



February 4, 2010

Mr. Mike Geeslin, Commissioner of Insurance
Department of Insurance
P.O. Box 149104, Mail Code 113-1C
Austin, TX 78714-9104

Mr. Rod Bordelon, Commissioner of Workers' Compensation
Department of Insurance
P.O. Box 149104, Mail Code MS-1
Austin, TX 78714-9104

Dear Commissioner Geeslin and Commissioner Bordelon:

The State Auditor's Office will be auditing the Department of Insurance (Department). The audit objectives are to:

- Determine whether the Department's Division of Workers' Compensation (Division) monitors and manages development of new information technology systems to provide assurance that budgets are met and goals are achieved.
- Determine whether selected information technology systems at the Division provide and maintain reliable, secure, and accurate data.
- Determine whether the Department issues appropriate and consistent disciplinary orders for workers' compensation providers and carriers that have committed violations or are identified as noncompliant.

Our work will include the automated systems and processes that support the functions being audited. We will conduct the audit in accordance with generally accepted government auditing standards.

The audit is currently in the planning phase, and we are gathering information to help us understand the Division's operations. To avoid duplicating audit efforts, we will coordinate our work with the Department's Internal Audit Department. The State Auditor's Office also has developed an engagement expectations memo to document what the Department can expect from the State Auditor's Office and what the State Auditor's Office can expect from the Department (see attachment). We will discuss this memo at the entrance conference. Audit fieldwork is tentatively scheduled from February 2010 to April 2010. We expect to release the audit report in June 2010.

We will meet periodically with the Department's management to discuss interim and final audit results. Before releasing the report, we will provide management with a confidential draft and request formal written responses. These responses should objectively address the audit results and include a corrective action plan, if necessary. The responses should be written on Department letterhead and submitted to the State Auditor's Office within 10

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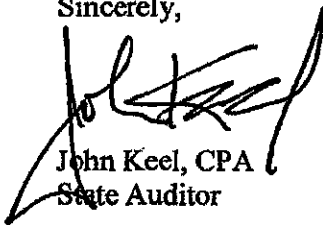
Mr. Mike Geeslin, Commissioner of Insurance
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Department of Insurance
February 4, 2010
Page 2

working days. The published, public audit report will include management's formal responses.

Our office applies auditing standards, which emphasize that auditors should exercise professional skepticism and increased awareness to detect potential violations, fraud, and abuse. As a result, our interviews will include specific questions to help us assess fraud risk at your entity. In addition, to help in our risk assessment and gaining an understanding of the Division, our procedures will include a review of lawsuits filed against the Department. We will request a listing of filed lawsuits outstanding and those settled during a period to be determined. We will also request a representation letter signed by management at the end of this engagement that affirms management's responsibility for a number of key areas and affirms that the information provided to the audit team is complete and correct to the best of management's knowledge.

If you have any questions, please contact Ralph McClendon (the audit manager overseeing the audit), Michael Simon (the project manager directing the audit on-site), or me at (512) 936-9500. Our office looks forward to working with the Department personnel over the next few months.

Sincerely,



John Keel, CPA
State Auditor

Attachment

cc: Mr. Greg Royal, Internal Audit Director