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State Auditor

The Financial Responsibility Verification Program (TexasSure) at the Department of Insurance

A Follow-up Audit Report on

September 13, 2012

Members of the Legislative Audit Committee:

The Department of Insurance (Department) has fully or substantially implemented 5 (63 percent) of 8 recommendations that auditors issued to the Department in *An Audit Report on the Financial Responsibility Verification Program (TexasSure)* (State Auditor's Office Report No. 10-016, November 2009). (See text boxes for background information on the TexasSure program and implementation status definitions.) The 2009 audit report cited weaknesses related to the Department's collection of information regarding insurance policies for commercial vehicles and security over motorist information.

Since the 2009 audit, the Department developed written policies and procedures for monitoring TexasSure, including (1) a procedure for reviewing quarterly Texas Insurance Checking Office reports to help ensure that vehicle insurance information in TexasSure is complete and (2) change management procedures to help ensure that only authorized changes are made to the TexasSure system. In conjunction with HDI Solutions, Inc. (HDI), the contractor supporting the TexasSure system, the Department also developed a formal process for granting and revoking user access to TexasSure, and it has considered other opportunities to enhance TexasSure.

The Department's efforts to establish a schedule for insurance companies to submit information regarding all commercial vehicle insurance policies to TexasSure remain incomplete. Insurance companies voluntarily submitted information regarding approximately 120,000 commercial vehicle insurance policies to TexasSure in May 2012 (0.61 percent of all registered vehicles in TexasSure as of May 2012). That represented a slight increase when compared to the approximately 101,400 commercial vehicle insurance policies voluntarily submitted to TexasSure in October 2009 (0.56 percent of all registered vehicles in TexasSure as of October 2009).

The Department also should (1) log instances in which it receives erroneous or inconsistent information and (2) retain logs that document the weekly process for updating TexasSure. The Department has not yet had an opportunity to implement the process it developed for reviewing and approving modifications to its contract with HDI within 60 days.

Auditors communicated other, less significant issues related to the operation of TexasSure to the Department's management separately in writing.

Background Information

The TexasSure program is a centralized vehicle insurance verification program that verifies whether owners of motor vehicles have established financial responsibility by obtaining required insurance coverage. The TexasSure system went online in June 2008. The Department of Insurance was the lead agency for implementing the TexasSure program in conjunction with the Department of Motor Vehicles, the Department of Public Safety, and the Department of Information Resources. This follow-up audit addressed prior audit recommendations made only to the Department of Insurance.

Implementation Status Definitions

Fully Implemented - Successful development and use of a process, system, or policy to implement a prior recommendation.

Substantially Implemented - Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.

Incomplete/Ongoing - Ongoing development of a process, system, or policy to address a prior recommendation.

Not Implemented - Lack of a formal process, system, or policy to address a prior recommendation.

Table 1 lists the implementation status of prior audit recommendations related to the TexasSure program at the Department.

Table 1

Status of Implementation of Prior Audit Recommendations				
No.	Recommendation	Implementation Status as Reported by the Department	Implementation Status as Determined by Auditors	Auditor Comments
1	The Department should set a schedule for insurance companies to submit commercial vehicle insurance policies to TexasSure.	Incomplete/Ongoing	Incomplete/Ongoing	The Department has not established a mandatory schedule for insurance companies to submit information regarding commercial vehicle insurance policies. It also has not made it mandatory for automobile insurance companies to submit that information to TexasSure. The Department cited other priorities as the primary reason for the delay in incorporating commercial vehicle insurance policies into TexasSure and could not provide documentation of meetings with the insurance industry to demonstrate progress on this recommendation. However, the Department is working to develop a process for collecting information on commercial vehicle insurance policies.
2	The Department should develop written policies and procedures for its monitoring of TexasSure, including its review and analysis of quarterly [Texas Insurance Checking Office Inc.] (TICO) reports to determine the completeness of insurance information in TexasSure.	Fully Implemented	Fully Implemented	The Department has developed written policies and procedures for monitoring TexasSure, including its review and analysis of quarterly TICO reports to ensure the completeness of insurance information in TexasSure.
3	The Department should require its subcontractor to log instances in which it receives erroneous or inconsistent vehicle registration or insurance information, and the Department should review this information as part of its monitoring of TexasSure.	Substantially Implemented	Incomplete/Ongoing	The Department, HDI, and a subcontractor (Insure-Rite) are still determining what the log requirements will be. Procedures are in place for monitoring, but the Department has not yet implemented the process. Insure-Rite also has not started logging errors.
4	The Department should require its contractor to retain logs that document the results of its weekly process of updating TexasSure. The Department should periodically review this information as part of its contract monitoring efforts.	Substantially Implemented	Incomplete/Ongoing	The Department and HDI are in the process of developing the requirements that they will use to determine what report they will use to monitor the log files.

Status of Implementation of Prior Audit Recommendations				
No.	Recommendation	Implementation Status as Reported by the Department	Implementation Status as Determined by Auditors	Auditor Comments
5	The Department should require its contractor to develop a formal process for granting and revoking user access to TexasSure. This process should include an access form that requires users to report changes in job responsibilities that affect their use of TexasSure and a requirement that confidential vehicle and motorist information be restricted, as required by Texas Transportation Code, Section 601.454.	Fully Implemented	Fully Implemented	The Department has implemented a formal process to ensure that employees with access to TexasSure sign a confidentiality agreement. Additionally, HDI has implemented a formal process for granting and revoking user access to TexasSure.
6	The Department should require its contractor to develop a formal change management process that includes a documented review and approval by users at implementing agencies. The Department also should monitor this process to ensure that changes to TexasSure function as intended and are authorized and consistent with laws.	Fully Implemented	Fully Implemented	The Department has implemented a formal change management process that includes a documented review, testing, monitoring, and approval by the Department and other affected agencies for change requests to the TexasSure database.
7	The Department should review and approve TexasSure contract modifications within 60 days.	Fully Implemented	Substantially Implemented	The Department has an informal, internal process for reviewing and approving contract amendments (modifications) that should allow it to comply within 60 days; however, no contract amendments had been drafted that auditors could review during this follow-up audit to determine whether the Department followed its process.
8	The Department should consider the other opportunities identified in [the 2009 report] to enhance TexasSure.	Fully Implemented	Fully Implemented	The Department has considered enhancing TexasSure by following its ongoing certification process, implementing clearly defined criteria for matching vehicle registration records with insurance policies, and using criteria for match strength to monitor the quality of the TexasSure subcontractor's matching process. In addition, the Department also considered offering toll-free telephone numbers for TexasSure to assist law enforcement officers in resolving discrepancies about vehicle insurance.

Recommendations

The Department should:

- Set a schedule for insurance companies to submit information regarding commercial vehicle insurance policies to TexasSure.
- Require its subcontractor to log instances in which it receives erroneous or inconsistent vehicle registration or insurance information, and review that information as part of its monitoring of TexasSure.
- Require its contractor to retain logs that document the results of its weekly process for updating TexasSure. The Department also should periodically review that information as part of its contract monitoring efforts.
- Continue improving processes for reviewing and approving TexasSure contract modifications, and monitor to ensure that it follows those processes consistently.

The Department agreed with the above recommendations, and its management's response is in the attachment to this letter.

Sincerely,

John Keel, CPA
State Auditor

Attachment

cc: Ms. Eleanor Kitzman, Commissioner of Insurance



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Attachment

Section 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine the implementation status of prior State Auditor's Office recommendations and evaluate whether management has taken corrective actions to address selected recommendations in *An Audit Report on the Financial Responsibility Verification Program (TexasSure)* (State Auditor's Office Report No. 10-016, November 2009).

Scope

The scope of this audit included reviewing the status of the Department of Insurance's (Department) implementation of selected recommendations related to the accuracy, completeness, security, and reliability of the information in TexasSure from the implementation date through May 2012.

Methodology

The audit methodology included identifying and collecting information on the implementation of selected prior audit recommendations. To determine the implementation status of selected recommendations, auditors conducted interviews, reviewed Department policies and procedures, and performed selected tests and procedures related to the change management process and administration of user access.

Due to the nature of the recommendations and their ongoing status, auditors performed limited procedures to determine whether data was sufficiently reliable. Specifically, auditors (1) reviewed query language that the Department's contractor used to generate a list of users with access to TexasSure, (2) analyzed key data elements for completeness, (3) interviewed Department personnel, and (4) reviewed working papers from the prior audit. Based on those procedures, auditors determined that the data was sufficiently reliable for the purposes of this audit.

Information collected and reviewed included the following:

- *An Audit Report on the Financial Responsibility Verification Program (TexasSure)* (State Auditor's Office Report No. 10-016, November 2009) and supporting working papers.

- The Department's policies and procedures related to change management, user access, procurement of consulting services, and monitoring of HDI Solutions, Inc. (HDI), the contractor supporting TexasSure.
- The contract between the Department and HDI.

Procedures and tests conducted included the following:

- Interviewed Department personnel.
- Reviewed Department policies and procedures related to the security of information systems and to the procurement and monitoring of consulting contracts.
- Reviewed the contract between the Department and HDI.
- Tested the effectiveness of the TexasSure change management process.
- Tested the effectiveness of granting and revoking user access to TexasSure.
- Tested compliance with Texas Transportation Code, Section 601.454, which requires that confidential vehicle and motorist data be restricted.

Criteria used included the following:

- Title 1, Texas Administrative Code, Chapter 202.
- Texas Transportation Code, Chapter 601.
- The HDI security policy.
- The contract between the Department and HDI.
- Title 28, Texas Administrative Code, Sections 5.601 through 5.611 (Financial Responsibility Verification Program).
- The Department's security policy.

Project Information

Audit fieldwork was conducted from May 2012 through June 2012. 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:

- Kels Farmer, MBA, CISA (Project Manager)
- Anca Pinchas, CPA, CIDA, CISA (Assistant Project Manager)
- Amy Cheesman
- Derek Felderhoff
- Olivia Gutierrez
- Lindsay R. Johnson, CGAP
- Brian Jones, CGAP
- Darcy Melton, MAcy
- Tony White, CFE
- Michelle Ann Duncan Feller, CIA, CPA (Quality Control Reviewer)
- Ralph McClendon, CISSP, CCP, CISA (Audit Manager)

Management's Responses

SAO Recommendation: *TDI should set a schedule for insurance companies to submit commercial insurance policies to TexasSure.*

TDI Response: TDI agrees with the recommendation and will develop a schedule for the mandatory reporting of commercial vehicles. TDI is currently working with the vendor to implement a process to allow for the reporting of non-vehicle specific commercial policies. TDI anticipates the vendor to complete development of the commercial reporting process by June 2013. TDI anticipates implementing the rule requiring the reporting of commercial vehicle policies by December 2013.

SAO Recommendation: *TDI should require its subcontractor to log instances in which it receives erroneous or inconsistent vehicle registration or insurance information, and TDI should review this information as part of its monitoring of TexasSure.*

SAO Recommendation: *TDI should require its contractor to retain logs that document the results of its weekly process of updating TexasSure. TDI should periodically review this information as part of its contract monitoring process.*

TDI Response: TDI agrees with these recommendations. The TexasSure contract requires the vendor to develop these logs. TDI is currently working with the vendor to establish the methodology and format, and anticipates completion by February 2013. TDI will implement and document a process to review logs as part of the TexasSure monitoring process, and anticipates completion by March 2013.

SAO Recommendation: *Implementing agencies should continue improving processes for reviewing and approving TexasSure contract modifications, and monitor to ensure that it follows those processes consistently.*

TDI Response: TDI agrees with this recommendation. TDI will work with the other implementing agencies to continue to improve processes for reviewing and approving TexasSure contract modifications. TDI will develop a formalized contract modification process, and anticipates completion by February 2013.