State Auditor's Office

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An Audit Report on

Performance Measures at the Department of Insurance

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Overall Conclusion

The Department of Insurance (Department) reported reliable results for 83 percent (five of six) of the fiscal year 2006 and the first quarter of fiscal year 2007 key performance measures audited. A result is considered reliable if it is certified or certified with qualification.

Specifically:

> The reported results for four of the key performance measures tested were certified.

> The reported result for one of the key performance measures was certified with qualification.

> Factors prevented the certification of one of the key performance measures tested: Number of Persons Receiving Return-to-Work Training Products and Services. The Department did not follow the methodology established by the Automated Budget and Evaluation System of Texas (ABEST) for calculating this measure.

Table 1 on the next page summarizes the certification results for the six key performance measures tested.

Background

Agencies report results for their key measures to the Legislative Budget Board's budget and evaluation system, which is called the Automated Budget and Evaluation System of Texas, or ABEST.

Table 1

Department of Insurance (Agency No. 454)			
Related Objective or Strategy, Classification, and Description of Measure	Fiscal Year	Results Reported in ABEST	Certification Results
A. Output, Number of Complaints Resolved	2006 2007 (1st Quarter)	26,255 5,987	Certified
B. Outcome, Average Number of Days from "At Risk" Identification to Solvency Related Regulatory Action	2006	23	Certified
C. Output, Number of Windstorm Inspections Completed	2006 2007 (1st Quarter)	18,923 2,179	Certified
C.1.1 Efficiency, Average Cost Per Windstorm Inspection	2006 2007 (1st Quarter)	$44 $76	Certified
F.1.1 Output, Number of Persons Receiving Return-to-Work Training Products and Services	2006 2007 (1st Quarter)	29,448 6,310	Factors Prevented Certification
F.1.1 Efficiency, Average Number of Participants Per Return-to-Work Seminar	2006 2007 (1st Quarter)	88.69 85.58	Certified with Qualification

A measure is **Certified** if reported performance is accurate within plus or minus 5 percent of actual performance and if it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

A measure is **Certified With Qualification** when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification when controls are strong but source documentation is unavailable for testing. A measure is also certified with qualification if agency calculation of performance deviated from the measure definition but caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

A measure is **Inaccurate** when the actual performance is not within 5 percent of reported performance, or when there is more than a 5 percent error in the sample of documentation tested. A measure is also inaccurate if the agency's calculation deviated from the measure definition and caused more than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

A **Factors Prevented Certification** designation is used if documentation is unavailable and controls are not adequate to ensure accuracy. This designation also will be used when there is a deviation from the measure definition and the auditor cannot determine the correct performance measure result.

Summary of Management's Response

The Department agrees with the findings and recommendations in this report.

Summary of Information Technology Review

This audit included a review of access controls for the Department's systems that support the various performance measures covered by this audit, including the Complaint Inquiry System, Case Tracking System, and Windstorm System.

Auditors identified weaknesses in the Department's management of access to its information technology resources. However, auditors found no evidence that unauthorized changes had been made to the performance measures being reviewed.

Summary of Objectives, Scope, and Methodology

The objectives of the audit were to:

➢ Determine whether the Department is accurately reporting selected performance measures to the Automated Budget and Evaluation System of Texas (ABEST) database.

➢ Determine whether the Department has adequate control systems in place over the collection, calculation, and reporting of selected performance measures.

The scope of this audit covered key performance measure results reported by the Department for fiscal year 2006 and the first quarter of fiscal year 2007. Auditors also reviewed controls over the submission of data used in reporting performance measures and traced performance information to the original source whenever possible.

The audit methodology included the selection of six key performance measures, the identification of preliminary control information through a questionnaire completed by the Department, and an audit of the calculations for accuracy and consistency with the methodology agreed upon by the Department and the Legislative Budget Board. Auditors also analyzed the flow of data to evaluate whether proper controls were in place and tested a sample of source documents to verify the accuracy of reported performance when possible. Auditors also conducted a review of the information systems supporting the performance measure data.

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Detailed Results

Results the Department Reported for Five of Six Key Performance Measures Tested Were Reliable

The following four key performance measures were certified at the Department of Insurance (Department) for fiscal year 2006 and the first quarter of fiscal year 2007:

- Number of Complaints Resolved (Output).

- Average Number of Days from "At Risk" Identification to Solvency Related Regulatory Action (Outcome).

- Number of Windstorm Inspections Completed (Output).

- Average Cost Per Windstorm Inspection (Efficiency).

A performance measure is considered reliable if the results are determined to be "Certified" or "Certified with Qualification."

The following information discusses the key performance measures that were certified with qualification or for which factors prevented certification.

Results: Certified with Qualification

A measure is certified with qualification when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy.

Division of Workers' Compensation

The 79th Legislature enacted workers' compensation reform through House Bill 7 (Regular Session), which transferred the functions of the Texas Workers' Compensation Commission to the newly created Division of Workers' Compensation at the Department of Insurance effective September 1, 2005.

Key Measures
Average Number of Participants Per Return-to-Work Seminar

Auditors certified this measure with qualification. The measure's results were reported accurately for the period reviewed; however, controls over the collection and reporting of this information are not adequate to ensure continued accuracy. The Return-to-Work program is a part of the Division of Workers' Compensation, a newly created division at the Department (see text box for more information).

The Department does not have internal criteria to define "attended" in the performance measure, which results in a lack of consistency in the calculation of seminar attendance. As a result, some of the supporting documents for this measure included seminar registration rosters, which may include persons who registered for a seminar but did not attend. In addition:

- Numerous calculation errors were found when auditors recalculated the total number of names on sign-in sheets from return-to-work seminars and compared these calculations to the reported attendance numbers. The Department does not have set criteria for determining

when to count a signature on the sign-in sheet as a seminar participant for the performance measure, according to Department staff. Some staff members counted a name on the sign-in sheet only if the signature was legible. The Department's review process was not effective in identifying and reconciling these differences in counts.

- The Department does not have a process in place to ensure that it receives all seminar attendance sheets. The Department also does not ensure that attendance sheets from return-to-work seminars are returned to the performance measure team in a timely manner for inclusion in the reported measure results.

- The Department does not have documented data collection policies and procedures in place.

Recommendations

The Department should:

- Define "attended" for the purposes of the performance measure calculation.

- Improve review processes to help ensure that data calculation errors are identified before data is submitted for entry into the Automated Budget and Evaluation System of Texas (ABEST).

- Develop a process to ensure that the Department receives attendance records for all the seminars that were held and the data is collected in a timely manner.

- Develop and implement detailed data collection policies and procedures.

Management's Response

The Department agrees with the recommendations. The Department will strengthen controls associated with the collection, calculation and reporting of data for this measure. Specifically, the Department will develop and implement detailed written data collection policies and procedures that define timeframes for the return of attendance sheets and processing of attendance records in accordance with the calculation methodology. The procedures will also provide definitions for all terms involved in calculating the measure.

The Department has implemented controls that address validation of reported data by instituting a two-person verification process; requiring dual tabulation and initialing to ensure the reported number is correct. To ensure the Department receives attendance records for all seminars, a calendaring

system has been implemented to match attendance sheets, thereby eliminating missing records.

Responsibility - Executive Deputy Commissioner of Policy and Research will implement a quality control process to ensure that data calculation errors are identified before data is submitted for entry into the Automated Budget and Evaluation System of Texas (ABEST).

Implementation date - This quality control process will be in place by July 31, 2007.

Number of Persons Receiving Return-to-Work Training Products and Services

Factors prevented the certification of this measure because the Department's Division of Workers' Compensation (Division) did not follow the methodology for calculating this measure as described in ABEST.

ABEST defines the measure as the "number of persons receiving return-to-work training products and services" provided by the Division.

The measure definition is made up of two components. The first component is the number of persons who received Web-based training products and services through the Division's Web site. The methodology says the Department must use an Internet report that identifies the number of persons who received the training products and services, based on the number of user sessions and downloads from the return-to-work Web site.

Auditors determined that the Internet report used by the Department to count the number of persons who received Internet-based training did not track the number of persons; rather, the report tracked the total number of "hits" or "visits" to the return-to-work Web site. Counting all "hits" or "visits" to the Web site may overstate the performance measure numbers reported in ABEST.

The second component of the definition identifies the number of persons who attended return-to-work seminars, received hard-copy publications, or were assisted through on-site visits. Auditors found numerous errors when they recalculated the source documents used to determine the number of persons who attended the return-to-work seminars and those persons who requested hard-copy publications. The errors were due in part to a lack of a consistent format for attendance sheets and publication request documentation.

Auditors found that the Department lacks documented procedures for the collection of return-to-work seminar sign-in sheets and requests for publications. The Department does not have an effective review process to identify calculation errors.

Recommendations

The Department should:

- Work with its information systems staff to develop a report to capture the information required by the ABEST definition for this measure, or work with the Legislative Budget Board and the Governor's Office of Budget Planning and Policy to clarify the performance measure's definition and method of calculation.

- Develop criteria for seminar sign-in sheets and other support documentation. This will facilitate an accurate count of attendees for seminars.

- Ensure the Department's performance measures review processes are effective at reducing data collection errors prior to the submission of the information for entry into ABEST.

Management's Response

The Department agrees with the recommendations. The Department will strengthen controls associated with the collection, calculation and reporting of data for this measure. The Department will develop and implement detailed written data collection policies and procedures that define criteria for seminar sign-in sheets and other support documentation.

Responsibility - Executive Deputy Commissioner of Policy and Research will implement a quality control process to ensure that data calculation errors are identified before data is submitted for entry into the Automated Budget and Evaluation System of Texas (ABEST).

Implementation date - This quality control process will be in place by July 31, 2007.

With regard to reporting the number of persons who received internet-based training, the Department is not able to track "persons," only "hits" to the return-to-work web page. For the remainder of FY2007, the Division will not report this data and will explain this in a variance explanation.

In FY2008, measure 6.1.1 op 5 has been changed to no longer include reporting of the number of persons who received internet-based training. A new measure, 6.1.1 op 4, "Number of Workers' Compensation Educational Publications Provided to System Participants in an Electronic Format" will include return-to-work publications on the web site. The methodology for this measure sums the number of internet page "hits" to documents included in the measure. The Department has reporting capability to capture the information required to report this new measure.

The Department utilizes multiple systems to support the various performance measures reviewed including:

- Complaint Inquiry System.

- Case Tracking System.

- Windstorm System.

All of these systems were designed by the Department to support specific functional areas. All the applications did function in support of each area's mission. The Complaint Inquiry System incorporated a document imaging and workflow function that streamlined the complaint process and eliminated the need to handle large amounts of paper. However, a review by auditors found some areas where the Department should improve the management of its information technology resources. These include:

- Password policies and account lockout parameters.

- Account access management.

- Application audit trails.

- Environmental protection of system resources.

The Department's password policy and some of the settings for authentication environments do not comply with Title 1, Texas Administrative Code, Section 202.25 (1 TAC 202.25).

Specifically, one environment requires only five-character passwords without any complexity and uses improperly configured account lockout parameters. Passwords are the gateway into the system, and weak password policies place the Department's information assets at risk of unauthorized access, modification, and/or deletion.

Auditors' review also found the Department is sharing administrative accounts with a password that is known by as many as ten staff members. Auditors found one user who had complete administrative control over all aspects of the system and data. Administrative accounts have the ability to modify any aspect of the system. If a user accidentally or intentionally used this account to make unauthorized modifications, the Department would be unable to determine the identity of the user. The wide distribution of the administration credentials gives users the ability to circumvent the Department's change control policies.

Additionally, auditors identified a lack of an audit trail in the Windstorm System application for deleted transactions and a potential environmental exposure of the servers used to run the application.

Recommendations

The Department should ensure that:

- Users are given unique assigned accounts to authenticate and access the technology resources.

- User accounts have only the minimum privileges necessary to accomplish the needed actions.

- Access through "shared" accounts is properly controlled and monitored.

- Passwords have a minimum of eight characters and that account lockout parameters comply with the 1 TAC 202.25.

- Appropriate audit trails are implemented for the Windstorm System.

- Information resources are properly protected from environmental hazards.

Management Responses

Recommendation: Users are given unique assigned accounts to authenticate and access the technology resources.

The Department agrees with the recommendation. Each TDI employee has an individual unique account. TDI utilizes shared accounts only for administrative functions. The agency agrees that the number of employees who have access to administrative accounts should be reduced. Shared accounts will also be consolidated where appropriate. TDI will request the Team for Texas to reset the passwords for administrative accounts and limit the number of employees with the passwords. Over the longer term, TDI will work with Team for Texas to replace administrative accounts with a more sophisticated method.

Responsibility – ITS management, Information Security Officer, and Team for Texas Security Team.

Implementation date – Access to administrative accounts will be reduced in June 2007. Long- term solutions will be implemented as Team for Texas implements statewide solutions

Recommendation: User accounts have only the minimum privileges necessary to accomplish the needed actions.

The Department agrees with the recommendation. TDI will review all ITS, Team for Texas, and administrative accounts to ensure privileges are restricted to rights necessary to perform required duties. ITS will ensure any identified modifications to access rights are complete.

Responsibility – ITS management, Information Security Officer, and Team for Texas Security Team.

Implementation date – Review and necessary access privileges modifications will be complete by July 31, 2007.

Recommendation: Access through "shared" accounts is properly controlled and monitored.

The Department agrees with the recommendation. Shared accounts will be consolidated where appropriate and the number of employees utilizing these accounts will be limited. TDI will request the Team for Texas to reset the passwords for administrative accounts and limit the number of employees with the passwords. Over the longer term, TDI will work with Team for Texas to replace administrative accounts with a more sophisticated method.

Responsibility – ITS management, Information Security Officer, and Team for Texas Security Team.

Implementation date – Access to administrative accounts will be reduced in June 2007. Long- term solutions will be implemented as Team for Texas implements statewide solutions.

Recommendation: Passwords have a minimum of eight characters and that account lockout parameters comply with the 1 TAC 202.25.

The Department agrees with the recommendation. Complaint Inquiry System (CIS), Case Tracking System (CTS), and Windstorm System (WS) applications have forced lockouts and at least eight character passwords. The account lockout for network logons was temporarily suspended during the time of the audit due to system merging activities. The network lockout was reinstated in April 2007. The network passwords will be extended to eight characters with complexity after proper education and notification to TDI customers.

Responsibility – ITS management and Information Security Officer.

Implementation date – Network logon password will be lengthened in June 2007.

Recommendation: Appropriate audit trails are implemented for the Windstorm System.

The Department agrees with the recommendation. ITS and Windstorm personnel will determine appropriate action, such as disabling the delete

function of the Windstorm application until a permanent solution is determined. A permanent solution will be implemented when the Windstorm application is rewritten.

Responsibility – Property and Casualty Windstorm management and ITS management are responsible for implementing the appropriate solutions.

Implementation date – An interim solution will be identified and implemented by June 30, 2007. Functional requirements are complete for the Windstorm application rewrite, and design, programming, and implementation of the application will be scheduled based on agency priority

Recommendation: Information resources are properly protected from environmental hazards.

The Department agrees with the recommendation. The Hobby data center has a sprinkler system that includes water filled pipes. TBPC installed high temperature sprinkler caps to minimize potential risk to equipment. However, this problem will be resolved when TDI's data centers are relocated to the new State data center during the Team for Texas "transformation" process.

Responsibility – Team for Texas, Department of Information Resources, and TDI's ITS personnel are responsible for the migration to the new data center.

Implementation date – TDI's data centers will be moved to the new data center between September 2007 and January 2009. Team for Texas will have a finalized plan for TDI's move by June 30, 2007.

Appendix

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine:

- Whether the Department of Insurance (Department) is accurately reporting selected performance measures to the Automated Budget and Evaluation System of Texas (ABEST) database.

- Whether the Department has adequate control systems in place over the collection, calculation, and reporting of selected performance measures.

Scope

The scope of this audit included six key performance measure results reported to ABEST by the Department in fiscal year 2006 and the first quarter of fiscal year 2007. Auditors also reviewed controls over the submission of data used in reporting performance measures and traced performance information to the original source whenever possible.

Methodology

Auditors selected the six key measures reported in ABEST. The Department completed questionnaires related to its performance measurement processes to help auditors identify preliminary control information.

Specific tests and procedures included:

- Verifying calculations for accuracy and consistency with the methodology agreed upon by the Department and the Legislative Budget Board.

- Analyzing the flow of data to evaluate whether proper controls were in place.

- Testing a sample of source documents to verify the accuracy of reported performance.

- Performing a review of all information systems that supported the performance measure data.

Project Information

Audit fieldwork was conducted during March 2007. This audit was conducted in accordance with generally accepted government auditing standards.

The following members of the State Auditor's staff performed the audit:

- Kathy Aven, CIA, CFE (Project Manager)

- Shelby Cherian, MBA

- Michael Gieringer, MS-HCA

- Ashlee Jones, MAcy

- Letecia Mendiola, MPA

- Michael Yokie, CISA

- Leslie P. Ashton, CPA (Quality Control Reviewer)

- Verma Elliott, MBA, CIA, CGAP (Audit Manager)

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas "Tommy" Williams, Member, Texas Senate
The Honorable Warren Chisum, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Department of Insurance

Mr. Mike Geeslin, Commissioner of Insurance