

Internal Audit Fiscal Year 2019 Audit Plan



TDI



**Texas Department of Insurance
Internal Audit Division
October 2018**

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Texas Department of Insurance
Internal Audit Fiscal Year 2019 Annual Audit Plan
October 2018

Plan approved



Kent C. Sullivan
Commissioner of Insurance

October 31, 2018

Date



Greg Royal
Internal Audit Director

October 31, 2018

Date

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Overview of TDI Internal Audit Fiscal Year 2019 Annual Audit Plan

Introduction

This document provides the Fiscal Year 2019 Audit Plan as required by professional auditing standards and the Texas Internal Auditing Act (Texas Government Code 2102.008). This plan provides a vision of internal audit efforts for FY 2019, 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 executive management and the State Auditor's Office. Using that input, staff exercised auditor judgment to prioritize projects for FY 2019.

Audit Charter and Definition

The audit charter, approved in October 2018, 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. 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 Institute of Internal Auditors' 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 2019 based on relative risk and available hours.

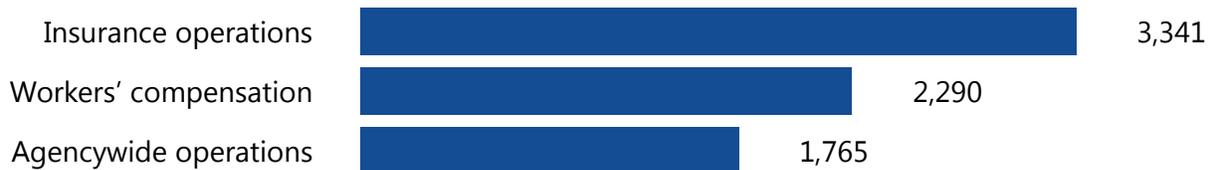
Risk assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions or events. This process provides a means to organize and integrate professional judgments for project selection and work schedule development. Activities with higher risk were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

We assessed risks within TDI by sending out agencywide questionnaires and interviewing all executive management, as well as other selected 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.

Project hours are allocated to the goals and action plans in the Fiscal Year 2017-2021 Agency Strategic Plan, shown below. We allocated 7,396 hours to audit and consulting projects including 5,396 hours for new projects and 2,000 hours for carry-over projects. All information technology, legal, and administrative operations projects are included in agencywide operations. Extra hours are available for new projects that need to be started during the year and are not in the plan. There are 400 hours for special requests and 540 hours for miscellaneous advisory projects, which are dispersed evenly to each core function area.

FY 2019 Agency Goals and Action Plans 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 resources to provide reasonable coverage of the business activities that require the most attention. Due to budget constraints, our audit staff was reduced by one full-time equivalent auditor in the summer of 2017 (14 percent of staff). During FY 2018 the executive assistant moved within the agency, and the position was replaced by an auditor allowing the division to increase its audit hours available.

Because we cannot address every risk area, it is important the commissioners and management understand audit coverage limitations and the assumed risks in unaudited areas. This plan allocates audit resources to the agency's priorities and risks at this point in time. The plan also includes 400 contingency 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, 7,396 hours are available for audits, consultations, investigations, and special requests.

FY 2019 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. It includes:

Projects Carried Forward

Some projects that began in FY 2018 were not completed by the end of the fiscal year. The following projects were started in FY 2018 and have hours allocated in FY 2019 to complete the project: general and application controls, user-developed applications, records management and support, Fiscal Year 2019 Risk Assessment, data calls, internet posting requirements, and purchasing and contracts.

Information Technology Services Projects

One project listed will focus on user developed applications on the workers' compensation portion of the agency. A user-developed applications audit was performed on the insurance portion of the agency in FY 2018. 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 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 agencywide risk assessment.

Special Initiatives

In addition to assurance and consulting engagements, Internal Audit allocates resources toward special initiatives. These initiatives include any liaison activities during the year and special requests from the Commissioner of Insurance, Commissioner of Workers' Compensation, and management.

Consulting/Advisory Activities

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

Internal Audit 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, Internal Audit will provide both formal and informal advice and suggestions on management issues, concerns, and draft policies and procedures.

Progressive internal audit departments provide additional management assistance or consulting services to their organizations. This adds value to TDI beyond assurance services and helps strengthen agency internal controls.

Administrative Activities

We included hours for 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 is also included to show a full picture of hours to be used by Internal Audit during the year.

In addition, the Internal Audit Division underwent an independent quality assurance review that was completed with a report issued in September 2015, and the division obtained the highest rating. Internal Audit staff periodically participate in a quality assurance review of another state agency and plan to participate in FY 2019. The Internal Audit Division is scheduled to go through another independent quality assurance review in late 2018.

Professional Standards

We adhere to the U.S. Government Accountability Office's Government Auditing Standards and the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, which includes the code of ethics. In addition, we conform to 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 Division performance measures for FY 2019 are:

- Complete development and approval of the Internal Audit Fiscal Year 2018 Audit Plan by September 30, 2018.
- Complete the Internal Audit 2019 Annual Report by November 1, 2018.
- Complete 80 percent of the scheduled FY 2018 audit plan projects.
- Spend more than 60 percent of planned hours available on direct audit and consulting work.
- Obtain management acceptance of 95 percent of audit issues or recommendations.
- Obtain management satisfaction on at least 80 percent of audit assurance and consulting activities.

Internal performance measure results for FY 2018 were:

- The Internal Audit Fiscal Year 2018 Audit Plan was approved in October 2017.
- The Internal Audit 2017 Annual Report was completed in October 2017.
- Of the 24 projects in the FY 2018 audit plan, 18 were completed by the end of the fiscal year (75 percent).
- There were five ongoing projects, and two projects that had not started and were carried over to the FY 2018 plan.
- Internal Audit spent about 50 percent of total hours available on direct audit or consulting work in FY 2018.
- Management acceptance of audit issues or recommendations exceeded 95 percent.
- Management satisfaction from surveys exceeded 80 percent of audit assurance and consulting activities.

Internal Audit Staffing and Budget

An organization chart for Internal Audit is shown in Schedule 2. The division includes eight full-time equivalent positions: an audit director, an assistant director, and six auditors. The FY 2019 Internal Audit Plan was developed based on the assumption that the division would be fully staffed throughout the year.

Internal Audit Division FY 2019 Budget

Expenditure		FY 2019
Salaries and longevity (8.0 FTEs)	\$	591,753.20
Other operating expenses		10,016.00
Operating budget	\$	607,756.11

Internal Audit Division staff members collectively have more than 97 years of auditing experience, including more than 36 years at TDI. In addition, audit staff have the following 21 professional certifications and advanced education degrees:

- Five Certified Internal Auditors
- Five Certified Government Auditing Professionals
- Three Certified Fraud Examiners
- Three Certified Public Accountants
- Two master's degrees
- One Certification in Risk Management Assurance
- One Certified Investments and Derivatives Auditor
- One Certified Internal Controls Auditor

Closing

Audit plans act as a guide for audit departments. This plan includes proposed projects and other initiatives for FY 2019. We have budgeted time for special requests so that we can be responsive to the immediate needs of the commissioners and management as they arise throughout the fiscal year.

As discussed 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 the time of publication.

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 Internal Audit FY 2019 Audit Plan, please contact Internal Audit Director Greg Royal at 512-676-6200 or greg.royal@tdi.texas.gov.

Schedule 1 – FY 2019 Internal Audit Plan Projects

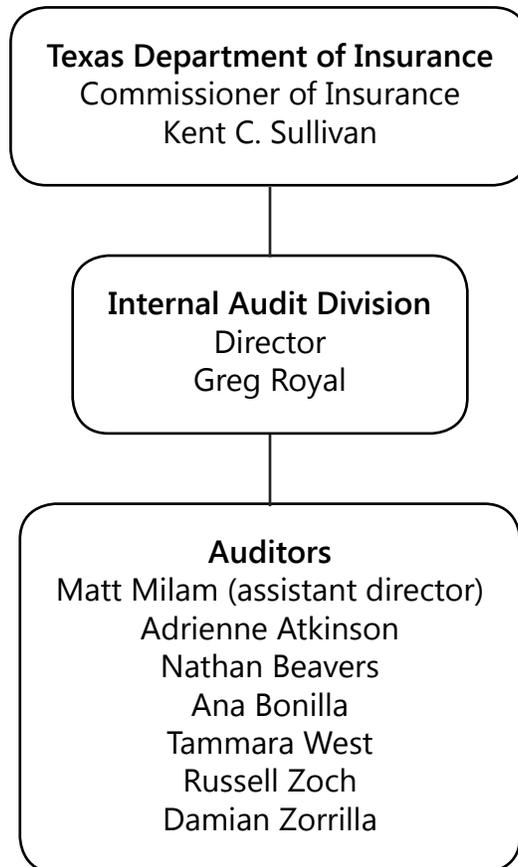
Start	Project	Area	Hours
Audit, investigation, and advisory projects			
Projects started and carried forward from FY 2018			
1st Qtr	General controls/application controls (FY 2017 Audit Plan)	Agencywide	25
1st Qtr	User-developed applications (Hobby)	Admin Ops	25
1st Qtr	Records management and support	DWC	450
1st Qtr	Fiscal Year 2019 Risk Assessment	Agencywide	100
1st Qtr	Data calls	Agencywide	350
1st Qtr	Internet posting requirements	Public Affairs	300
4th Qtr	Purchasing and contracts	Admin Ops	750
Carry-forward project subtotal			2,000
Information technology services project			
4th Qtr	User-developed applications (Workers' Compensation)	DWC	1,000
Information technology services project subtotal			1,000
Financial/performance assurance projects			
1st Qtr	FY 2017 seized/forfeited property audit	Fraud/SFMO	8
1st Qtr	Evaluate the consistency of the financial analysis process	FIN	800
2nd Qtr	Evaluation of the windstorm inspection process	Reg. Policy	900
Financial/performance assurance project subtotal			1,708
Special initiatives			
Various	Extra hours (not yet assigned to a project)	N/A	400
Special initiatives subtotal			400
Consulting/advisory projects			
1st Qtr	Open records including GovQA	Agencywide	640
2nd Qtr	Division-level risk assessment	Admin Ops	100
2nd Qtr	Ethics survey (UT Students-McCombs School)	Agencywide	100
3rd Qtr	Quality assurance processes related to the virtual call center	DWC	440
4th Qtr	Sunset assistance	DWC	400
Ongoing	ITS customer meetings	Admin Ops	18
Ongoing	ImageRight	Agencywide	50
Various	Miscellaneous advisory projects	Agencywide	540
Consulting/advisory project subtotal			2,288
Audit, investigation, and advisory project subtotal			7,396

Start	Project	Area	Hours
Administrative and required projects			
1st Qtr	Fiscal Year 2018 Internal Audit Annual Report	N/A	150
2nd Qtr	External peer review of TDI Internal Audit Division	N/A	150
3rd Qtr	Mid-year follow-up on prior audit recommendations	N/A	50
4th Qtr	Risk assessment for fiscal year 2020	N/A	300
Ongoing	Administration, staff development, special projects (24%)	N/A	3,488
Ongoing	Vacation and sick leave accrual for each employee	N/A	1,922
Ongoing	Staff required continuing professional education for licenses	N/A	320
Ongoing	TeamMate buildout of team risk module and train backup	N/A	400
Pending	Participate in external peer review of another agency	N/A	150
Administrative and required project subtotal			6,930
Total available hours*			14,326

* Available Hours: (260 work days) - (13 holidays @ 8 hours/day) = 1,976 hours/year

Schedule 2 – Internal Audit Organization Chart

As of October 23, 2018





Internal Audit Fiscal Year 2019 Audit Plan
Texas Department of Insurance
Internal Audit Division