INTERNAL AUDIT

Fiscal Year 2014 Annual Audit Plan

TEXAS DEPARTMENT OF INSURANCE
Internal Audit Division
333 Guadalupe
Austin, TX 78714-9104

TEXAS DEPARTMENT OF INSURANCE

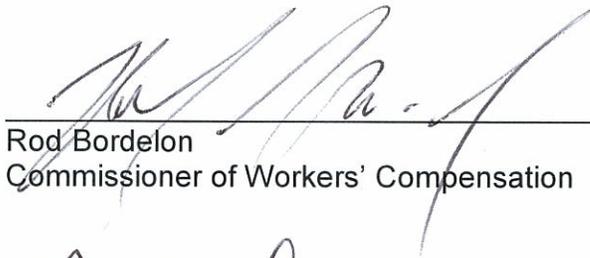Internal Audit Fiscal Year 2014 Annual Audit Plan

September 2013

Plan Approved:

_____   _____9/27/13_____
Julia Rathgeber   Date
Commissioner of Insurance

_____   _____9/27/13_____
Rod Bordelon   Date
Commissioner of Workers' Compensation
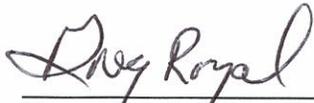
_____   _____9/27/13_____
Greg Royal, CPA, CIA, CGAP, CRMA   Date
Internal Audit Director

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Overview of TDI Internal Audit Fiscal Year 2014 Annual Audit Plan

Introduction

This document provides the Fiscal Year 2014 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 the fiscal year, 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 in prioritizing projects for the coming year.

Audit Charter and Definition

The Audit Charter approved by the Commissioners in September 2013 remains current, and 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, the scope of audit work, and 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.* [1]

Risk Assessment

Internal Audit developed the Audit Plan by first conducting a comprehensive risk assessment of agency program activities. We then selected projects for the coming year 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. The risk assessment process provides a means of organizing and integrating professional judgments for development of the work schedule. 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. The following criteria were then used in determining the relative risk of each program activity and selecting projects:

- Criticality to agency Mission
- Prior audits or studies
- Size or complexity of operations
- Quality of internal controls

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

- Program's completed Enterprise Risk Management (ERM) assessments
- Other high risk indicators
- Auditor judgment

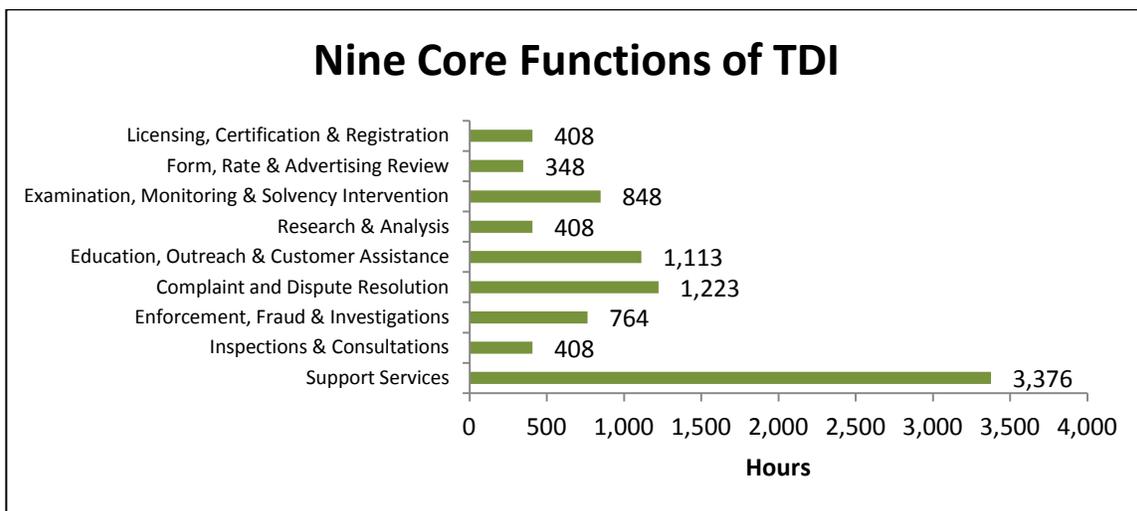The activities used in our analysis came from the following sources:

- Activities identified from questionnaires or interviews
- Business plans including Divisions' Enterprise Risk Management assessments

An Information Technology (IT) specific risk assessment was also performed. In performing the IT risk assessment, Internal Audit used similar criteria mentioned above to distinguish risk between general controls and application controls. The following criteria were used to identify IT projects:
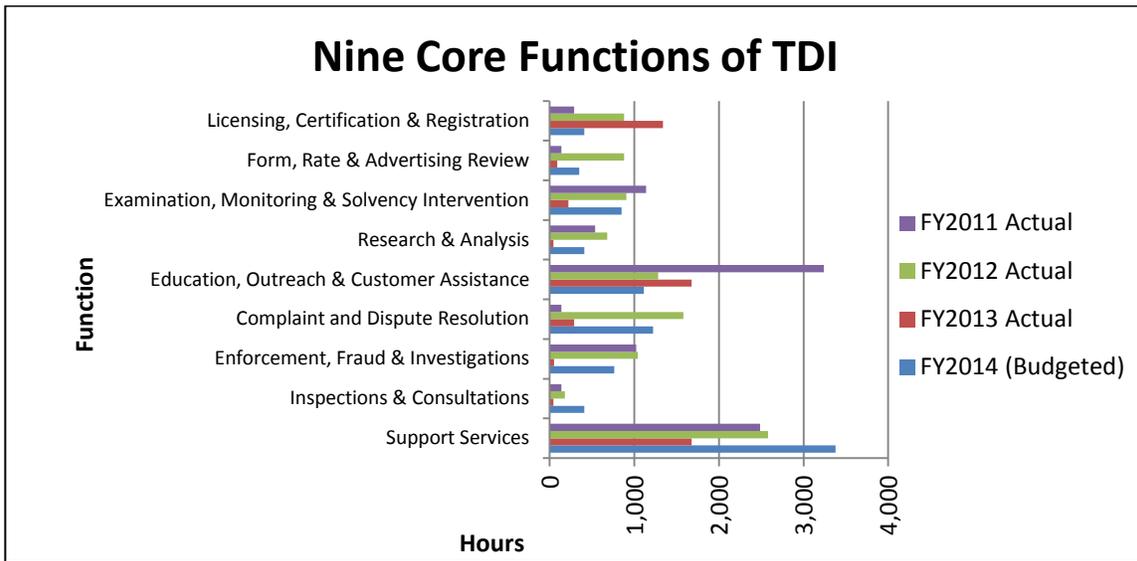
- Current utilization of the application
- Criticality of the application
- Business value of the application
- Interfacing with other applications
- Technological complexity of the application
- Number and level of users of the application
- Prior audits
- Vendor Support
- Auditor judgment

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

The graph below shows the number of audit hours within each of the nine core functions that comprise TDI's regulatory and administrative responsibilities. We allocated the 8,896 hours (8,116 hours for new projects, 780 hours for carry-over projects) that are dedicated to audit or consulting projects identified across the nine core functions as shown in the agency Fiscal Year 2013-2017 Strategic Plan. This graph reveals good agency-wide coverage of audit activities.   All Information Technology, Legal and Administrative Operations projects are shown in Support Services. In addition, there are 500 hours reserved for special requests and miscellaneous advisory projects shown on the graph split evenly among the nine core functions.

Nine Core Functions of TDI

Function	Hours
Licensing, Certification & Registration	408
Form, Rate & Advertising Review	348
Examination, Monitoring & Solvency Intervention	848
Research & Analysis	408
Education, Outreach & Customer Assistance	1,113
Complaint and Dispute Resolution	1,223
Enforcement, Fraud & Investigations	764
Inspections & Consultations	408
Support Services	3,376

The graph below shows Internal Audit's coverage for the last three fiscal years and its coverage for Fiscal Year 2014.

Nine Core Functions of TDI

Function	
	FY2011 Actual
	FY2012 Actual
	FY2013 Actual
	FY2014 (Budgeted)

Functions (top to bottom):
- Licensing, Certification & Registration
- Form, Rate & Advertising Review
- Examination, Monitoring & Solvency Intervention
- Research & Analysis
- Education, Outreach & Customer Assistance
- Complaint and Dispute Resolution
- Enforcement, Fraud & Investigations
- Inspections & Consultations
- Support Services

Hours axis: 0, 1,000, 2,000, 3,000, 4,000

This final graph shows the audit coverage in each of the four broad challenges identified in the Fiscal Year 2013-2017 Strategic Plan the agency faces in its efforts to accomplish its mission.

Four Agency Challenges

Challenge	Hours
Workforce and Technology	3,162
Communication	3,716
Marketplace	767
Regulatory Landscape	1,251

Hours axis: 0, 500, 1,000, 1,500, 2,000, 2,500, 3,000, 3,500, 4,000
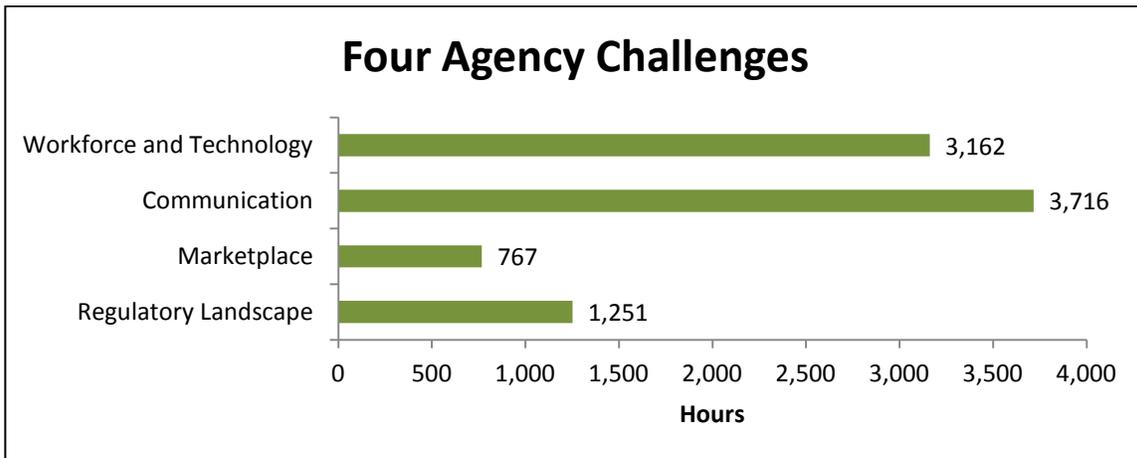
Acceptable Level of Risk

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 for the Commissioners and management to understand the limitations of the audit coverage and the risks they assume in areas not audited. We believe that this plan allocates resources of the Internal Audit Division to the most important priorities and risks of the agency at this point in time. The Audit Plan also includes 500 hours for special 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, 8,896 hours are available for audits, consulting activities, investigations and special requests.

Fiscal Year 2014 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 were begun in fiscal year 2013 were not completed by the end of the fiscal year. The following fiscal year 2013 projects were started or completed in fiscal year 2014 and have hours allocated in fiscal year 2014 to complete the project: *Performance Measures, Business Continuity, Chief Clerk's Office, Historically Underutilized Businesses, Security of Web Applications, and Risk Assessment for Fiscal Year 2014.*

Information Technology Services Projects

The four projects and hours shown in this section 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 the agency 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 organization. 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. Leave time for the department 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 Fiscal Year 2014 are as follows:

- Complete development and approval of the Fiscal Year 2014 Audit Plan by September 30, 2013
- Complete the Fiscal Year 2013 Annual Internal Audit Report by November 1, 2013
- Complete 80% of the scheduled Fiscal Year 2014 Audit Plan projects
- Spend a minimum of 75% of total planned hours available on direct audit or consulting work
- Obtain management acceptance of 95% of audit issues and/or recommendations
- Obtain management satisfaction on at least 80% of audit assurance and consulting activities

Internal Performance Measure results for Fiscal Year 2013 were:

- Fiscal Year 2013 Audit Plan was approved in October 2012.
- Fiscal Year 2012 Annual Internal Audit Report was completed in October 2012.
- Of 25 projects in the 2013 Audit Plan, 17 were completed by the end of the fiscal year (68%). There were also four investigations and one audit completed during the fiscal year that were not on the 2013 Audit Plan. There were 6 audit projects in progress at the end of the fiscal year.

- Internal Audit spent 70% of total hours available on direct audit or consulting work this fiscal year; 17% was spent on general administration with 7% on special projects or staff development.
- Management acceptance of audit issues and/or recommendations exceeded 95%
- Management satisfaction from returned surveys exceeded 80% 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 is budgeted nine full-time equivalent positions: an audit director, seven auditors, and an executive assistant. The fiscal year 2014 Internal Audit Plan was developed based on the assumption that the Division would be fully staffed throughout the entire year, with the exception of one auditor starting in November. The fiscal year 2014 Internal Audit operating budget is also included in this plan and is shown in Schedule 3.

Internal Audit staff members collectively have over 77 years auditing experience with over 23 years at TDI. In addition, audit staff possess the following:

- 15 professional certifications including:
- 4 Certified Internal Auditors (CIA)
- 1 Certified Public Accountant (CPA)
- 1 Certified Information Systems Auditor (CISA)
- 4 Certified Government Auditing Professionals (CGAP)
- 1 Certified Investments and Derivatives Auditor (CIDA)
- 3 Certified Fraud Examiners (CFE)
- 1 Certification in Risk Management Assurance (CRMA)

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 Fiscal Year 2014 Internal Audit Plan, please contact the Internal Audit Director, Greg Royal, at (512) 475-2984 or by email at greg.royal@tdi.texas.gov.

Schedule 1 - Fiscal Year 2014 Internal Audit Plan

PROJECT NUMBER	PROJECT DESCRIPTION	Division / Section (A)	BUDGETED FY 2014 HOURS
Projects Started and Carried Forward From Fiscal Year 2013			
2013-616	Performance Measures (consulting)	Agency-Wide	250
2013-614	Business Continuity (consulting)	ITS/Agency	200
2013-617	Chief Clerk's Office (consulting)	GC	120
2013-304	HUB	AO	80
2013-101	Security of Web Applications	DWC	50
2013-406	FY 2014 Risk Assessment	Agency-Wide	80
	Subtotal Carry Forward Projects		780
Information Technology Services Projects			
Pending	Follow up on Gartner report (2013 audit plan) and prior IA recommendations in ITS	ITS	450
Pending	Mobile Devices (2013 audit plan)	Agency-Wide	600
Pending	Management Control Audit	ITS	550
Pending	TAC 202 - Confidential Data	Agency-Wide	700
	Subtotal Information Technology Audits		2,300
Financial / Performance Assurance Activities			
Pending	DWC Field Operations	DWC-FO	600
Pending	Time Accounting (ALAS)	HR/Agency	650
Pending	Workforce Planning	HR/Agency	650
Pending	Hearings	DWC-Hearings	500
Pending	Rehabilitation & Liquidation Oversight	FIN	500
Pending	Sircon - Complaints and Enforcement Modules	Compliance	700
Pending	Mid-year follow-up on prior Recommendations (Internal Audit Reports)	Agency-Wide	50
2014-301	Seized / Forfeited Property Audit - FY 2013 (Code of Criminal Procedures Art 59.06)	Fraud/SFMO	6
	Subtotal Financial / Performance Audits		3,656
Special Initiatives			
Various	Hours Reserved for Special Assigned Audits, Investigations or Management Requests	N/A	**500**
Consulting / Advisory Activities			
2014-601	ITS customer meetings	Agency-Wide	10
Pending	ITS Governance	ITS	350
Pending	Survey Monkey - COSO Evaluations	Agency-Wide	100

Schedule 1 - Fiscal Year 2014 Internal Audit Plan

Pending	Enterprise Risk Management	OSM/Agency	450
Pending	Ethics follow-up	Agency-Wide	150
Pending	State Fire Marshal's Office	SFMO	300
Pending	Office of the Medical Advisor	DWC-HCBM	50
Pending	Miscellaneous Advisory Projects	Agency-Wide	250
	Subtotal Advisory / Liaison Projects		1,660
	Subtotal - Audits, Investigations and Advisory Projects		8,896

Administrative & Required Internal Audit Activities

2014-400	General Administration (Note B)	N/A	2,200
2014-000	Leave (Note C)	N/A	1,820
Pending	External Peer Review - Part of SAIAF team	N/A	160
Pending	Internal Self Assessment	N/A	150
Pending	Risk Assessment for FY 2015	N/A	250
Pending	TeamMate buildout and staff training	N/A	460
2014-401	Staff Training	N/A	320
2014-403	Internal Audit Annual Report of FY 2013 to the Governor, LBB, Sunset, and SAO	N/A	100
	Subtotal - Administrative & Other Internal Audit Projects		5,460
	Total Available Hours (Note D)		**14,356**

Notes:

A Acronyms: ALAS-Automated Leave Accounting System; AO-Admin. Operations Division; COSO-Committee of Sponsoring Organizations of the Treadway Commission; DWC - Division of Workers' Compensation; FIN-Financial Regulation; FO-Field Operations; FY-Fiscal Year; GC-General Counsel; HCBM-Health Care Business Management; HR-Human Resources; HUB-Historically Underutilized Business; IA-Internal Audit; ITS-Information Technology Services; OSM-Office of Strategy Management; SAIAF-State Agency Internal Audit Forum; SAO-State Auditor's Office; SFMO-State Fire Marshal's Office; TAC-Texas Administrative Code; LBB-Legislative Budget Board
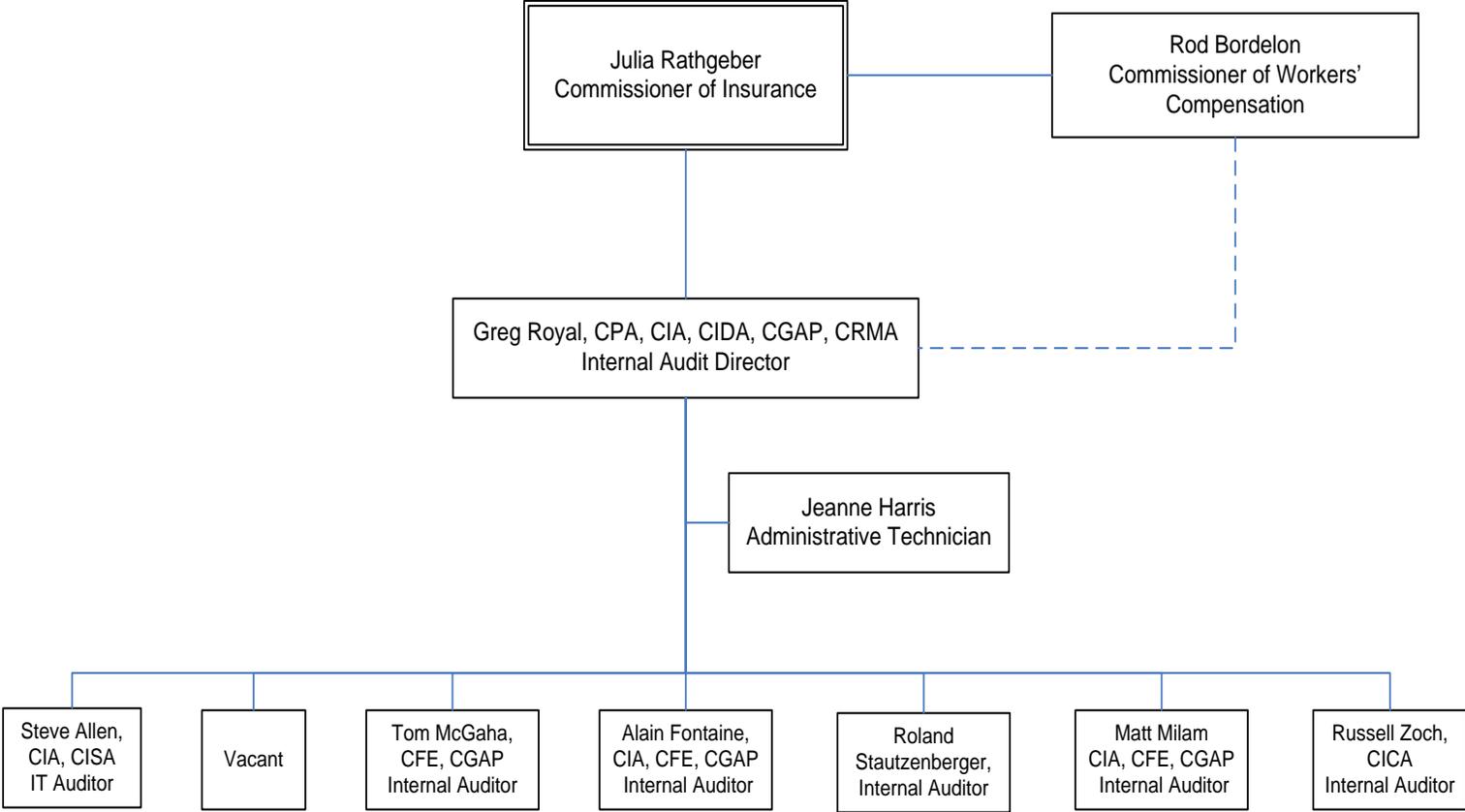
B Administration / Special Projects of the Internal Audit Function (Ave 17.5% for auditor staff)

C Based on maximum annual accrual for each employee (vacation & sick)

D Available Hours: (260 work days)-(15 holidays @ 8 hrs / day) = 1,960 hrs/yr; (1,960 hrs X 6 auditors, 1 auditor start Nov = 1,633 hrs + 1,960 x .5 audit director) = **14,356 Total Available Hours**

Schedule 2 - Internal Audit Organization Chart

Texas Department of Insurance
Internal Audit Division
Organization Chart September 2013

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┌─────────────────────────┐                    ┌─────────────────────────┐
│  Julia Rathgeber        │                    │  Rod Bordelon           │
│  Commissioner of        │────────────────────│  Commissioner of        │
│  Insurance              │                    │  Workers'               │
│                         │                    │  Compensation           │
└─────────────────────────┘                    └─────────────────────────┘
              │
              │
┌───────────────────────────────────────────┐
│  Greg Royal, CPA, CIA, CIDA, CGAP, CRMA   │
│  Internal Audit Director                   │
└───────────────────────────────────────────┘
              │
              │        ┌─────────────────────────┐
              │────────│  Jeanne Harris          │
              │        │  Administrative         │
              │        │  Technician             │
              │        └─────────────────────────┘
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| Steve Allen, CIA, CISA IT Auditor | Vacant | Tom McGaha, CFE, CGAP Internal Auditor | Alain Fontaine, CIA, CFE, CGAP Internal Auditor | Roland Stautzenberger, Internal Auditor | Matt Milam CIA, CFE, CGAP Internal Auditor | Russell Zoch, CICA Internal Auditor |

Schedule 3

INTERNAL AUDIT FISCAL YEAR 2014 OPERATING BUDGET

Expenditure Category	Fiscal Year 2014
Salaries and Longevity**	$572,696.08
Other Operating	10,016.00
Total Operating Budget**	$582,712.08

**Note: 9.00 FTEs.