Internal Audit
Fiscal Year 2018
Annual Report

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

Texas Department of Insurance
333 Guadalupe | Austin, Texas 78701
800-578-4677
www.tdi.texas.gov

Contents

Section I:
Compliance with House Bill 16

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) 2019 Internal Audit Plan and FY 2018 Internal Audit Annual Report online at http://www.tdi.texas.gov/reports/index.html.

This section provides all audit reports issued in FY 2018 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. 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, 17 security recommendations have been fully implemented and one will not be implemented due to cost. Of the 10 remaining security recommendations, seven are projected to be completed by December 2019. All nine of the 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.

Reports Issued in Fiscal Year 2017

2. 2016-305, Business Continuity, March 2017

High-Level Audit Objective(s)
Determine if division reconstitution plans were current and contained enough information to be used in the event the Continuity of Operations Plan (COOP) was activated.

Verify assurances made in the COOP can be carried out at an alternate location.

Observations/Findings and Recommendations

2.1 Management should enhance training and guidance at the division level to complete the reconstitution plan template. Training should include an overview of the overall objectives of Division Reconstitution Plans. Objectives would include items such as, but are not limited to:

- Procedures on how and when to resume normal operations such that surviving and/or replacement personnel can execute, regardless of the level of disruption.
- Providing the necessary procedures for conducting a smooth transition either back to the primary operating facility or at an alternate operating facility.
- Procedures to account for personnel and periodically update personnel contact list.

Current Status and Updated Management Response: Incomplete/Ongoing

Procurement and General Services (PGS) will work to finalize the reconstitution plans and develop procedures for:

- how and when to resume normal operations such that surviving and/or replacement personnel can execute, regardless of the level of disruption,
- conducting a smooth transition either back to the primary operating facility or at an alternate operating facility, and
- accounting for personnel and periodically update personnel contact list.

The target implementation date for these corrective actions is February 28, 2019.

2.2 Management should develop formal procedures for implementing the agency-wide TT&E program. The procedures should include instructions on documenting all conducted TT&E activities and storing such documentation.

TDI Executive Management should also consider relocating the Continuity Operations Planning responsibilities to another division that contains staff with more strategic planning focus and can dedicate staff towards training and continuity planning in general.

Current Status and Updated Management Response: Fully Implemented

a. We are following the established event sequences that were recommended by SORM for TT&E. Tabletop exercises were conducted on Friday 3/31/17. Going forward, OSM has assumed all COOP planning responsibilities including planning of future TT&E events. PGS will still have primary involvement in execution of TT&E events.

b. OSM has hired an enterprise risk management manager that now has responsibility, among other duties, to all planning activities regarding COOP, including updating of division reconstitution plans that are being developed by PGS and the ERM team.

Reports Issued in Fiscal Year 2018

3. 2017-304, Rehabilitation and Liquidation Oversight, September 2017

High-Level Audit Objective(s)
Determine if the Rehabilitation and Liquidation Oversight (RLO) program maintained adequate control over its accounting processes.

3.1　　Management should:
    c. Develop policies and procedures for granting, modifying, and removing access to the QuickBooks application.
    d. Develop policies and procedures for performing periodic reviews of access granted to the QuickBooks application to ensure that users have only the access necessary to perform their job functions.
    e. Maintain documentation showing periodic reviews of access granted to the QuickBooks application have been completed.
    f. Disable or remove any existing accounts for employees who no longer work in the RLO area or need access to the QuickBooks application.
    g. Require the RLO Accountant to use their user account when working in QuickBooks instead of the Administrator account.

Current Status and Updated Management Response: Fully Implemented
The RLO procedures manual was updated on January 23, 2018 with a new section titled "QuickBooks User Access." On December 7, 2017, RLO removed the former employees from the QuickBooks application. The RLO Accountant was changed from an Administrator role to a User role. The Administrator role was appropriately assigned to the director of RLO.

3.2　　Management should:
    h. Perform a review of the amounts and formulas used on the RLO Payroll Impact Worksheet to verify it has been entered accurately and it captures all relevant records.
    i. Maintain documentation evidencing this review with the Abandoned Property Fund (APF) RLO Payroll Impact Worksheet.
    j. Adjust future allocation billings to the receiverships to account for the overpayments made as a result of these errors.

Current Status and Updated Management Response: Fully Implemented
The APF RLO Payroll Impact Worksheet was immediately reviewed and updated to include a "cross check formula" to prevent any future errors. The error that was identified during the audit was corrected in the August 2017 SDR billing process and reported to the assigned SDRs on September 27, 2017.

3.3 Management should review the current methodology of billing receiverships by using the Special Deputy Receiver's (SDR) Statement of Expenses to determine whether a different methodology may be a more appropriate way to bill the receiverships. If management decides to continue using the current methodology, the RLO Operations Procedures Manual should be updated. The update should (1) reflect the current practice of management using its discretion to remove certain expenses to achieve consistency in billings and (2) identify the types of expenses which may be removed.

Current Status and Updated Management Response: Fully Implemented
A review of the methodology of using the SDR's Statement of Expenses in RLO for billing receiverships was conducted shortly after the audit. On November 6, 2017, RLO determined that the existing methodology would continue to be used. However, additional oversight and documentation was implemented.

3.4 Management should either:
  k. reallocate roles among existing staff to ensure that no one individual is responsible for authorizing transactions, recording transactions, and maintaining custody of the related assets (and update job descriptions to reflect changes in roles for affected employees), or
  l. document the current independent review and reconciliation process in the RLO Operations Procedures Manual. Formalizing the newly implemented review process will strengthen this compensating control and help ensure it is applied consistently.

Current Status and Updated Management Response: Fully Implemented
The RLO procedures were updated to reallocate roles and document the independent review of RLO staff on January 23, 2018. The job description for the accountant was not updated as these specific duties/role are very detailed and are considered day to day other duties.

Section IIA:

Internal Audit Fiscal Year 2018 Annual Audit Plan

Internal Audit
Fiscal Year 2018
Annual Audit Plan

Texas Department of Insurance
Internal Audit Division
October 2017

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Texas Department of Insurance
Internal Audit Fiscal Year 2018 Annual Audit Plan
October 2017

Plan Approved

_____   October 26, 2017
Kent C. Sullivan   Date
Commissioner of Insurance

_____   October 26, 2017
W. Ryan Brannan   Date
Commissioner of Workers' Compensation

_____   October 26, 2017
Greg Royal, CPA, CIA, CGAP, CRMA   Date
Internal Audit Director

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Overview of TDI Internal Audit Fiscal Year 2018 Annual Audit Plan

Introduction

This document provides the Fiscal Year (FY) 2018 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 2018, 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 2018.

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.[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 FY 2018 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 management responsible for championing the agency Balanced Scorecard and Enterprise Risk Management 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

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1   The Institute of Internal Auditors – International Professional Practices Framework, July 2015

ALLOCATION OF HOURS

Project hours are allocated to the current goals and action plans contained in the *Fiscal Year 2017-2021 Agency Strategic Plan*, shown in Figure 1. We allocated 7,344 hours to audit and consulting projects including 5,998 hours for new projects and 1,346 hours for carry-over projects. All IT, legal, and administrative operations projects are included in agencywide operations. In addition, there are 400 hours for special requests and 300 hours for miscellaneous advisory projects, which are dispersed evenly to each core function area. The chart in Figure 2 depicts historical data of 10 core functions. 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 2018 Agency Goals & Action Plans Coverage Hours

Figure 2 below compares Internal Audit's actual coverage for FY 2015, FY 2016, FY 2017, and budgeted coverage for FY 2018. These 10 core functions were from prior strategic plans.

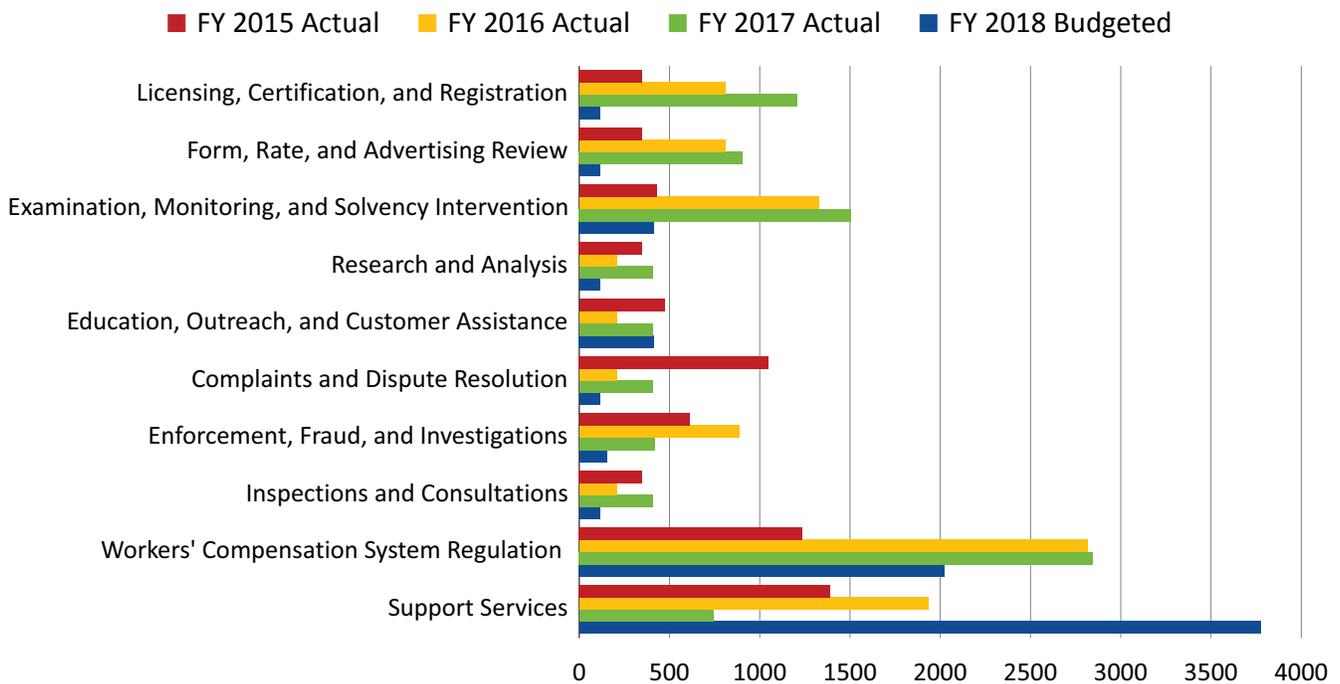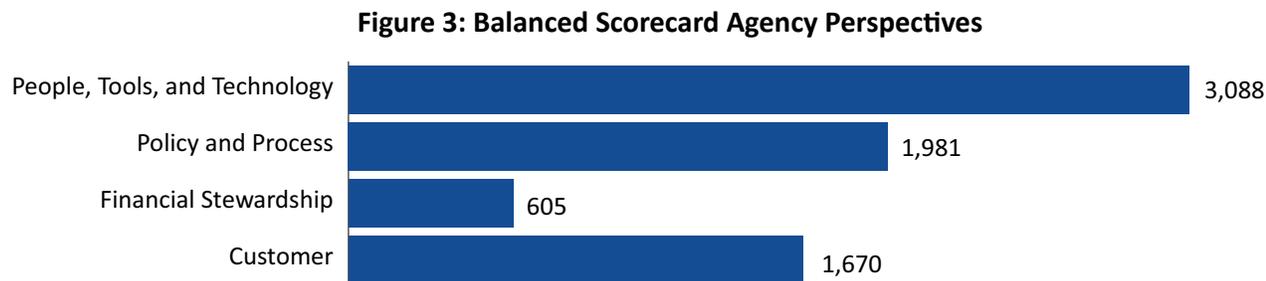**Figure 2: Historical Core TDI Function Coverage**

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

Figure 3: Balanced Scorecard Agency Perspectives

Perspective	Value
People, Tools, and Technology	3,088
Policy and Process	1,981
Financial Stewardship	605
Customer	1,670

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 that require the most attention. Due to budget constraints, our audit staff was reduced by one full-time equivalent auditor (14 percent of staff). This reduction has led to fewer hours allocated to projects than in prior fiscal years.

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 Internal Audit resources to the agency's priorities and risks at this point in time. The Audit 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, 7,344 hours are available for audits, consulting activities, investigations, and special requests.

FY 2018 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 2017 were not completed by the end of the fiscal year. The following projects were started in FY 2017 and have hours allocated in FY 2018 to complete the project: Managed Care Quality Assurance; Rehabilitation, Liquidation, and Oversight; Controls Survey; and Risk Assessment for Fiscal Year 2018. Other projects that were not started in FY 2017, yet are still included in the FY 2018 Audit Plan in some format include ITS General and Application Controls, Certified Self Insurance, and TeamMate build-out of other modules.

Information Technology Services Projects

One project listed will assess IT general and application controls and is specific to the agency environment and specific applications. The other audit will focus on user developed applications on the insurance side. 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 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 commissioners 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. 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.

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 participates in a quality assurance review of another state agency and plans to participate in FY 2018. The Internal Audit Division is scheduled to go through another independent quality assurance review in the fall of 2018.

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 2018 are as follows:
- ✯ Complete development and approval of the *Internal Audit Fiscal Year 2018 Audit Plan* by September 30, 2017.
- ✯ Complete the *Internal Audit 2017 Annual Report* by November 1, 2017.
- ✯ Complete 80 percent of the scheduled FY 2018 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 or recommendations.
- ✯ Obtain management satisfaction on at least 80 percent of audit assurance and consulting activities.

Internal Performance Measure results for FY 2017 were:
- ✯ The *Internal Audit Fiscal Year 2017 Audit Plan* was approved in September 2016.
- ✯ The *Internal Audit 2016 Annual Report* was completed in October 2016.
- ✯ Of the 23 projects in the FY 2017 Audit Plan, 16 were completed by the end of the fiscal year (70 percent). There were five on-going projects and two projects that had not started and were carried over to the FY 2018 Audit Plan.
- ✯ Internal Audit spent 65 percent of total hours available on direct audit or consulting work in FY 2017.
- ✯ 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

A current organization chart for Internal Audit is attached to this plan and shown in Schedule 2. The division includes eight full-time equivalent positions: an audit director, six auditors, and an executive assistant. The FY 2018 Internal Audit Plan was developed based on the assumption that the division would be fully staffed throughout the year. The FY 2018 budget is included in this plan and is shown in Schedule 3.

Current Internal Audit staff members collectively have over 69 years auditing experience, including over 31 years at TDI. In addition, audit staff possesses the following 19 professional certifications and advanced education:
- ✯ Four Certified Internal Auditors (CIA)
- ✯ Three Certified Government Auditing Professionals (CGAP)
- ✯ Three Certified Fraud Examiners (CFE)
- ✯ Two master's degrees
- ✯ Three Certified Public Accountants (CPA)
- ✯ One Certification in Risk Management Assurance (CRMA)
- ✯ One Certified Investments and Derivatives Auditor (CIDA)
- ✯ One Certified Internal Controls Auditor (CICA)
- ✯ One Certified Information Systems Auditor (CISA)

During FY 2017, one CPA, one CIA, one CISA, and two CFE certifications were obtained by four different staff members. Current staff is also actively pursuing CPA and CISA certifications in order to enhance skills.

Closing

Audit plans act as a guide for audit departments. This plan includes proposed projects and other initiatives for FY 2018. 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 2018 Audit Plan, please contact the Internal Audit Director, Greg Royal, at (512) 676-6200 or by email at greg.royal@tdi.texas.gov.
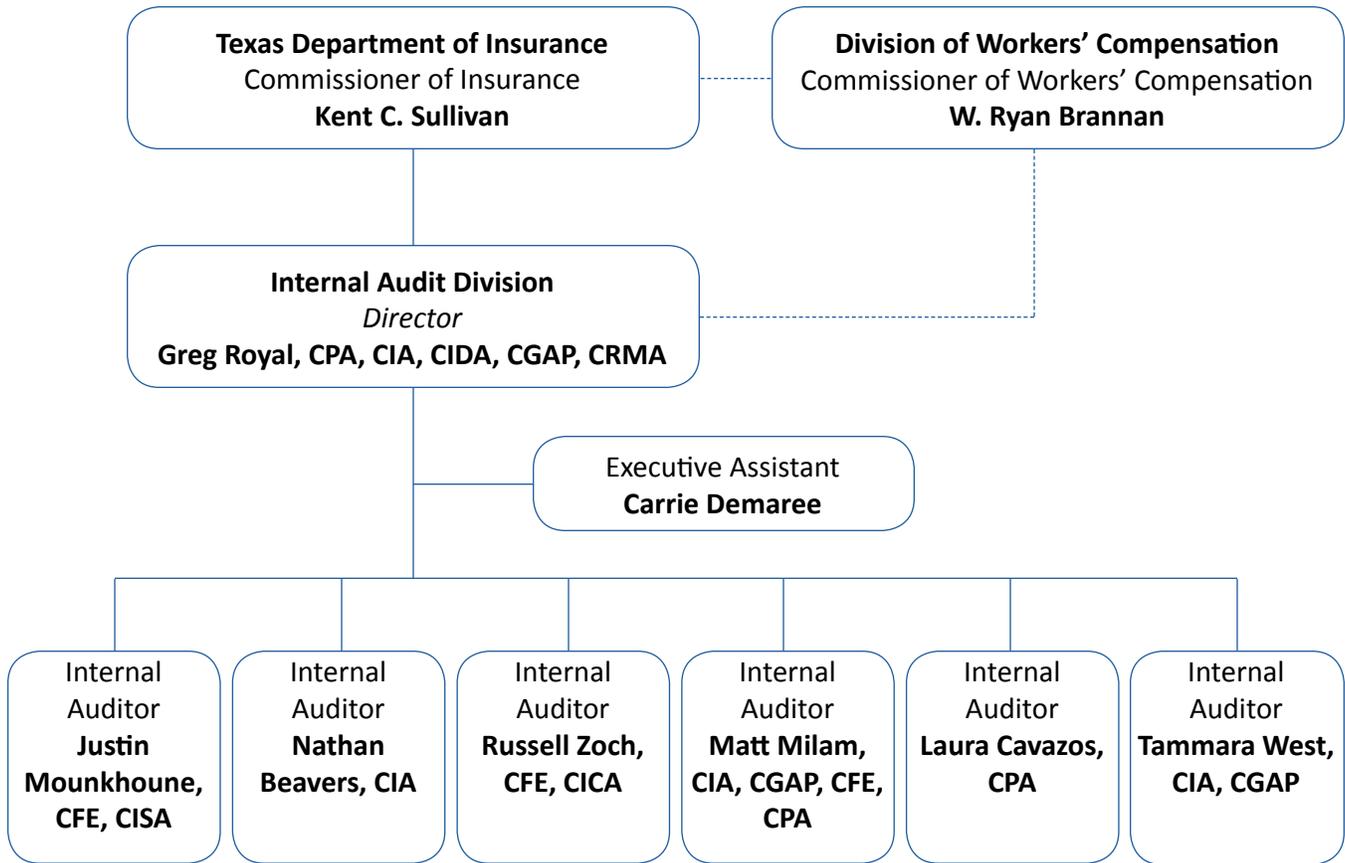
Schedule 1 – FY 2018 Internal Audit Plan Projects

Project #	Project Description	Program Area	Hours
Audit, Investigation, and Advisory Projects			
Projects Started and Carried Forward from FY 2017			
2017-607	Managed Care Quality Assurance (MCQA)	Fin. Reg.	150
2017-304	Rehabilitation and Liquidation Oversight Program	Fin. Reg.	150
2017-604	Controls Survey Risk Ranking	Agencywide	250
Pending	Certified Self-Insurance	DWC GC	700
2017-305	Subsequent Injury Fund	DWC	10
2017-405	FY 2018 Risk Assessment	Agencywide	86
Carry-Forward Project Subtotal			*1,346*
Information Technology Services Project			
Pending	General Controls/Application Controls (FY 2017 Audit Plan)	Agencywide	750
Pending	User Developed Applications (Hobby)	Agencywide	750
Information Technology Services Project Subtotal			*1,500*
Financial/Performance Assurance Projects			
Pending	Claims and Customer Service (Form 24 Review)	DWC	600
Pending	Records Management and Support	DWC	600
Pending	Purchasing and Contracts	Admin. Ops	750
Pending	Mail room/cashier's office	Admin. Ops	500
Pending	Mid-year recommendations follow-up (Internal Audit Reports)	Agencywide	50
2018-301	FY 2017 Seized/Forfeited Property Audit *(Code of Criminal Procedures Art 59.06)*	Fraud/SFMO	40
Financial/Performance Assurance Project Subtotal			*2,540*
Special Initiatives			
Various	Special assigned audits, investigations, or management requests	N/A	400
Special Initiatives Subtotal			*400*
Consulting/Advisory Projects			
Ongoing	Agency Strategy – Balanced Scorecard/ERM Workgroups	Admin. Ops	100
Ongoing	ITS Customer Meetings	Agencywide	24
Pending	Internet Posting Requirements	Public Affairs	300
Pending	Cell Phone and iPad Usage	Agencywide	440
Pending	Breach Response	Legal	300
Pending	Data Governance	Agencywide	47
Pending	Document Management	Agencywide	47
Pending	Miscellaneous Advisory Projects	Agencywide	300
Consulting/Advisory Project Subtotal			*1,558*
Audit, Investigation, and Advisory Project Subtotal			*7,344*
Administrative and Required Internal Audit Projects			
Ongoing	Internal Audit general administration (auditor staff at 17.5 percent)	N/A	2,220
Ongoing	Maximum annual vacation and sick leave accrual for each employee	N/A	1,620
Pending	FY 2019 Risk Assessment	N/A	400
Ongoing	Staff Training	N/A	280
Pending	TeamMate build-out of other modules	N/A	400
Pending	External Peer Review – part of the State Agency Internal Audit Forum Team	N/A	150
Pending	FY 2017 Internal Audit Annual Report	N/A	120
Pending	Internal Self-Assessment	N/A	150
Administrative and Other Internal Audit Project Subtotal			*5,340*
Total Available Hours*			**12,684**

*   Available Hours: (261 work days) - (14 holidays @ 8 hours/day) = 1,976 hours/year
(1,976 hours x 6 auditors + 1,976 x .5 audit director hours to projects) = 12,844 Total Hours
Total Hours (12,844 - 160) = 12,684 (1 auditor out of the office the month of September)

SCHEDULE 2 – INTERNAL AUDIT ORGANIZATION CHART

As of October 1, 2017

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┌─────────────────────────────────┐        ┌─────────────────────────────────┐
│  Texas Department of Insurance  │········│  Division of Workers' Compensation│
│   Commissioner of Insurance     │        │ Commissioner of Workers' Compensation│
│      Kent C. Sullivan           │        │       W. Ryan Brannan           │
└─────────────────────────────────┘        └─────────────────────────────────┘
                 │
┌─────────────────────────────────┐
│     Internal Audit Division     │
│           Director              │
│ Greg Royal, CPA, CIA, CIDA, CGAP, CRMA │
└─────────────────────────────────┘
                 │        ┌─────────────────────────────┐
                 ├────────│     Executive Assistant     │
                 │        │       Carrie Demaree        │
                 │        └─────────────────────────────┘
```

| Internal Auditor **Justin Mounkhoune, CFE, CISA** | Internal Auditor **Nathan Beavers, CIA** | Internal Auditor **Russell Zoch, CFE, CICA** | Internal Auditor **Matt Milam, CIA, CGAP, CFE, CPA** | Internal Auditor **Laura Cavazos, CPA** | Internal Auditor **Tammara West, CIA, CGAP** |

SCHEDULE 3 – FY 2018 ANNUAL OPERATING BUDGET

Expenditure Category	FY 2018
Salaries and Longevity (8.0 FTEs)	$ 590,911.43
Other Operating Expenses	10,016.00
Total Operating Budget	**$ 600,927.43**

Internal Audit Fiscal Year 2018 Annual Audit Plan
Texas Department of Insurance
Internal Audit Division

IAAP | 1017

Deviations from Internal Audit Fiscal Year 2018 Annual Audit Plan

Section IIB: Deviations from Fiscal Year 2018 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 three projects during fiscal year (FY) 2018 that were in the approved FY 2018 Audit Plan. These projects include:
- Mail room/cashier's office
- Cell phone and iPad usage
- Breach response

Due to executive requests, a project on agency data calls was started in FY 2018 and is carried forward to the current fiscal year to complete. This project was not in the FY 2018 audit plan. As of October 2018, all other planned activities approved in the FY 2018 Audit Plan were either completed as an assurance or advisory activity or are in process. Current status of carry-over projects from the FY 2018 Audit Plan:
- General controls Application controls – completed in October 2018
- User-developed applications – completed in October 2018
- Records management and support – currently in reporting stage
- Risk Assessment for FY 2019 – completed September 2018
- Purchasing and contracts – pending
- Internet posting requirements – currently in fieldwork stage

Section III:
Completed Consulting Engagements and Non-Audit Services

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
2018-002	Balanced scorecard	Participated on each perspective team and attended quarterly Balanced Scorecard meetings.	Kept abreast of agency activities and provided internal audit advice. The agency no longer tracks balanced scorecard initiatives.
2018-003	ERM workgroup	Participated in an agency wide ERM workgroup.	Provided advice and counsel during the development of the agency's ERM framework. ERM workgroup has been put on hold due to other agency priorities.
2018-004	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.
2018-005	Document management	Participated in an advisory capacity at team meetings for new system.	Provided advice and counsel to the team in the design of an improved document management system.
2018-403	FY 2019 Risk Assessment	Assessed various risks throughout TDI in order to assist in the formation of the FY 2019 Internal Audit Plan.	Basis for forming the Internal Audit FY 2019 Annual Audit Plan.
2018-404	Mid-year follow-up of prior audit recommendations	Followed up on all outstanding prior internal audit recommendations.	Satisfied Texas Internal Audit Act requirements.
2018-602	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.

Project	Engagement	High-Level Consulting Engagement Objective	Impact
2018-605	Student self-assessment	Participated in a self-assessment of Internal Audit in coordination with the UT McCombs School of Business Internal Audit team.	Prepared Internal Audit for peer review that occurs every three years.
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. The Executive Steering Committee format for project management has been discontinued.
N/A	Fraud panel investigations	Participated in an advisory capacity to ensure compliance regarding the reporting of suspected fraud, waste, or abuse.	Helped to ensure the investigation of any reported fraud, waste, or abuse that is brought to the attention of the panel.
N/A	ITS customer meetings	Participated in an advisory capacity at monthly meetings with ITS staff and division staff that use applications.	Information obtained can be used for audit planning and the annual risk assessment.

Section IV:
External Quality Assurance Review

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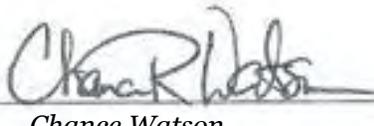**EXTERNAL QUALITY ASSURANCE REVIEW - SEPTEMBER 2015**

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 inter views 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.

Benito Ybarra	*Date*	*Chance Watson*	*Date*
Chief Audit and Compliance Officer		*Internal Audit Director*	
Texas Department of Transportation		*Texas Department of Family and Protective Services*	
SAIAF Peer Review Team Leader		*SAIAF Peer Review Team Member*	

Section V:

Internal Audit Fiscal Year 2019 Annual Audit Plan

Internal Audit
Fiscal Year 2019 Audit Plan

Texas Department of Insurance
Internal Audit Division
October 2018

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333 Guadalupe | Austin, Texas 78701
800-578-4677
www.tdi.texas.gov

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

Plan approved

_____   October 31, 2018
Kent C. Sullivan   Date
Commissioner of Insurance

_____   October 31, 2018
Greg Royal   Date
Internal Audit Director

Contents

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

Insurance operations	3,341
Workers' compensation	2,290
Agencywide operations	1,765

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.
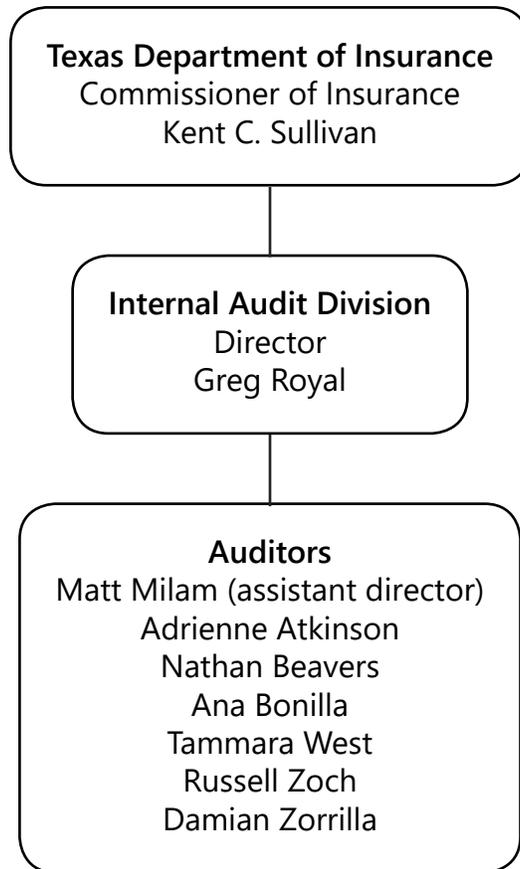
Schedule 1 – FY 2019 Internal Audit Plan Projects

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

Texas Department of Insurance
Commissioner of Insurance
Kent C. Sullivan

Internal Audit Division
Director
Greg Royal

Auditors
Matt Milam (assistant director)
Adrienne Atkinson
Nathan Beavers
Ana Bonilla
Tammara West
Russell Zoch
Damian Zorrilla

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Section VI:
External Audit Services

TDI

Section VI: External Audit Services

The following represents TDI external audit services procured or in progress in fiscal year 2018.

Auditee	Auditor
Texas Department of Insurance	Texas Workforce Commission
Office of Injured Employee Counsel	McConnell & Jones LLP

Section VII:
Reporting Suspected Fraud and Abuse

Section VII: Reporting Suspected Fraud and Abuse

The following represent TDI actions taken to meet suspected fraud and abuse reporting requirements.

Requirement	Actions Taken
Reporting Requirements: Article IX 7.09, Fraud Reporting, General Appropriations Act (85th Legislature)	The agency has provided a link to the State Auditor's Office (SAO) fraud hotline on the home page of TDI's websites. In addition, the agency has internal procedures for staff to report fraud, waste, or abuse.
Texas Government Code 321.022	The Internal Audit director sits on the agency Fraud Panel and sends quarterly reports to the SAO Investigations and Audit Support of any suspected fraud, waste, or abuse that is brought to the attention of the panel. Any incident considered remarkable is immediately reported to the SAO.

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