



# **Internal Audit Annual Report**

## **Fiscal Year 2011**

**November 1, 2011**  
**No. 2012-004**

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# I - Internal Audit Plan for Fiscal Year 2011

<b>Office of Injured Employee Counsel FY 2011 Annual Audit Plan</b>		<b>Budgeted Hours</b>
<b>Assurance Services</b>		<b>1,400</b>
Customer Service Division Follow Up	250 hours	
Quality Assurance Division	250	
Agency Training Activities	200	
Complaint Processes	150	
Ombudsman Program	300	
Post-Payment Expenditure Audit	250	
<b>Reserved for Management Assistance</b>		<b>100</b>
<b>Other Internal Audit Activities</b>		<b>272</b>
Internal Audit Charter (FY 2010 – Updates as needed)	30 hours	
Continuing Education and Professional Development	40	
FY 2010 Annual Reporting Activity	40	
FY 2011 Internal Audit Risk Assessment and Audit Plan	12	
FY 2012 Internal Audit Risk Assessment and Audit Plan	20	
Policy and Procedure Development	30	
Other Administrative Projects	20	
Participation in State Agency Internal Audit Forum Peer Reviews	80	
<b>Internal Auditor Paid Benefit Hours</b>		<b>308</b>
Annual Leave - 12 months* 9 hrs =	108 hours	
Sick Leave - 12 months* 8 hrs =	96	
Paid State Holidays - 13.0 * 8 hrs =	104	
<b>Total Project Hours</b>		<b>2,080</b>

## **II. External Quality Assurance Review**

The Office of Injured Employee Counsel (OIEC) was established March 1, 2006, as a result of HB 7 during the 79th Texas Legislature, Regular Session, 2005. HB 7 abolished the Texas Workers' Compensation Commission (TWCC) and established the Division of Workers' Compensation (DWC) as a division within the Texas Department of Insurance (TDI). HB 7 also preserved and moved TWCC's Ombudsman Program to OIEC.

As a relatively new agency, OIEC has had no external quality assurance reviews of its internal audit function to date.

During FY 2010 the Agency's Internal Auditor agreed to participate as a peer review team member in quality assurance reviews of other state agencies through the State Agency Internal Audit Forum. This participation will enable OIEC's Internal Auditor to earn required credits toward an external quality assurance review of the Agency's internal audit function. To date the Internal Auditor has not been asked to serve as a peer review team member in a quality assurance review of another state agency.

### III. List of Audits Completed Showing High-level Objectives, Observations/Findings, Recommendations, and Implementation Status

Report No.	Report Date	Name of Report	High Level Audit Objective(s)	Observation/Findings and Recommendations	Current Status	Fiscal Impact/Other Impact
2010-009	9/30/10	Administration & Operations Division Review	<p>Determine whether the procedures applicable to the Administration &amp; Operations Division are being followed and whether these procedures adequately reflect management's needs and requirements.</p> <p>Determine whether the Agency has complied with its reporting requirements.</p> <p>Determine whether Performance Measures reported for FY 2010 were accurate.</p> <p>Determine whether education requirements for frequent travelers were met.</p>	<p>Current administrative procedures and directives for the Administration and Operations Division present a fairly detailed and clear message concerning the duties of staff and how the functions of the Division are to be performed. There were no findings concerning the procedures and controls in place.</p> <p>The Agency has complied with the reporting responsibilities to the Legislative Audit Committee and the State Auditor's Office. A worksheet or checklist of reports required was suggested as a tool to assure compliance with all reporting responsibilities.</p> <p>Performance Measures reported for FY 2010 were tested. No exceptions were noted.</p> <p>The requirements for driver's education were met by all staff identified as frequent travelers.</p>	<p>Policies and Procedures are kept current by requiring that all are reviewed at least once each two years.</p> <p>The checklist has been developed.</p> <p>Reporting requirements are monitored and procedures modified as necessary by changes.</p> <p>As any staff are added to the list of identified frequent travelers, they are informed of these requirements and given 90 days to complete the training.</p>	<p>Failure to adhere to various reporting requirements could result in adverse decisions on the Agency's funding in the legislative process.</p>

2011-005	5/26/11	Post Payment Audit	<p>Travel expenditures were reviewed for compliance with the General Appropriations Act (GAA), the State of Texas Travel Allowance Guide, the Travel Regulations Act, and OIEC's Travel Procedure Number 08-05.</p> <p>Other purchase expenditures were reviewed for compliance with the GAA, the State of Texas Purchase Policies and Procedures Guide (Purchase</p>	<p>There were four errors, totaling \$473.81 in over-reimbursements, noted in the test of individual travel expenditures. These over-reimbursements were the difference between the amounts reimbursed for personal automobile mileage and the estimated cost of a rental car plus gasoline (as required by page 7, Least Cost Worksheet provisions of OIEC Travel Procedure ADMIN 08-05).</p> <p>A staff member was reimbursed for a pre-paid fuel card for \$65.00 to refuel a rental car.</p> <p>There were no exceptions noted in the testing of General Expenditures.</p>	<p>The amounts of these over-reimbursements were refunded to the Comptroller's Office after the discussion of the draft report of these findings.</p> <p>As above. Also management has directed that prepaid fuel cards are not to be used by staff.</p> <p>Management revised Travel Procedure ADMIN 08-05 to provide that the cost comparison between travel in a personal vehicle to that of a car rental plus estimated gasoline is to include the estimated salary cost of the traveler for the time taken to acquire and return the rental car. If these provisions had been in effect during the period of this review, there would have been only two over-reimbursements totaling \$9.15.</p>	<p>To ensure accountability for State funds the supporting documentation maintained for travel reimbursements and other general expenditures should document compliance with all applicable laws and regulations.</p> <p style="text-align: center;">- 4 -</p>
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			<p>Guide), and Uniform Statewide Accounting System processing requirements. Determine whether the procedures applicable to travel reimbursements and general expenditures of the Agency are being followed and whether these procedures adequately reflect management's needs and requirements.</p>	<p>Current administrative procedures and directives for the processing of travel reimbursements and general expenditures present a fairly detailed and clear message concerning the duties of staff, and how the functions are to be performed. There were no findings concerning the procedures and controls in place.</p>		
2011-006	10/17/11	Complaint Process Review	<p>Determine whether the procedures applicable to complaints received and processed by the Agency are being followed and whether these procedures adequately reflect management's needs and requirements.</p> <p>Follow up on the findings and recommendations from Audit Project #2010-006 completed 2/4/10.</p>	<p>Current administrative procedures and directives for the processing of complaints received present a fairly detailed and clear message concerning the duties of staff, and how the functions are to be performed. There were no findings concerning the procedures and controls in place.</p> <p>There were six (6) instances in which the Legal Services Program did not complete their review and revision(s) of draft complaint responses within the guideline of five (5) business days from the date the drafts were received. There were no instances in which the Agency's response was not in compliance with the required deadline of thirty (30) business days from the date the complaint was received.</p>	<p>Management attention to compliance with the suggested guidelines has been increased.</p>	<p>Legislative and public perception of the Agency could be adversely effected by ineffective handling of customer complaints.</p>

2011-007	4/4/11	Agency Training Activities Review	<p>Determine whether the procedures applicable to training activities and requirements of the Agency are being followed and whether these procedures adequately reflect management's needs and requirements.</p> <p>Personnel files were reviewed for documentation that all required training had been completed for a sample of staff.</p> <p>Intranet training resource links were reviewed for accuracy and completeness.</p> <p>Core Training Links applicable to all new staff and links to training resources specific only to the Ombudsman</p>	<p>Current administrative procedures and directives for the training activities of the Agency present a fairly detailed and clear message concerning the duties of staff, and how the functions are to be performed. There were no findings concerning the procedures and controls in place.</p> <p>Employment Discrimination and Sexual Harassment Training was attended within 30 days of initial employment and at least once every two years thereafter is required. It was noted that several tenured employees had not attended or viewed the training within the past two years. Employees who exceeded the two-year requirement were reported to management. Since only a sample of employees was tested, it was recommended that management perform a review of all personnel files and direct any employees that had not completed the training within the past two years to view and document the training modules on the TDI intranet website.</p> <p>These reviews revealed a few instances in which the links to training materials were faulty. Although these instances were rare, periodic reviews by management or assigned staff should be performed throughout the year. Faulty links should be reported to the agency's Communications Specialist responsible for maintenance of the internet and intranet websites for OIEC.</p> <p>Outlines of the training required of all new employees should be developed, and initialed as completed by each new employee, then approved by their respective supervisors, and placed in their personnel files.</p>	<p>All Agency employees viewed existing training materials on the internet and provided the Staff Services Officer with certifications of completion.</p> <p>The agency's Communications Specialist is continuously reviewing the pages on the intranet and the internet to ensure any broken links are quickly corrected. The IT Division of TDI provides OIEC with the Web Link Validator's Report on a regular basis. The Communications Specialist uses this report to fix</p>	<p>Efficient and effective operations of the Customer Service and Ombudsman Programs are dependent on the proficiency of Agency staff. An investment of resources is necessary to have effective programs that achieve results consistent with established objectives and goals of the Agency.</p>
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			and Customer Service Program staff were reviewed.		broken links as needed.	
2011-008	N/A	Quality Assurance Program	This Program was terminated effective October 1, 2010. No audit was performed for this Program since staff had been re-assigned to other programs within the Agency.		The functions of the former Quality Assurance Program were assumed by the Ombudsman Program and Customer Service Program. These programs have developed QA Review instruments and a schedule for reviews of a sample of the field offices in FY 2012.	
2011-009	10/17/11	Customer Service Program Audit	<p>Follow up on the findings and recommendations from Audit Project #2010-005 completed 1/5/10.</p> <p>Determine the status of management responses and planned corrective actions.</p> <p>Determine whether the procedures applicable to the Customer Service Program are being followed and whether these procedures adequately reflect management's needs and requirements.</p> <p>Review samples of injured employee case</p>	<p>DRIS Codes used for identification (ODI) and resolution (ODP) of disputes were not used in several injured employees' claims. Compliance with this requirement decreased by 0.74% from the previous audit results. Recommended continued training in the proper use of inquiry codes in the DRIS system.</p> <p>In several cases referrals made to the Ombudsman Program were not indicated by use of the code OCR or were referred beyond the ten business-day requirement of Field Procedure 08-05. Compliance with this requirement decreased by 6.34% from the previous audit results. Recommended continued training in Field Procedure 08-05 and in the proper use of the OCR inquiry code in the DRIS system.</p>	The use of proper DRCD inquiry codes has been the subject of training sessions at the OIEC Annual Conference and in monthly ombudsman teleconferences.	<p>Consistent use of the proper inquiry codes in DRIS will enable management to monitor compliance with agency policies and directives.</p> <p>This will also enhance the accuracy of performance measures reported by the agency.</p>

			<p>files to determine compliance with applicable policies and procedures.</p> <p>Monitor a sample of incoming phone calls taken by Customer Service Representatives (CSRs) to determine compliance with established standards for customer service.</p>			
2011-010	10/17/11	Agency Ombudsman Program Review	<p>Follow up on the findings and recommendations from Audit Projects #2009-006 completed July 15, 2009 and #2010-009 completed 8/18/10.</p> <p>Determine the status of management responses and planned corrective actions.</p>	<p>Compliance rates for all attributes reviewed in Ombudsman working folders improved during the current audit except for inclusion of the Working Folder Checklist. In the previous audit there were 2 exceptions noted, while in the current audit there were 5 exceptions noted. These exceptions were due to improper procedures when purging inactive Ombudsman working folders.</p> <p>The DRCD notes for 6 cases did not include identification of disputed issues by use of the "ODI" inquiry code. This was a substantial decrease from the 40 exceptions noted in the previous audit when this code was first established.</p> <p>The Program should continue to emphasize the importance of obtaining the DWC Form 041, <i>Employee's Claim for a Work-Related Injury or Occupational Disease</i>. There were eight (8) cases in which injured employees did not complete this form, compared to forty-six (46) cases in the previous audit.</p>	<p>Management will continue to emphasize the importance of the form in training sessions and through the use of directives / reminders. Additional training will be provided regarding purging inactive Ombudsman working folders.</p> <p>Management will continue to emphasize the importance of using DRIS codes properly in training sessions and through the use of directives / reminders.</p>	<p>Consistent use of the proper forms in working folders will enable management to achieve the goals of the Ombudsman Program.</p> <p>Consistent use of the proper inquiry codes in DRIS will enable management to monitor compliance with the requirements of Agency Policies, Procedures and Directives. This will also enhance the accuracy of performance measures reported by the agency.</p>

			<p>Review operations of the Ombudsman Program to ascertain whether results are consistent with established objectives and goals and whether the program is being carried out as planned.</p> <p>Review the established systems to ensure compliance with policies, plans, procedures, laws and regulations of the Ombudsman Program which could have a significant impact on operations and reports, and determine whether the agency is in compliance.</p> <p>Review samples of the Ombudsman Working Folders and electronic notes contained in the DRIS system to determine compliance with established policies, procedures and standards.</p>	<p>Reviews of Performance Measures of the Ombudsman Program for the Fiscal Year Ended 8/31/11 indicated that the Agency met or exceeded 57% of the Key Measures directly related to the Ombudsman Program. As an Agency overall 66% of all Performance Measures were met.</p> <p>Current administrative procedures and directives for the Ombudsman Program present a fairly detailed and clear message concerning the duties of staff, and how the functions are to be performed. There were no findings concerning the procedures and controls in place.</p> <p>Compliance rates for all attributes reviewed in Ombudsman working folders improved during the current audit except for inclusion of the Working Folder Checklist. See comments above regarding this exception.</p>	<p>Management will continue to emphasize the importance of the form in training sessions and through the use of directives / reminders.</p>	<p>Consistently requiring injured employees to file the DWC-041 will help injured employees to protect their rights in the workers' compensation system.</p>
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#### **IV. List of Consulting Engagements and Non-audit Services Completed**

Was appointed and served as the Agency's Project Manager for a TDI team formed to develop reporting routines in the Compass database to automate the OIEC Dispute Tracking Sheet for the Customer Service and Ombudsman Programs. This project is currently in progress and expected to be completed in December 2011.

Served as liaison to DWC IT to request development of an additional appointment or proceeding type in Compass for Case Development appointments. This request included a detailed description of how the appointments would be used and a definition of a Case Development appointment. It also detailed the manual steps performed by OIEC staff currently to illustrate the time savings that would be accomplished if the request is approved.

There were no other consulting engagements or non-audit services performed in FY 2011.

## **V. Organization Chart**

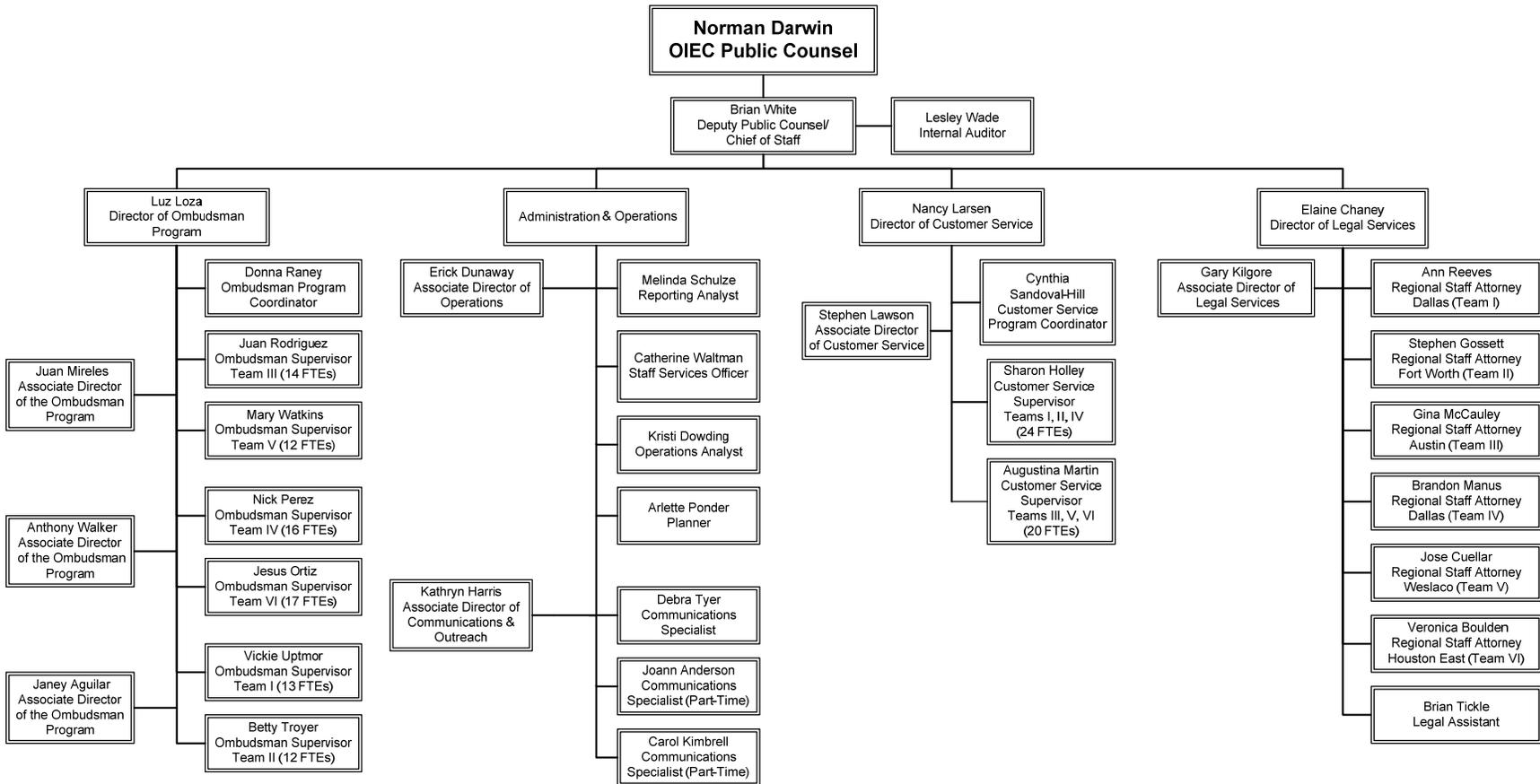
An organization chart as of October 17, 2011, that reflects the position of the Office of Injured Employee Counsel's internal audit department is on the following page.

On May 7, 2007, OIEC received authority from the Texas State Auditor's Office to contract with a private certified public accounting firm to provide internal audit services.

From August 11, 2008, through January 22, 2009, the internal audit department was staffed with one part time employee. Beginning March 16, 2009, the Agency staffed the department with one full time employee.

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# Office of Injured Employee Counsel



October 17, 2011

## **VI. Report on Other Internal Audit Activities**

The internal auditor completed the FY 2012 Risk Assessment and Audit Plan.

The internal auditor attended several continuing professional education courses to comply with Texas State Board of Public Accountancy licensing standards and with generally accepted auditing standards to enhance audit knowledge, skills, and other competencies.

The internal auditor attended the OIEC Annual Conference in June 2011 to enhance knowledge of the agency's programs, activities and functions.

Attended Directors' Meetings, Leadership Conferences, Staff Meetings and various teleconferences held during the year.

## VII - Internal Audit Plan for Fiscal Year 2012

<b>Office of Injured Employee Counsel FY 2012 Annual Audit Plan</b>		<b>Budgeted Hours</b>
<b>Assurance Services</b>		<b>1,380</b>
Ombudsman Program Audit	350 hours	
Customer Service Program Audit	320	
Legal Services Division Review	160	
Payroll / Personnel Audit	250	
Operations Division Review	200	
Budget (Revenue & Expenditures) Review	100	
<b>Reserved for Management Assistance</b>		<b>100</b>
<b>Other Internal Audit Activities</b>		<b>280</b>
Internal Audit Charter (FY 2011 – Updates as needed)	30 hours	
Continuing Education and Professional Development	40	
FY 2011 Annual Reporting Activity	40	
FY 2012 Internal Audit Plan	20	
FY 2012 Internal Audit Risk Assessment and Audit Plan	20	
Policy and Procedure Development	30	
Other Administrative Projects	20	
Participation in State Agency Internal Audit Forum Peer Reviews	80	
<b>Internal Auditor Paid Benefit Hours</b>		<b>320</b>
Annual Leave -	12 months* 10 hrs =	120 hours
Sick Leave -	12 months* 8 hrs =	96
Paid State Holidays -	13.0 * 8 hrs =	104
<b>Total Project Hours</b>		<b>2,080</b>

## **VIII. External Audit Services**

During the fiscal year ended August 31, 2011, there were two external audits performed on the Office of Injured Employee Counsel by the State Office of Risk Management.

The first report was a Risk Management Program Review dated May 31, 2011, and the second was an on-site consultation report on the TDI-OIEC Disaster Recovery Plan / Business Continuity Plan dated September 22, 2011.

## **IX. Reporting Suspected Fraud and Abuse**

Effective in July 2009, the Office of Injured Employee Counsel placed on the home page of its public website as well as the home page of its intranet website information on how to report suspected fraud, waste or abuse involving state resources directly to the Texas State Auditor's Office, and a link to the State Auditor's fraud reporting unit.

In OIEC's Administration Procedure 09-02 "Procedure for Reporting Suspected Fraud, Waste or Abuse" adopted October 2009, all agency employees are reminded of the serious nature of fraud, waste or abuse of state resources and instructed to report any suspected activities to the Texas State Auditor's Office. This procedure, directed to all employees, includes the responsibilities of the Public Counsel regarding reporting and coordination requirements of Texas Government Code Section 321.022.

OIEC is not receiving any appropriations from the American Recovery and Reinvestment Act (ARRA) and is therefore not covered by the provisions of Article XII, Section 5 (c) for posting ARRA reports on its website.