LEVEL OF RISK**

Although the plan contemplates a wide-ranging scope of audit effort, it does not provide coverage for all TDI components or systems. We attempted to maximize limited Internal Audit resources to provide reasonable coverage of the business activities we believe require the most attention.

However, because we cannot address every risk area, it is important the commissioners and management understand the limitations of the audit coverage and the risks they assume in unaudited areas. This plan allocates Internal Audit resources to the agency's most important priorities and risks at this point in time. The Audit Plan also includes 250 hours for special audit requests from the commissioners or executive management that may occur during the year.

The Internal Audit Division is committed to being a valuable resource in improving the agency's operations and proposes a plan that targets key processes, yet builds flexibility to allow for commissioner and management special requests that require immediate attention. After accounting for scheduled holidays, vacation, sick leave, required training and administrative projects, 9,408 hours are available for audits, consulting activities, investigations, and special requests.

### **FY 2016 INTERNAL AUDIT PLAN ALLOCATION**

The Audit Plan depicts hours allocated to audit engagements in various divisions and sections of the agency and is shown in Schedule 1. The Audit Plan includes the following sections:

#### **Projects Carried Forward**

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

#### **Information Technology Services Projects**

One of the projects and hours shown in this section combine two carry-over projects from prior audit plans. Two other IT-specific audits were selected through the IT-specific risk assessment and subsequent discussions with management. Although most audit projects have an IT component included in the audit scope, these projects will have a scope and objectives specific to IT controls in place.

#### **Financial/Performance Assurance Activities**

Internal Audit provides assurance services for TDI, which are defined as objective examinations of evidence for the purpose of providing an independent assessment on risk management, control, and governance processes for the agency. Examples may include financial, compliance, economy and efficiency, effectiveness, investigations, and information technology engagements.

Hours allocated in this section are dedicated to projects that were selected through the agency-wide risk assessment

#### **Special Initiatives**

In addition to assurance and consulting engagements, Internal Audit allocates resources toward special initiatives. These initiatives include any liaison activities, which may occur during the year and special requests to be responsive to the immediate needs of the commissioners and management.

### Consulting/Advisory Activities

By definition, internal auditing includes the provision of consulting services. Consulting services are advisory and related client service activities, the nature and scope of which are agreed upon with the client. These activities are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Progressive Internal Audit departments provide additional management assistance or consulting services to their organizations. We will continue to provide representation on TDI committees and work groups as needed and requested by the Commissioner of Insurance, the Commissioner of Workers' Compensation, and management. Upon request, we will provide both formal and informal advice and suggestions on management issues, concerns, and draft policies and procedures.

By providing consulting or advisory activities, Internal Audit adds value to TDI beyond assurance services and assists in strengthening agency internal controls.

### Administrative Activities

We included hours for various administrative activities of the Internal Audit Division, some of which are mandated either by the professional standards or statute we are required to follow. Department leave time is also included to show a full picture of hours to be used by Internal Audit during the year.

### Professional Standards

We adhere to *Government Auditing Standards*, as promulgated by the U.S. Government Accountability Office and the *International Standards for the Professional Practice of Internal Auditing*, as promulgated by the Institute of Internal Auditors, which includes the Code of Ethics. In addition, we conform to requirements found under the Texas Internal Auditing Act (Texas Government Code §2102) and comply with all policies and procedures of TDI.

## PERFORMANCE MEASURES

Internal Audit performance measures for FY 2016 are as follows:

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

Internal Performance Measure results for FY 2015 were:

- ★ FY 2015 Audit Plan was approved in October 2014.
- ★ FY 2014 Annual Internal Audit Report was completed in October 2014.
- ★ Seventeen of the 29 projects in the 2015 Audit Plan were completed by the end of FY 2015 (59 percent).  
There were also two investigations completed that were not in the 2015 Audit Plan and three consulting projects requested by management completed during the year. There were seven on-going projects carried over into the FY 2016 Audit Plan.
- ★ Internal Audit spent less than 60 percent of total hours available on direct audit or consulting work in FY 2015, as we experienced significant turnover of senior level staff. Due to training new staff, approximately 40 percent of recorded time was spent on administrative or staff development activities.
- ★ Management acceptance of audit issues and/or recommendations exceeded 95 percent.
- ★ Management satisfaction from returned surveys exceeded 80 percent of audit assurance and consulting activities.

## **AUDIT ORGANIZATION STAFFING AND BUDGET**

A current organization chart for Internal Audit is attached to this plan and shown in Schedule 2. The division includes nine full-time equivalent positions: an audit director, seven auditors, and an executive assistant; we currently have a vacancy for a senior auditor. The FY 2016 Internal Audit Plan was developed based on the assumption that the division would be fully staffed throughout the year, with the exception of one auditor starting in November. The division lost a senior auditor in August, just prior to the end of FY 2015. The FY 2016 budget is included in this plan and is shown in Schedule 3.

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

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

## **CLOSING**

Audit plans act as a guide for audit departments. Our plan includes proposed projects and other initiatives to perform during the year. We have budgeted time for special requests so that we can be responsive to the immediate needs of the commissioners and management as they may arise throughout the fiscal year.

As discussed previously under “Acceptable Level of Risk” our plan does not, nor is it intended to, address or provide complete coverage for all TDI components or system risks. We believe that this plan allocates the resources of the Internal Audit Division to the most important priorities and risks of the agency at this point in time.

Internal Audit wishes to thank TDI management and staff for their assistance in providing information which led to the development of this proposal. In addition, the Internal Audit Division looks forward to helping the agency meet its objectives this fiscal year. For further information on the FY 2016 Internal Audit Plan, please contact the Internal Audit Director, Greg Royal, at (512) 676-6200 or by email at [greg.royal@tdi.texas.gov](mailto:greg.royal@tdi.texas.gov).



## SCHEDULE 1 – FY 2016 INTERNAL AUDIT PLAN PROJECTS

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

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

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

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

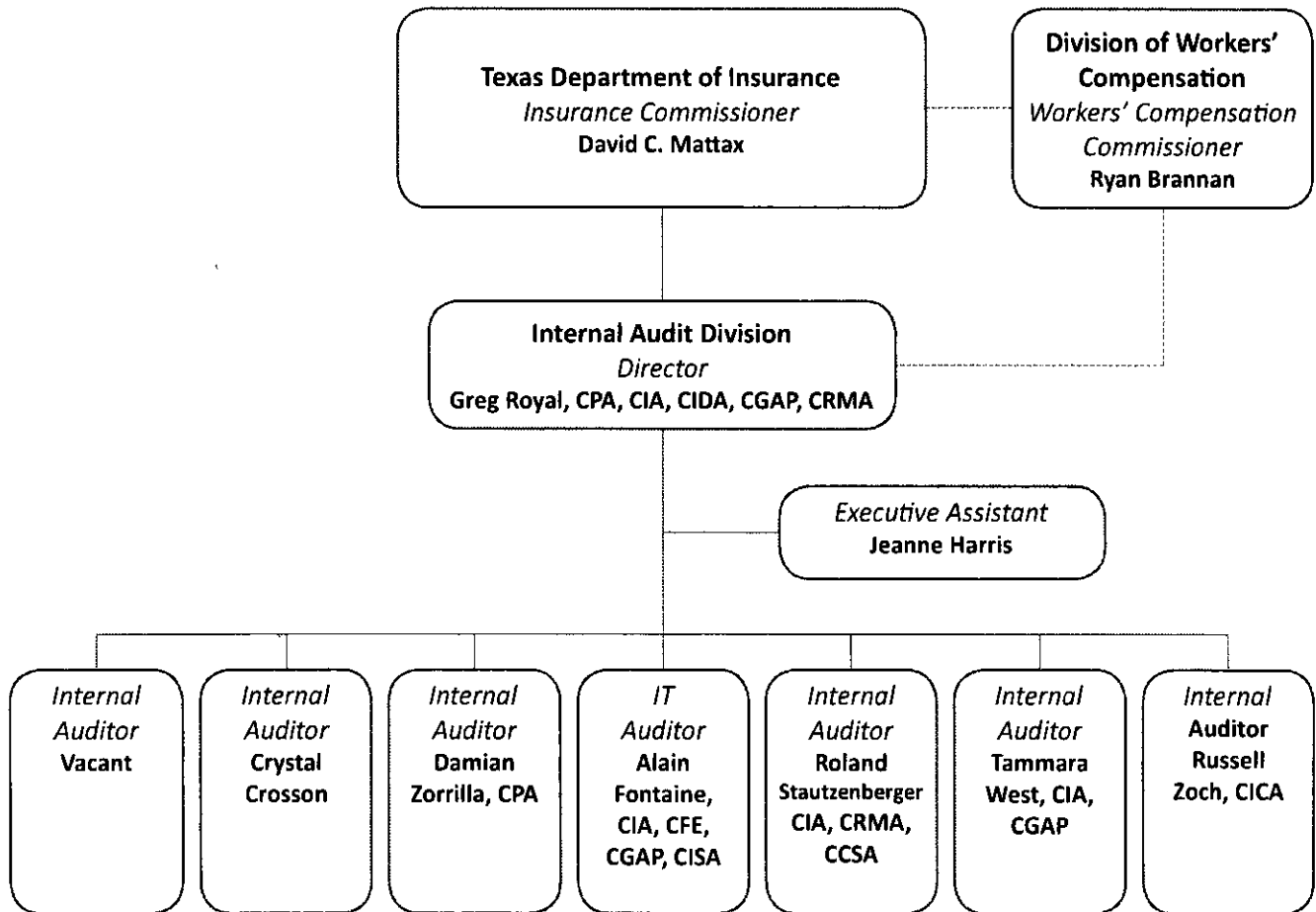
‡ Available Hours:

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

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

## SCHEDULE 2 – INTERNAL AUDIT ORGANIZATION CHART

As of September 2015



### SCHEDULE 3 – FY 2016 ANNUAL OPERATING BUDGET

---

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





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

IAAP | 0915

SECTION IIB:  
DEVIATIONS FROM INTERNAL  
AUDIT FISCAL YEAR 2016  
ANNUAL AUDIT PLAN



Internal Audit 2016 Annual Report  
Texas Department of Insurance  
Internal Audit Division

## SECTION IIB: DEVIATIONS FROM INTERNAL AUDIT FISCAL YEAR 2016 ANNUAL AUDIT PLAN

---

In an effort to be responsive to the agency's needs and timely address areas posing higher risk to the agency, the Internal Audit Division did not start six projects during fiscal year (FY) 2016 that were in the approved FY 2016 Audit Plan. These projects include:

- ★ Rehabilitation and Liquidation Oversight Program
- ★ ERM Process Assessment
- ★ Controls Survey
- ★ TeamMate build out of other modules
- ★ DWC Succession Planning
- ★ Investigations – Complaints Audit Follow-up

Elements of the first four projects are in the FY 2017 Audit Plan. The other two projects were not carried forward to the FY 2017 Audit Plan due to other priorities.

As of October 2016, all other planned activities approved in the FY 2016 Audit Plan were either completed as an assurance or advisory activity or are in process. Current status of carry-over projects from the FY 2016 Audit Plan:

- ★ Business Continuity – currently in the fieldwork stage
- ★ Workplace Safety – currently in the fieldwork stage
- ★ Agent and Adjuster Licensing Office – currently in the planning stage
- ★ Regulatory Policy – currently in the reporting stage
- ★ Designated Doctor Exam Scheduling – currently in the reporting stage
- ★ Risk Assessment for FY 2017 – completed September 2016





SECTION III:  
COMPLETED CONSULTING ENGAGEMENTS  
AND NON-AUDIT SERVICES



Internal Audit 2016 Annual Report  
Texas Department of Insurance  
Internal Audit Division

### SECTION III: COMPLETED CONSULTING ENGAGEMENTS AND NON-AUDIT SERVICES

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

Project	Engagement	High-Level Consulting Engagement Objective	Impact
2015-605	Comptroller's Post Payment Audit	Acted as agency liaison to the Comptroller for TDI management responses to audit report recommendations.	Helped to ensure management's responses addressed audit recommendations.
2016-003	Balanced Scorecard	Participated on each perspective team and attended quarterly Balanced Scorecard meetings.	Kept abreast of agency activities and provided internal audit advice.
2016-004	ERM Workgroup	Participated in an agency-wide ERM workgroup.	Provided advice and counsel during the development of the agency's ERM framework.
2016-100	ITS Penetration Test	Assessed the agency's network security.	Helped to ensure management understood report and any issues were addressed.
2016-301	Seized/Forfeited Property Audit - FY 2015	<ul style="list-style-type: none"> <li>- Determined whether TDI's law enforcement divisions seized/forfeited any property during FY 2015. Neither TDI's Fraud Unit nor the State Fire Marshal's Office reported any seized/forfeited property in FY 2015.</li> <li>- A report on a prescribed form was issued to the Office of the Attorney General in September 2015.</li> </ul>	Review required by statute (Code of Criminal Procedures, Art. 59.06).
2016-303	Appeals Panel	<ul style="list-style-type: none"> <li>- Reviewed the process for updating the Appeals Panel Decision Manual (APDM).</li> <li>- Collected and reviewed network activity and leave documentation for all Appeals Panel employees.</li> <li>- Provided the results of our analysis and potential improvements to management.</li> </ul>	<ul style="list-style-type: none"> <li>- Performed agreed upon procedure as requested.</li> <li>- Provided two recommendations for improvement in an internal report to agency management.</li> </ul>
2016-405	Mid-Year Follow-Up of Prior Audit Recommendations	Followed up on all outstanding prior internal audit recommendations.	Satisfied Texas Internal Audit Act requirements.
2016-407	FY 2017 Risk Assessment	Assessed various risks throughout TDI in order to assist in the formation of the FY 2017 Internal Audit Plan.	Basis for forming the Internal Audit FY 2017 Annual Audit Plan.
2016-601	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 for audit planning and the annual risk assessment.
2016-602	Legal – Open records	<ul style="list-style-type: none"> <li>- Advised Agency Counsel (AC) in training and educating the public and open records liaisons regarding the new upcoming open records tracking system and process.</li> <li>- Advised in the development of specifications for the request for offer and controls for the new open records system and process.</li> </ul>	<ul style="list-style-type: none"> <li>- Performed agreed upon procedure as requested.</li> <li>- Provided analysis of third-party systems, education strategies, training, and system and process controls to management for consideration.</li> </ul>

Project	Engagement	High-Level Consulting Engagement Objective	Impact
2016-603	User Developed Applications	<p>Advised ITS on:</p> <ul style="list-style-type: none"> <li>- An agency definition for User Developed Applications.</li> <li>- Training and educating topics that may be covered to help support the User Developed Application process.</li> <li>- Developing a responsibility matrix for the User Developed Application process.</li> </ul>	<ul style="list-style-type: none"> <li>- Performed agreed upon procedure as requested.</li> <li>- Provided four recommendations for improvement in an internal report to agency management.</li> </ul>
2016-604	State Auditor's Office (SAO) Reports Follow-up	Acted as agency liaison to the SAO for follow-up to prior TDI-related audit report recommendations.	Helped to ensure management's responses addressed audit recommendations.
2016-605	Data Governance	Commissioner directive aimed at providing a baseline assessment of agency safeguarding of sensitive information.	Provided advice and counsel to the team assessing agency data governance.
Various	SAO Audits of TDI	Acted as the agency liaison to the SAO for TDI management responses to audit report recommendations.	Helped to ensure management's responses addressed audit recommendations.
N/A	Executive Steering Committee	The Steering Committee drives projects for the limited resources of the ITS division. 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.

SECTION IV:  
EXTERNAL QUALITY  
ASSURANCE REVIEW



Internal Audit 2016 Annual Report  
Texas Department of Insurance  
Internal Audit Division

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

**OVERALL OPINION**

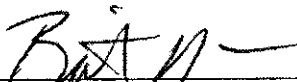

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Department of Insurance Internal Audit Division receives a rating of “pass” and is in compliance with the Institute of Internal Auditors (IIA) International Professional Practices Framework and Code of Ethics, the United States Government Accountability Office (GAO) Government Auditing Standards, and the Texas Internal Audit Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for providing assurance and consulting engagements in conformance with professional auditing standards.

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

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

**ACKNOWLEDGEMENTS**

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

 <hr style="border: 0; border-top: 1px solid black;"/> Benito Ybarra Chief Audit and Compliance Officer Texas Department of Transportation SAIAF Peer Review Team Leader	09/22/15 Date	 <hr style="border: 0; border-top: 1px solid black;"/> Chance Watson Internal Audit Director Texas Department of Family and Protective Services SAIAF Peer Review Team Member	9/22/15 Date
---	------------------	---	-----------------



SECTION V:  
INTERNAL AUDIT FISCAL YEAR  
2017 ANNUAL AUDIT PLAN



Internal Audit 2016 Annual Report  
Texas Department of Insurance  
Internal Audit Division



INTERNAL AUDIT  
FISCAL YEAR 2017  
ANNUAL AUDIT PLAN



TEXAS DEPARTMENT OF INSURANCE  
INTERNAL AUDIT DIVISION

SEPTEMBER 2016

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

First printing, September 2015  
Publication ID: IAAP | 0915  
This document is available online at [www.tdi.texas.gov/reports](http://www.tdi.texas.gov/reports)

TEXAS DEPARTMENT OF INSURANCE  
INTERNAL AUDIT FISCAL YEAR 2017 ANNUAL AUDIT PLAN  
SEPTEMBER 2016

PLAN APPROVED



David C. Mattax  
Commissioner of Insurance

9/14/16

Date



W. Ryan Brannan  
Commissioner of Workers' Compensation

9/14/16

Date



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

9/14/16

Date

*This page is intentionally blank.*

TABLE OF CONTENTS

---

OVERVIEW OF TDI INTERNAL AUDIT FISCAL YEAR 2017 ANNUAL AUDIT PLAN..... 3

SCHEDULE 1 – FY 2017 INTERNAL AUDIT PLAN PROJECTS..... 9

SCHEDULE 2 – INTERNAL AUDIT ORGANIZATION CHART ..... 10

SCHEDULE 3 – FY 2017 ANNUAL OPERATING BUDGET ..... 10

This page is intentionally blank.

## 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**





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**

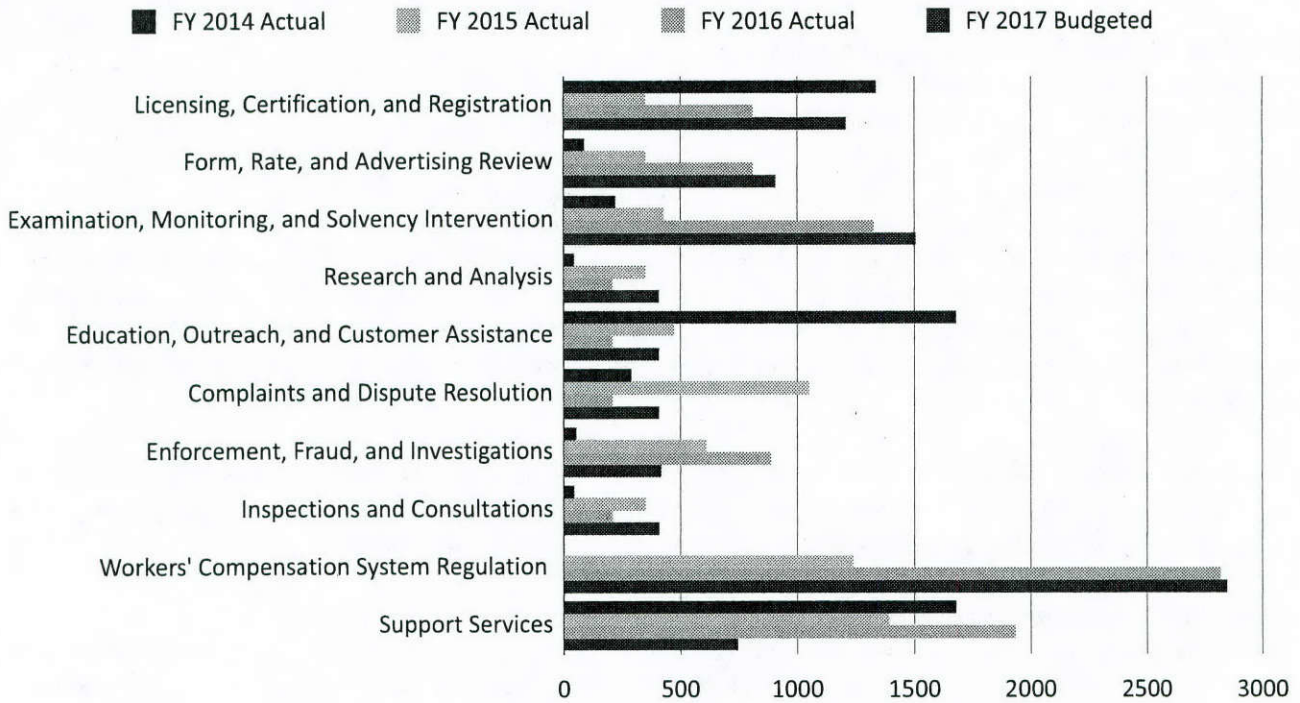
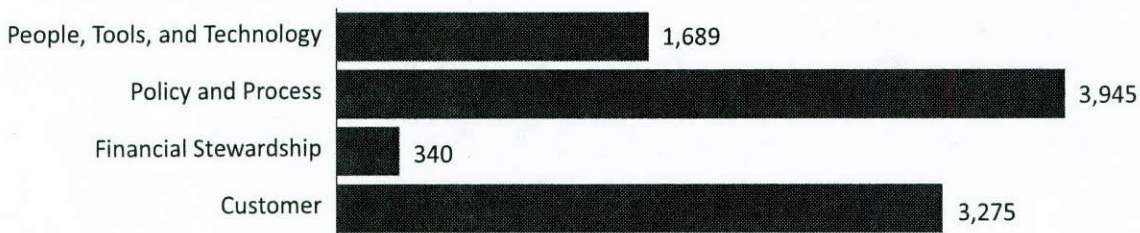


Figure 3 below shows the coverage of each of the four Balanced Scorecard Agency Perspectives.

**Figure 3: TDI Balanced Scorecard Perspectives Coverage Hours**



**ACCEPTABLE LEVEL OF RISK**

Although the plan contemplates a wide-ranging scope of audit effort, it does not provide coverage for all TDI components or systems. We attempted to maximize limited Internal Audit resources to provide reasonable coverage of the business activities we believe require the most attention.

However, because we cannot address every risk area, it is important the commissioners and management understand the limitations of the audit coverage and the risks they assume in unaudited areas. This plan allocates Internal Audit resources to the agency’s most important priorities and risks at this point in time. The Audit Plan also includes 250 hours for special audit requests from the commissioners or executive management that may occur during the year.

The Internal Audit Division is committed to being a valuable resource in improving the agency's operations and proposes a plan that targets key processes, yet builds flexibility to allow for commissioner and management special requests that require immediate attention. After accounting for scheduled holidays, vacation, sick leave, required training, and administrative projects, 9,426 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 over 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](mailto:greg.royal@tdi.texas.gov).

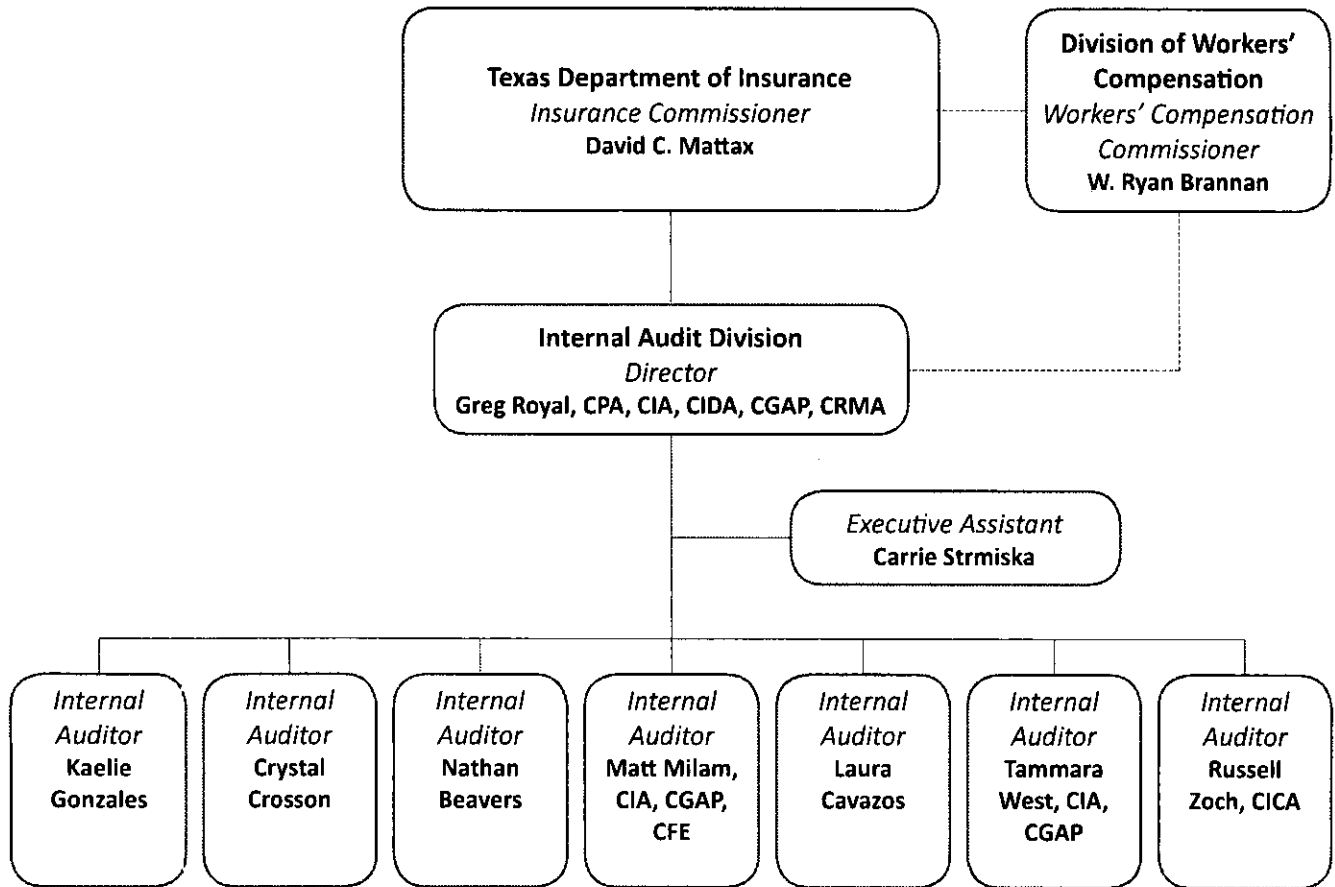
## SCHEDULE 1 – FY 2017 INTERNAL AUDIT PLAN PROJECTS

Project #	Project Description	Program Area	FY 2017 Hours
<b>Audit, Investigation, and Advisory Projects</b>			
<b>Projects Started and Carried Forward from FY 2016</b>			
2016-302	Regulatory Policy (P&C, LAH)	Reg. Policy	500
2016-304	Designated Doctor Exam Scheduling	DWC	500
2016-305	Business Continuity	Admin. Ops	300
2016-306	Workplace Safety	DWC	500
2016-407	FY 2017 Risk Assessment	Agency-wide	320
2017-302	Agent and Adjuster Licensing Office	Financial Reg.	800
<b>Carry-Forward Project Subtotal</b>			<b>2,920</b>
<b>Information Technology Services Project</b>			
Pending	General Controls/Application Controls	Agency-wide	760
<b>Information Technology Services Project Subtotal</b>			<b>760</b>
<b>Financial/Performance Assurance Projects</b>			
Pending	Rehabilitation and Liquidation Oversight Program (FY 2016 Audit Plan)	Financial Reg.	800
Pending	Certified Self-Insurance	DWC Gen. Counsel	700
Pending	Subsequent Injury Fund	DWC	500
Pending	Administrative Operations Review	Admin. Ops	500
Pending	Mid-year Recommendations Follow-up (Internal Audit reports)	Agency-wide	50
2017-301	Seized/Forfeited Property Audit - FY 2016 (Code of Criminal Procedures Art 59.06)	Fraud/SFMO	10
<b>Financial/Performance Assurance Project Subtotal</b>			<b>2,560</b>
<b>Special Initiatives</b>			
Various	Reserved for special assigned audits, investigations, or management requests	N/A	400
<b>Special Initiatives Subtotal</b>			<b>400</b>
<b>Consulting/Advisory Projects</b>			
Pending	Agency Strategy - Balanced Scorecard Workgroups	Admin. Ops	100
Pending	Controls Survey/Risk Ranking (FY 2016 Audit Plan Project)	Agency-wide	1,200
Pending	ITS Customer Meetings	Admin. Ops	36
Pending	SB 20 Implementation	Admin. Ops	240
Pending	Managed Care Quality Assurance	Financial Reg.	300
Pending	Data Governance	Agency-wide	240
Pending	Ethics Survey (UT students)	Agency-wide	240
Pending	Miscellaneous Advisory Projects	Agency-wide	250
<b>Consulting/Advisory Project Subtotal</b>			<b>2,606</b>
<b>Audit, Investigation, and Advisory Project Subtotal</b>			<b>9,246</b>
<b>Administrative and Required Internal Audit Projects</b>			
Pending	Internal Audit General Administration (Auditor staff at 17.5 percent)	N/A	2,604
Pending	Maximum Annual Vacation and Sick Leave Accrual for Each Employee	N/A	1,800
Pending	FY 2018 Risk Assessment	N/A	400
2017-401	Staff Training	N/A	320
Pending	TeamMate Build-out of Other Modules	N/A	240
Pending	External Peer Review – Part of the State Agency Internal Audit Forum Team	N/A	150
2017-403	FY 2016 Internal Audit Annual Report	N/A	120
<b>Administrative and Other Internal Audit Project Subtotal</b>			<b>5,634</b>
<b>Total Available Hours*</b>			<b>14,880</b>

\* 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



## SCHEDULE 3 – FY 2017 ANNUAL OPERATING BUDGET

Expenditure Category	FY 2017
Salaries and Longevity (9.0 FTEs)	\$ 636,007.20
Other Operating Expenses	10,016.00
<b>Total Operating Budget</b>	<b>\$ 646,023.20</b>





Internal Audit Fiscal Year 2017 Annual Audit Plan  
Texas Department of Insurance  
Internal Audit Division

IAAP | 0916



# SECTION VI: EXTERNAL AUDIT SERVICES



Internal Audit 2016 Annual Report  
Texas Department of Insurance  
Internal Audit Division

**SECTION VI: EXTERNAL AUDIT SERVICES**

---

The following represents TDI external audit services procured or in progress in fiscal year 2016.

Auditee	Auditor
N/A	N/A



SECTION VII:  
REPORTING SUSPECTED  
FRAUD AND ABUSE



Internal Audit 2016 Annual Report  
Texas Department of Insurance  
Internal Audit Division

## 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, 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 2016 Annual Report  
Texas Department of Insurance  
Internal Audit Division

IAAR | 1016