

INTERNAL AUDIT  
FISCAL YEAR 2015  
ANNUAL AUDIT PLAN



TEXAS DEPARTMENT OF INSURANCE  
INTERNAL AUDIT DIVISION

OCTOBER 2014

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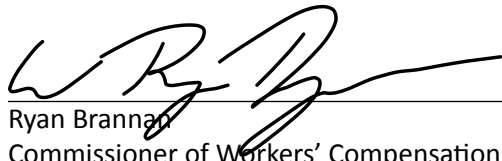
**PLAN APPROVED**



Julia Rathgeber  
Commissioner of Insurance

10/28/14

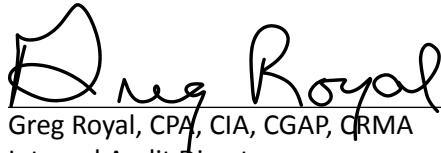
Date



Ryan Brannan  
Commissioner of Workers' Compensation

10/28/14

Date



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

10/28/14

Date

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

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### INTRODUCTION

This document provides the Fiscal Year (FY) 2015 Audit Plan as required by professional auditing standards and the Texas Internal Auditing Act (Texas Government Code, Ch. §2102.008). This plan provides our vision of Internal Audit efforts for FY 2015, allocating resources to the most critical areas within the Texas Department of Insurance (TDI).

Projects were identified for the Audit Plan by using a risk assessment model that considered input from TDI management, commissioners, and the State Auditor's Office. Using that input, staff exercised auditor judgment to prioritize projects for FY 2015.

### AUDIT CHARTER AND DEFINITION

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

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

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.<sup>1</sup>

### RISK ASSESSMENT

Internal Audit developed the Audit Plan by first conducting a comprehensive risk assessment of agency program activities. We then selected projects for FY 2015 based on relative risk and available hours.

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

We assessed risk within TDI by sending out agency-wide questionnaires and interviewing selected executive management. Then, staff used the following criteria to determine the relative risk of each program activity and select projects:

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

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

- Activities identified from questionnaires and interviews
- Division-level Enterprise Risk Management footprint

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1 Institute of Internal Auditors – International Professional Practices Framework, January 2013

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

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

The following criteria were used to rate IT general controls:

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

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

Figure 1 on the next page shows the number of audit hours within each of the 10 core functions that comprise TDI's regulatory and administrative responsibilities. We allocated 8,526 hours to audit or consulting projects identified across the ten core functions as shown in the agency's *Fiscal Year 2015-2019 Strategic Plan*, including 7,756 hours for new projects and 770 hours for carry-over projects. This graph reveals good agency-wide coverage of audit activities. All IT, legal, and administrative operations projects are included in Support Services. In addition, there are 400 hours reserved for special requests and 250 hours for miscellaneous advisory projects, which are dispersed evenly to each core functions in the chart.



**Figure 1: FY 2015 Core TDI Function Coverage Hours**

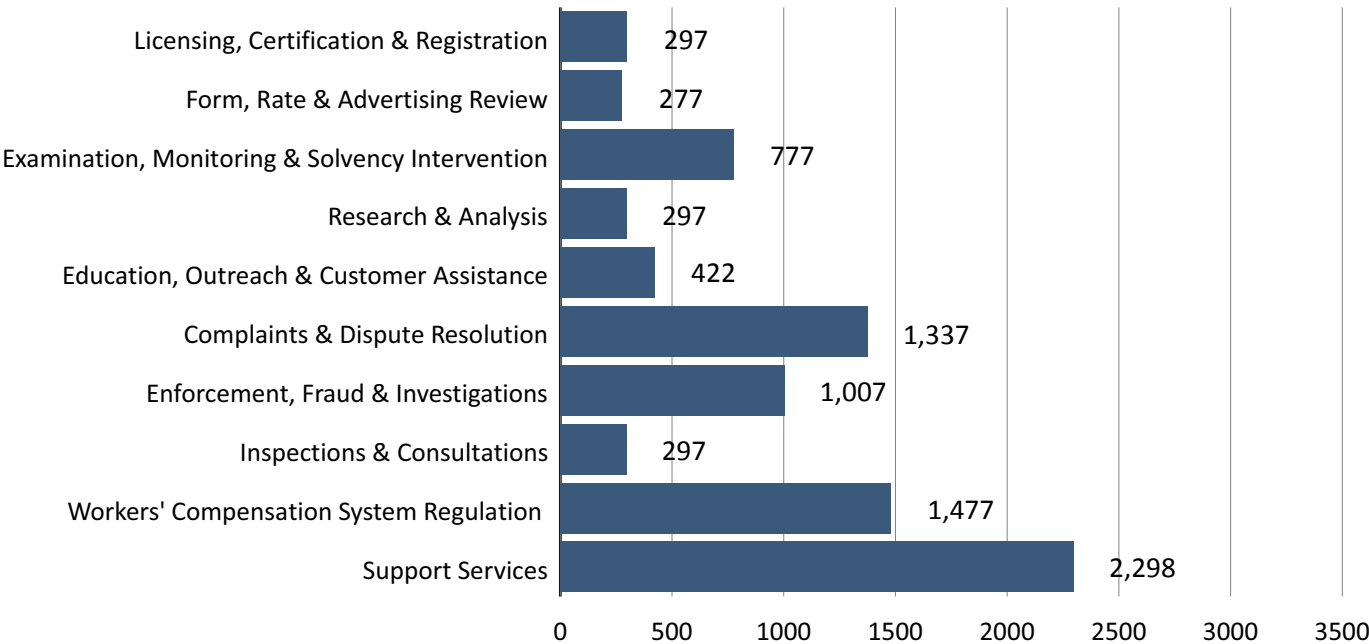
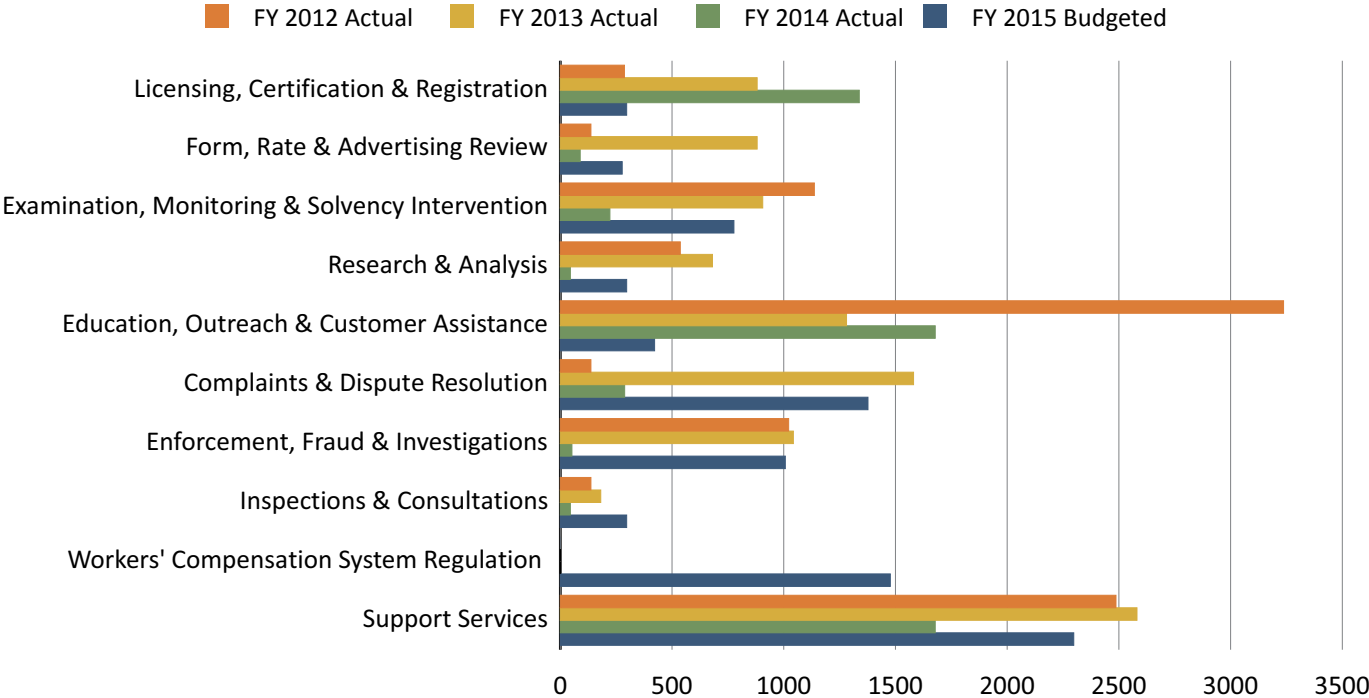


Figure 2 below compares Internal Audit’s actual coverage for FY 2012, FY 2013, FY 2014, and budgeted coverage for FY 2015. The latest Strategic Plan has Workers’ Compensation as a separate category for the first time.

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



### **ACCEPTABLE LEVEL OF RISK**

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

However, because we cannot address every risk area, it is important the commissioners and management understand the limitations of the audit coverage and the risks they assume in unaudited areas. This plan allocates Internal Audit resources to the agency's most important priorities and risks at this point in time. The Audit Plan also includes 400 hours for special audit requests from the commissioners or executive management that may occur during the year.

The Internal Audit Division is committed to being a valuable resource in improving the agency's operations and proposes a plan that targets key processes, yet builds flexibility to allow for commissioner and management special requests that require immediate attention. After accounting for scheduled holidays, vacation, sick leave, required training and administrative projects, 8,526 hours are available for audits, consulting activities, investigations and special requests.

### **FY 2015 INTERNAL AUDIT PLAN ALLOCATION**

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

#### **Projects Carried Forward**

Some projects that began in FY 2014 were not completed by the end of the fiscal year. The following FY 2014 projects were started or completed in FY 2015 and have hours allocated in FY 2015 to complete the project: Sircon – Consumer Complaints at TDI, SFMO (Consulting), Mobile Devices (Consulting), and Risk Assessment for Fiscal Year 2015.

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

The two projects and hours shown in this section are carry-over projects from prior audit plans. No other IT-specific audits were selected through the IT-specific risk assessment and subsequent discussions with management. Although most audit projects have an IT component included in the audit scope, these projects have a scope and objectives specific to IT controls in place.

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

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

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

#### **Special Initiatives**

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

### **Consulting/Advisory Activities**

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

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

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

### **Administrative Activities**

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

### **Professional Standards**

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

## **PERFORMANCE MEASURES**

Internal Audit performance measures for FY 2015 are as follows:

- Complete development and approval of the Fiscal Year 2015 Audit Plan by September 30, 2014.
- Complete the FY 2014 Annual Internal Audit Report by November 1, 2014.
- Complete 80 percent of the scheduled FY 2015 Audit Plan projects.
- Spend a minimum of 75 percent of total planned hours available on direct audit or consulting work.
- Obtain management acceptance of 95 percent of audit issues and/or recommendations.
- Obtain management satisfaction on at least 80 percent of audit assurance and consulting activities.

Internal Performance Measure results for Fiscal Year 2014 were:

- FY 2014 Audit Plan was approved in September 2013.
- FY 2013 Annual Internal Audit Report was completed in October 2013.
- 19 of the 25 projects in the 2014 Audit Plan were completed by the end FY 2014 (66 percent). There were also five investigations completed that were not in the 2014 Audit Plan. There were four audit projects in progress at the end of the fiscal year, five projects carried over into the FY 2015 Audit Plan, and management performed the review of one project.
- Internal Audit spent around 70 percent of total hours available on direct audit or consulting work in FY 2014, including 17 percent for general administration and 5 percent on required continuing professional education for the various licenses.
- Management acceptance of audit issues and/or recommendations exceeded 95 percent.
- Management satisfaction from returned surveys exceeded 80 percent of audit assurance and consulting activities.

## **AUDIT ORGANIZATION STAFFING AND BUDGET**

A current organization chart for Internal Audit is attached to this plan and shown in Schedule 2. The division's budget includes nine full-time equivalent positions: an audit director, seven auditors, and an executive assistant. The FY 2015 Internal Audit Plan was developed based on the assumption that the division would be fully staffed throughout the year, with the exception of two auditors starting in November. The division lost two senior auditors in August, just prior to the end of FY 2014. The FY 2015 budget is included in this plan and is shown in Schedule 3.

Current Internal Audit staff members collectively have over 51 years auditing experience, including over 22 years at TDI. In addition, audit staff possess the following 14 professional certifications:

- 3 Certified Internal Auditors (CIA)
- 3 Certified Government Auditing Professionals (CGAP)
- 2 Certified Fraud Examiners (CFE)
- 1 Certified Public Accountant (CPA)
- 1 Certified Information Systems Auditor (CISA)
- 1 Certification in Control Self Assessment (CCSA)
- 1 Certified Investments and Derivatives Auditor (CIDA)
- 1 Certification in Risk Management Assurance (CRMA)
- 1 Certified Internal Controls Auditor (CICA)

## **CLOSING**

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

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

Internal Audit wishes to thank TDI management and staff for their assistance in providing information which led to the development of this proposal. In addition, the Internal Audit Division looks forward to helping the agency meet its objectives this fiscal year. For further information on the FY 2015 Internal Audit Plan, please contact the Internal Audit Director, Greg Royal, at (512) 475-2984 or by email at [greg.royal@tdi.texas.gov](mailto:greg.royal@tdi.texas.gov).

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

Project #	Project Description	Area	FY 2015 Hours
<b>Projects Started and Carried Forward From FY 2014</b>			
2014-306	Sircon - Consumer Complaints at TDI	Compliance	250
2014-609	SFMO (Consulting)	SFMO	100
2014-102	Mobile Devices (Consulting)	ITS	340
2014-407	FY 2015 Risk Assessment	Agency-Wide	80
<b>Subtotal Carry Forward Projects</b>			<b>770</b>
<b>Information Technology Services Projects</b>			
Pending	Follow-up on Gartner Report (project in FY 2013 and FY 2014 audit plans)	ITS	325
Pending	Management Control Audit (FY 2014 audit plan; hold pending ITS Governance-Gartner)	ITS	550
<b>Subtotal Information Technology Audits</b>			<b>875</b>
<b>Financial/Performance Assurance Activities</b>			
Pending	Sircon - Consumer Complaints at DWC	DWC	600
Pending	Enforcement	DWC	500
Pending	Fraud Unit	Compliance	450
Pending	Hearings	DWC-Hearings	400
Pending	Performance Measures	Agency-Wide	600
Pending	Records Management and Support	DWC	750
Pending	ERM Process Assessment	Agency-Wide	400
Pending	Purchasing & Contract Administration	AO	750
Pending	Title Examinations	FIN	500
Pending	Mid-Year Recommendations Follow-Up (Internal Audit Reports)	Agency-Wide	50
2015-301	Seized/Forfeited Property Audit - FY 2014 (Code of Criminal Procedures Art 59.06)	Fraud/SFMO	10
<b>Subtotal Financial/Performance Audits</b>			<b>5,010</b>
<b>Special Initiatives</b>			
Various	Hours Reserved for Special Assigned Audits, Investigations, or Management Requests	N/A	400
<b>Special Initiatives Subtotal</b>			<b>400</b>
<b>Consulting/Advisory Activities</b>			
2015-601	ITS customer meetings	Agency-Wide	21
Pending	Ethics Survey	Agency-Wide	150
Pending	Legal Open Records	Agency-Wide	250
Pending	Attorney Fees	DWC	300
Pending	Risk Management Training	N/A	250
Pending	Safety Violations Hotline	DWC	250
Pending	Miscellaneous Advisory Projects	Agency-Wide	250
<b>Subtotal Advisory/Liaison Projects</b>			<b>1,471</b>
<b>Subtotal - Audits, Investigations and Advisory Projects</b>			<b>8,526</b>

<b>Administrative and Required Internal Audit Activities</b>			
2015-400	General Administration†	N/A	2,200
2015-000	Leave‡	N/A	1,860
Pending	Internal Self-Assessment and Peer Review	N/A	150
Pending	FY 2016 Risk Assessment	N/A	400
2015-401	Staff Training	N/A	320
2015-403	FY 2014 Internal Audit Annual Report	N/A	100
Pending	Controls Surveys	N/A	300
Pending	TeamMate Build Out of Other Modules	N/A	200
<b>Subtotal - Administrative &amp; Other Internal Audit Projects</b>			<b>5,530</b>
<b>Total Available Hours^</b>			<b>14,056</b>

\* Acronyms: ALAS-Automated Leave Accounting System; AO-Administrative Operations Division; DWC-Division of Workers' Compensation; FIN-Financial Regulation; FY-Fiscal Year; HR-Human Resources; IA-Internal Audit; ITS-Information Technology Services; SAO-State Auditor's Office; SFMO-State Fire Marshal's Office; LBB-Legislative Budget Board

† Administration/Special Projects of the Internal Audit Function (Auditor staff average at 17.5 percent)

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

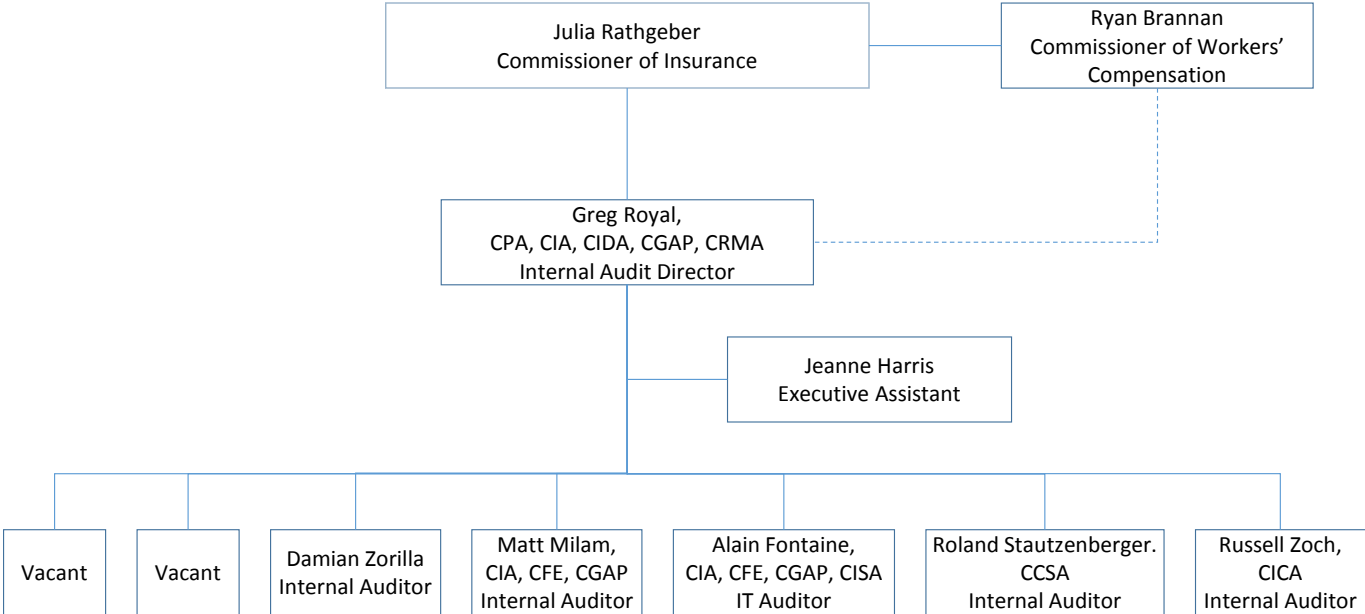
^ Available Hours:

(261 work days) - (15 holidays @ 8 hours/day) = 1,968 hours/year

(1,968 hrs X 5 auditors, 2 auditors start Nov = 3,232 hours + 1,968 x .5 audit director) = 14,056 Total Hours

## SCHEDULE 2 – INTERNAL AUDIT ORGANIZATION CHART

### Internal Audit Division Organization Chart, October 2014



### SCHEDULE 3 – FY 2015 ANNUAL OPERATING BUDGET

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







Internal Audit Fiscal Year 2015 Annual Audit Plan

Texas Department of Insurance  
Internal Audit Division