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An Audit Report on

Performance Measures at the Office of Public Insurance Counsel

April 2009

Report No. 09-030



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Overall Conclusion

The Office of Public Insurance Counsel (OPIC) reported reliable results for seven of eight (88 percent) key performance measures tested for fiscal year 2008. A performance measure result is considered reliable if it is certified or certified with qualification.

For all key performance measures tested, OPIC did not have written policies and procedures describing the collection and calculation of its performance measure data. In addition, OPIC lacked adequate supervisory reviews to ensure the accuracy of reported results. Because of these issues, the following seven key performance measures tested were certified with qualification:

- Percentage of Analyzed Rate and Rulemaking Proceedings in Which OPIC Participated.
- Percentage of Rate Filings and Rules Changed for the Benefit of Consumers as a Result of OPIC Participation.
- Number of Rate Hearings in Which OPIC Participated.
- Number of Analyzed Rate Filings in Which OPIC Participated.
- Number of Rulemaking Proceedings in Which OPIC Participated.
- Percent of Texas Insurance Consumers Reached by OPIC Outreach Efforts.
- Number of Report Cards and Publications Produced and Distributed.

In addition, one key performance measure—Total Number of Public Presentations or Communications by OPIC—was inaccurate because OPIC deviated from the measure definition and methodology in ABEST. Auditors identified more than a 5 percent error rate in documentation tested for this measure.

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.

The Office of Public Insurance Counsel's mission is to represent the interests of consumers in insurance matters.

Key Measures

Key performance measures are:

- Budget drivers that are generally externally focused.
- Closely related to the goals identified in the statewide strategic plan.
- Reflective of the criteria of good performance measures.

Source: *Guide to Performance Measure Management* (State Auditor's Office Report No. 06-329, August 2006).

Table 1 summarizes the certification results of the eight performance measures tested.

Table 1

Office of Public Insurance Counsel (359)				
Related Objective or Strategy, Classification	Description of Measure	Fiscal Year	Results Reported in ABEST	Certification Results ^a
A, Outcome	Percentage of Analyzed Rate and Rulemaking Proceedings in Which OPIC Participated	2008	80.22%	Certified with Qualification
A, Outcome	Percentage of Rate Filings and Rules Changed for the Benefit of Consumers as a Result of OPIC Participation	2008	80.82%	Certified with Qualification
A.1.1., Output	Number of Rate Hearings in Which OPIC Participated	2008	4	Certified with Qualification
A.1.1., Output	Number of Analyzed Rate Filings in Which OPIC Participated	2008	23	Certified with Qualification
A.1.1., Output	Number of Rulemaking Proceedings in Which OPIC Participated	2008	50	Certified with Qualification
B, Outcome	Percent of Texas Insurance Consumers Reached by OPIC Outreach Efforts	2008	33.01%	Certified with Qualification
B.1.1., Output	Number of Report Cards and Publications Produced and Distributed	2008	1,113,351	Certified with Qualification
B.1.1., Output	Total Number of Public Presentations or Communications by OPIC	2008	159	Inaccurate

^a 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

OPIC agrees with the findings and recommendations in this report.

Summary of Information Technology Review

Auditors assessed the information technology (IT) controls over OPIC's information systems and other automated processes used for performance measure data. Auditors evaluated general IT controls, including logical access, program change management, physical security, and disaster recovery. Auditors also evaluated application controls, including input controls, process controls, and output controls.

OPIC did not have adequate controls over its information technology to ensure the integrity and accuracy of performance measure data (see Chapter 2 of this report for additional information). To minimize risks, auditors communicated details about these issues in writing to OPIC's management.

Summary of Objectives, Scope, and Methodology

The objectives of the audit were to determine whether OPIC (1) accurately reported selected key performance measures to ABEST and (2) had adequate control systems in place over the collecting, calculating, and reporting of selected key performance measures.

The audit scope included all eight key performance measures OPIC reported for fiscal year 2008. Auditors reviewed the controls over the collection, calculation, review, and reporting of performance measures and traced performance measure documentation to the original source when available.

Audit methodology consisted of selecting all eight key performance measures, auditing reported results for accuracy and adherence to measure definitions, analyzing data flow to evaluate whether proper controls were in place, testing a sample of source documents, conducting a high-level review of all information systems that support performance measure data, and certifying performance measure results in one of four categories.

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Detailed Results

Chapter 1

The Office of Public Insurance Counsel Reported Reliable Results for Seven of Eight Performance Measures; However, It Should Improve Its Processes for Calculating and Reviewing Results

The Office of Public Insurance Counsel (OPIC) reported reliable results for seven of the eight (88 percent) key performance measures tested for fiscal year 2008. A performance measure result is considered reliable if it is certified or certified with qualification. One key performance measure was inaccurate.

Detailed Audit Results

The following seven key performance measures were certified with qualification:

Result: 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. 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 the deviation caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

- Percentage of Analyzed Rate and Rulemaking Proceedings in Which OPIC Participated.
- Percentage of Rate Filings and Rules Changed for the Benefit of Consumers as a Result of OPIC Participation.
- Number of Rate Hearings in Which OPIC Participated.
- Number of Analyzed Rate Filings in Which OPIC Participated.
- Number of Rulemaking Proceedings in Which OPIC Participated.

- Percent of Texas Insurance Consumers Reached by OPIC Outreach Efforts.
- Number of Report Cards and Publications Produced and Distributed.

For all eight key performance measures tested, OPIC did not have detailed, written policies and procedures describing the collection, calculation, review, and reporting of performance measure data. In addition, OPIC lacked documented supervisory reviews to ensure continued accuracy of reported results. Without detailed policies and procedures and documented reviews, OPIC cannot ensure the continued accuracy of its reported performance measure results.

The key personnel who were responsible for collecting, calculating, reviewing, and reporting performance measure results in fiscal year 2008 are

no longer employed at OPIC, and current staff members could not provide any policies and procedures used for the management of performance measure results. OPIC's chief fiscal officer and economist are responsible for calculating and reporting fiscal year 2009 performance measures results.

Recommendations

OPIC should:

- Develop and implement detailed, written policies and procedures for ensuring adequate controls over the collection, calculation, review, and reporting of performance measure results. The *Guide to Performance Measure Management* (State Auditor's Office Report No. 06-329, August 2006) is a helpful resource for developing procedures for performance measure reporting.
- Review performance measure calculations for accuracy and document this review.

Management's Response

OPIC agrees with the findings and recommendations and is in the process of developing & implementing detailed, written policies and procedures. OPIC is also in the process of developing a documented formal management review process to verify the accuracy of measure results before reporting in ABEST.

Total Number of Public Presentations or Communications by OPIC

Result: Inaccurate

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 also is 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.

This measure was inaccurate because OPIC deviated from the measure definition and methodology in ABEST. OPIC did not retain sufficient documentation supporting the reported results and, as a result, more than 5 percent of supporting documentation tested for this measure contained errors.

The definition and methodology for this measure in ABEST states that OPIC should include all presentations and communications to advisory groups or task forces, media, and other entities outside OPIC in the reported results for the measure. In its fiscal year 2008 results, OPIC included e-mailed invitations to meetings and other events that it received from outside organizations. However, OPIC lacked documentation related to some of these e-mailed invitations demonstrating that an OPIC employee attended the meeting, participated in an event, or otherwise communicated with the outside organization in response to the invitation. As a result, these meetings and events should not have been included in the reported results for this measure.

Nine (15 percent) of 61 supporting documents auditors reviewed were e-mail invitations or printouts of appointments that lacked sufficient documentation and should not have been included in this measure's calculations.

Recommendations

OPIC should:

- Follow the ABEST definition and methodology for calculating this measure.
- Retain sufficient documentation supporting OPIC's communications with outside organizations.
- Recalculate the Total Number of Public Presentations or Communications by OPIC and submit the revised results to the Legislative Budget Board.

Management's Response

Former agency key personnel responsible for collecting, calculating, reviewing, and reporting performance measure results in fiscal year 2008 did not retain sufficient documentation supporting OPIC's communications with outside organizations within the appropriate files. However after the audit field work, OPIC's current staff was successful in finding the supporting documentation supporting OPIC's communications with outside organizations. More importantly, OPIC staff verified and ensured that the Total Number of Public Presentations or Communications by OPIC measure results is accurate in ABEST.

OPIC agrees with the findings and recommendations and is in the process of developing & implementing detailed, written policies and procedures to ensure OPIC does not deviate from the ABEST definition and methodology for calculating this measure. OPIC will ensure sufficient supporting documentation is on file prior to reporting in ABEST.

OPIC Lacked Sufficient Controls Over Its Information Technology

OPIC did not have adequate controls over its information technology to ensure the integrity and accuracy of performance measure data. Auditors identified weaknesses in OPIC's application, physical security, and general controls.

Application Controls

The majority of OPIC performance measure data is stored in a FileMaker Pro database. However, the database is stored on a shared network to which all OPIC employees have administrative access. As a result, OPIC cannot adequately protect the database against unauthorized changes. In addition, auditors identified three active access accounts that belonged to individuals whose employment had been terminated.

Physical Security

OPIC did not restrict access to its server room to authorized individuals, and the room was not protected from environmental hazards. The servers were placed directly on the floor, which is below street level. This increases the risk of damage to the servers in the event of flooding in the building.

General Controls

OPIC lacked complete password policies and procedures. In addition, its password management controls lacked adequate password constraints. To minimize security risks, auditors communicated details about these weaknesses directly to OPIC's management.

OPIC developed a comprehensive disaster recovery plan; however, it had not tested the plan annually as required by Title 1, Texas Administrative Code, Section 202.24.

Recommendations

OPIC should:

- Ensure that only appropriate personnel have access to folders, programs, and files containing performance measure data.
- Improve the physical security of its IT assets to ensure that only the appropriate personnel have access to the server room and that the servers are protected from all environmental hazards.
- Review and strengthen IT policies and procedures to establish proper management of user passwords.

- Ensure it tests its disaster recovery plan at least annually.

Management's Response

OPIC agrees with the findings and recommendations and is in the process of developing & implementing IT policies and procedures to strengthen OPIC's database application, physical security, and general controls. OPIC has reduced & limited administrative access rights to agency personnel for increased security and protect agency database. OPIC is in the process of developing and implementing password policies and procedures to reduce security risks to database and network.

In efforts to reduce the risk of water damage to servers, OPIC is in the process of acquiring desks, appropriate to the size of the server & network equipment, to raise the computer/server equipment off the floor. While this may not protect against the damage from activated water sprinklers, it will protect against damage from flooding due to heavy rains or a water pipe bursting. OPIC has restricted access of its IT assets to appropriate agency personnel for improved physical security. OPIC will test its disaster recovery plan annually beginning in fiscal year 2009.

Appendix

Appendix

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Office of Public Insurance Counsel (OPIC) accurately reported selected key performance measures to the Automated Budget and Evaluation System of Texas (ABEST).
- Determine whether OPIC had adequate control systems in place over the collecting, calculating, and reporting of selected key performance measures.

Scope

The audit scope included all eight key performance measures OPIC reported for fiscal year 2008. Auditors reviewed the controls over the collection, calculation, review, and reporting of performance measures and traced performance measure documentation to the original source when available.

Methodology

The audit methodology consisted of selecting all eight key performance measures. Auditors interviewed OPIC staff about the agency's performance measurement process to help identify preliminary control information.

Procedures and tests conducted included the following:

- Auditing measures calculations for accuracy and to ensure that they were consistent with the methodology on which OPIC and the Legislative Budget Board agreed.
- Analyzing data flow to evaluate whether proper controls were in place.
- Testing a sample of source documents to verify the accuracy of reported performance when possible.
- Conducting a high-level review of all information systems that support the performance measure data.
- Certifying performance measures results in one of four categories: (1) certified, (2) certified with qualification, (3) inaccurate, and (4) factors prevented certification.

Criteria used included the following:

- *Guide to Performance Measure Management*, State Auditor's Office Report No. 06-329, August 2006.
- ABEST measure definitions.

Project Information

Audit fieldwork was conducted from February 2009 through March 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Cesar Saldivar, CGAP, CICA (Project Manager)
- Karen Smith, CGAP (Team Leader)
- Snehi Basnet, MAcy
- Mark A. Cavazos
- Rebekah Cartwright
- Dana Musgrave, MBA (Quality Control Reviewer)
- Nicole M. Guerrero, MBA, CIA, CGAP, CICA (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 Joe Straus III, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Rene Oliveira, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Office of Public Insurance Counsel

Ms. Deeia Beck, Public Counsel



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