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An Audit Report on

# **The Texas Windstorm Insurance Association**

August 2012  
Report No. 12-048

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Association**

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## Overall Conclusion

The Texas Windstorm Insurance Association (Association) has improved its processing of claims. The Association also has controls to help produce accurate financial information, ensure accountability for Association funds, and adequately support and authorize non-claims-related expenditures. In addition, the Association's accounting practices for reporting selected financial transactions comply with the National Association of Insurance Commissioners' standards.

However, auditors identified areas for improvement in the Association's processing of claims, premium payments, adjusting journal entries, contracting, and information technology.

The scope of this audit engagement was from January 1, 2011, through March 31, 2012. It should be noted that the Association is currently under administrative oversight (see text box) and has been under new executive management since April 2011. In addition, the Association hired a new vice president of claims and a new controller in January 2012.

**Processing of Claims.** Since December 2008, the Association has undergone six external reviews. Some of the reports from those reviews identified issues involving claims processing.

From January 1, 2011, through March 31, 2012, the Association processed 88,408 payments. Those payments represented 24,411 total claims. For 50,466 (57 percent) of those 88,408 payments, the Association was involved in some form of litigation. According to data the Association provided to auditors, from January 1, 2011, through March 31, 2012, the Association paid \$25,224,655 to law firms to defend and settle \$333,683,706 in claims litigation.

Auditors reviewed timeliness, appropriateness, and payment authorization for a sample of claims the Association paid from January 1, 2011, through March 31, 2012, and determined that the Association had addressed certain issues previously

### Background Information

The Texas Windstorm Insurance Association (Association) is the insurer of last resort for wind and hail damage in 14 Texas coastal counties and parts of Harris County (see Appendix 3 for a map of the counties). The Legislature created the Association in 1971.

The Association is composed of a pool of all property and casualty insurance companies authorized to provide insurance coverage in Texas. The Association provides basic wind and hail insurance coverage for property owners who might otherwise be uninsured.

The Association is governed by a board of directors with nine voting members and one non-voting member. The Commissioner of Insurance appoints all members.

Since February 2011, the Association has been under the administrative oversight of the Department of Insurance (see Appendix 2 for additional information on administrative oversight).

Source: The Association.

identified. Specifically, auditors tested the Association's processing of 39 claims and determined that the Association adequately authorized payment and had supporting documentation for those claims. House Bill 3 (82nd Legislature, First Called Session) established different requirements and processes for Association policies issued after November 27, 2011. It is important to note that 30 of the claims tested were associated with policies with effective dates before November 27, 2011, and 9 of the claims tested were associated with policies with effective dates on or after November 27, 2011.

Although the Association adequately processed the 39 claims tested, auditors identified improvements the Association should make within its claims processing. Specifically, the Association should:

- Monitor the assignment of claims to its claims examiners to identify potential conflicts of interests.
- Ensure that its claims examiners do not exceed their authorized limits for approving the payment of claims.
- Establish and enforce reasonable time frames for making payments to policyholders for additional living expenses.
- Ensure that its quality assurance and training department meets operational targets, notifies Association management of errors it identifies in claims processing, and accurately reports results.

**Processing of Premium Payments.** Auditors tested 30 premium payments the Association received, and the Association properly recorded and had supporting documentation for those 30 premium payments. However, the Association should strengthen its reconciliations of the premium payments it receives with the bank deposits it makes to ensure that those reconciliations are documented, accurate, and receive appropriate supervisory review. In addition, the Association should improve its documentation of journal entries and ensure that they receive appropriate supervisory review.

**Contracting.** The Association's non-claims-related expenditures totaled \$123,615,341 from January 1, 2011, through March 31, 2012. Those expenditures were generally supported and authorized. However, auditors identified certain weaknesses in the Association's contracting process. Specifically:

- Auditors were unable to determine whether the services and related expenditures associated with seven contracts for contract workers were reasonable and necessary. Those seven contracts were with Odyssey Information Services, Inc., to which the Association paid \$1,050,836 in calendar year 2011.
- The Association's contracts database was not reliable because it contained (1) duplicate contracts, (2) incorrect dates for contract inception and contract expiration, (3) contracts that had expired or had been replaced, and (4) documents for items that were not contracts for services.

## ***Summary of Management's Response***

The Association agreed with the recommendations in this report.

## ***Summary of Information Technology Review***

Since December 2008, the Association's information technology operations have been subject to three reviews conducted by external entities. The most recent review was conducted in January 2012. Each review identified similar issues related to information security. As of May 2012, the Association had not corrected all issues regarding information security.

Because of the issues identified in the previous reviews, the State Auditor's Office focused on the governance structure for selected areas within the Association's information technology environment. Auditors identified a need for improvement in two areas: security management and application management. In addition, the Association should work to improve information technology controls to help ensure the integrity of the information contained within its automated systems.

Due to the sensitive nature of the issues identified, the State Auditor's Office provided detailed information on the issues to the Association in a separate document.

## ***Summary of Objectives, Scope, and Methodology***

The objectives of this audit were to determine:

- Whether the Association's controls over selected financial processes produce accurate financial information and help ensure accountability for Association funds.
- Whether the Association's claims processing procedures and related controls help ensure that claims payments are authorized, supported, processed in a timely manner, and made in compliance with applicable requirements.
- Whether selected Association expenses are reasonable and necessary; properly authorized; supported; and paid in accordance with applicable statutory, regulatory, and contractual requirements and Association policies and procedures.

The scope of this audit included the Association's processes for (1) reporting selected financial information, (2) authorizing and paying claims, and (3) authorizing and paying for non-claims-related expenditures. Auditors examined those processes and related transactions from January 1, 2011, through March 31, 2012.

The audit methodology included collecting and reviewing documentation from the Association; conducting interviews with Association staff; and reviewing Association policies, procedures, and statutes. Specifically, auditors evaluated controls over the Association's financial reporting and accounting, processing of claims payments, and processing of non-claims-related expenditures. That included analyzing and testing selected transactions within those areas.

Auditors assessed the reliability of the Association's internal accounting system, premiums processing system, claims processing system, and quality assurance and training database and determined that the data in those systems and database was sufficiently reliable for the purposes of this audit. To make that determination, auditors performed data reliability tests on selected data from those systems and database. As discussed above, auditors also assessed the reliability of the Association's internal contract database and determined that it was not sufficiently reliable for the purposes of this audit.

Auditors also communicated other, less significant issues to the Association separately in writing.

# Contents

## *Detailed Results*

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Chapter 1	
The Association Should Continue to Improve Its Processing of Claims .....	1
Chapter 2	
The Association’s Controls Produce Accurate Financial Information and Help Ensure Accountability for Funds, But the Association Should Make Certain Improvements to Its Processing of Premium Payments .....	9
Chapter 3	
The Association’s Non-claims-related Expenditures Generally Were Properly Supported and Authorized, But the Association Should Improve Supporting Documentation for Payroll and Contracts .....	12
Chapter 4	
The Association Should Implement Prior Recommendations and Address Other Issues Auditors Identified Related to Information Technology .....	16

## *Appendices*

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Appendix 1	
Objectives, Scope, and Methodology .....	18
Appendix 2	
Letter Regarding Administrative Oversight of the Association .....	22
Appendix 3	
Counties in Which the Association Writes Insurance Policies.....	29
Appendix 4	
Background Information on the Association’s Liability in Force, Premiums Written, Number of Policies, and Claims Paid from Hurricane Ike Losses .....	30
Appendix 5	
Association Expenditures Not Related to Claims Losses in 2011 .....	32

# Detailed Results

## Chapter 1

### ***The Association Should Continue to Improve Its Processing of Claims***

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The Texas Windstorm Insurance Association (Association) has improved its processing of claims after undergoing six external reviews since December 2008. Auditors tested the Association's processing of 39 claims and determined that the Association adequately authorized payments and had supporting documentation for those claims. Although the Association adequately processed the 39 claims tested, auditors identified improvements the Association should make within claims processing.

In addition, the Association did not have effective controls to ensure that its quality assurance and training department operated as intended. For example, the Association did not have documentation showing that its quality assurance and training department notified Association management about the claims processing errors the department identified.

#### Chapter 1-A

### **The Association Has Addressed Previously Identified Issues in Its Claims Processing, But It Should Make Improvements in Certain Areas**

Since December 2008, the Association has undergone six external reviews. Some of the reports from those reviews identified issues involving claims processing.

From January 1, 2011, through March 31, 2012, the Association processed 88,408 payments. Those payments represented 24,411 total claims. For 50,466 (57 percent) of those 88,408 payments, the Association was involved in some form of litigation. According to data the Association provided to auditors, from January 1, 2011, through March 31, 2012, the Association paid \$25,224,655 to law firms to defend and settle \$333,683,706 in claims litigation.

Auditors reviewed timeliness, appropriateness, and payment authorization for a sample of claims the Association paid from January 1, 2011, through March 31, 2012, and determined that the Association had addressed certain issues previously identified. Specifically:

- The Association paid all 30 non-catastrophic claims tested for policies with effective dates prior to November 27, 2011, in accordance with the time lines required by Texas Insurance Code, Chapter 542. It also had evidence of adequate authorization and had adequate supporting documentation for those 30 claims.

- The Association paid all 9 claims tested for policies with effective dates on or after November 27, 2011, in accordance with the time lines and requirements outlined within House Bill 3 (82nd Legislature, First Called Session), which were codified in Texas Insurance Code, Chapter 2210. It also had evidence of adequate authorization and had adequate supporting documentation for those nine claims.

Table 1 summarizes Association claims for calendar year 2011.

Table 1

Summary of Association Claims for Calendar Year 2011	
Category	Amount
Amounts Paid to Claims Adjusters	
Loss Adjustment Expense	\$10,748,252
Loss Adjustment Expense - Hurricane Dolly	149,078
Loss Adjustment Expense - Hurricane Ike	1,272,750
Total	\$12,170,080
Amounts Paid to Claimants	
Loss Paid Expense	\$ 82,318,259
Loss Paid Expense - Hurricane Dolly	20,910,901
Loss Paid Expense - Hurricane Ike	272,211,035
Total	\$375,440,195

Source: The Association.

The Association should improve the following aspects of its claims payment processes:

- For 3 (8 percent) of the 39 claim payments tested, the Association's claims examiner was formerly an employee of the firm that served as the claims adjuster. For one of those three claims payments, the claims examiner did not disclose on a conflict of interest statement that the claims examiner had worked for the claims adjuster within the last five years, as required by the Association's conflict of interest policy. For the other two claims payments, the claims examiner disclosed the relationship with the previous employer and processed the claims payments. Not identifying potential conflicts of interest could increase the risk of fraud or abuse.
- The Association's claims examiners did not make initial contact with the claimant within 3 calendar days of the receipt of the claim for 20 (67 percent) of the 30 non-catastrophic claims that auditors tested. The Association's policy requires initial contact within three calendar days of receipt of the claim to facilitate the prompt payment of a claim. It is



important to note, however, that the Association complied with the statutorily required time lines for payment of those 20 claims.

- For 14 (44 percent) of the 32 claims tested that exceeded \$50,000, the initiating claims examiner processed a claims payment without receiving supervisory review and approval, which increases the risk for fraud or invalid claims payments. (In May 2012, the Association provided auditors with documentation indicating that it had lowered the dollar limit for claims that claims examiners had the authority to approve.)
- For 4 (50 percent) of the 8 claims tested for which the policyholder requested payment for additional living expenses, the Association did not pay the additional living expenses in a timely manner. (Receiving payments for additional living expenses helps enable claimants to maintain a normal standard of living.) For those 4 claims, the number of calendar days that elapsed between the Association's receipt of the claim and the date the Association paid the additional living expenses ranged from 934 days to 1,250 days.
- The Association processed two cases of duplicate payments. In one case, the Association's claims examiner identified the error and corrected it by adjusting a subsequent payment to the claimant. In the other case, the Association did not identify the error and made a \$400 duplicate payment to the claimant. Although the amount of that duplicate payment was small, the Association's information system does not have an automated control to identify duplicate payments across different categories of transactions. Auditors noted, however, that the information system has an automated control to identify duplicate payments for transactions within the same category. Because claims payments can be individually or cumulatively significant, it is important to identify all cases of duplicate payments.

## Recommendations

The Association should:

- Monitor its assignments of claims to claims examiners with potential conflicts of interest.
- Ensure that its claims examiners comply with the Association's internal policy for making initial contact with the claimant within a specified time frame.
- Ensure that claims examiners do not exceed their authority to approve claims.

- Establish and enforce time frames for paying policyholders for additional living expenses.
- Implement additional controls to help prevent making duplicate payments.

### Management's Response

*Recommendation: Monitor the assignment of claims to its claims examiners to identify potential conflicts of interests.*

*We agree with the finding during the period audited. We will review our existing process and controls and will seek to implement changes to address the findings by November 30, 2012. The action agent for implementation is the Vice President of Claims.*

*Recommendation: Ensure that its claims examiners comply with the Association's internal policy for making initial contact with the claimant within a specified time frame.*

*We agree with the finding during the period audited. We are in the process of reviewing our initial contact requirements for examiners and adjusters and will document and implement the changes by November 30, 2012. The action agent for implementation is the Vice President of Claims.*

*Recommendation: Ensure that claims examiners do not exceed their authority to approve claims.*

*We agree with the audit findings that all payments exceeding \$50,000 or more require supervisory review and approval. At the time the 14 payments in question were made, the examiner authority levels did not require supervisory review and approval. In April & May 2012 new processes were implemented which lowered claim reserving and payment authorities in order to ensure increased involvement of supervisors and claims leadership at key claim junctures based on claims complexity and severity. No further activity is required.*

*Recommendation: Establish and enforce time frames for paying policyholders for additional living expenses.*

*The four claims in question here were all reported in 2008. Our current policy is to provide payment upon receipt of documentation of the incurred additional living expenses. We note in one of the four claims there were delays by the customer in submitting their documentation. Once the information was received timely payments were made. In another claim the customer misplaced their check for additional living expense benefits several times and requested replacement checks which resulted in delays outside our control. We have reviewed these findings with our claims leadership and quality assurance teams. We regularly monitor our compliance with our*

*existing policy to ensure they are being consistently followed. No further activity is required.*

*Recommendation: Implement additional controls to help prevent making duplicate payments.*

*We agree with the findings during the period audited. Our claim system provides a warning message but does not prevent the user from making a duplicate payment. We will determine if an automated solution can be implemented in our claim system. Until an automated solution is implemented, we will determine if a report can be developed to help identify potential duplicate payments for review and corrective action. The expected date of completion is September 30, 2012. The action agent for implementation is the Claims Manager, Quality Assurance & Training.*

Chapter 1-B

## **The Association Should Improve Its Quality Review Process for Closed Claims**

### **The Association's Quality Assurance and Training Department**

Analysts in the Association's quality assurance and training department perform quality assurance reviews of claim files to review the work that claims examiners and claims adjusters perform on claims.

The National Association of Insurance Commissioners' control best practices require insurance providers to perform periodic quality assurance reviews of each claims processor and examiner to verify compliance with claims handling policies. Although the Association has a quality assurance and training department (see text box), it did not have formalized procedures for performing quality assurance reviews or for reporting the results of those reviews.

According to its draft procedures, the quality assurance and training department is required to perform 300 quality assurance reviews each month (based on 3 analysts conducting 100 reviews each per month).

However, the quality assurance and training department did not meet that goal in five of the eight months from July 2011 through February 2012 (see Table 2 on the next page).

Table 2

Number of Quality Assurance Reviews the Association's Quality Assurance and Training Department Performed July 2011 through February 2012	
Month	Number of Reviews
July 2011	138
August 2011	313
September 2011	326
October 2011	306
November 2011	203
December 2011	151
January 2012	169
February 2012	197

Source: The Association.

In addition, for a sample of 30 quality assurance reviews completed between July 2011 and March 2012, there was no evidence that the quality assurance and training department performed a supervisory review. According to Association management, the Association occasionally performs random supervisory reviews of the quality assurance reviews. However, it does not document those supervisory reviews. Performing consistent supervisory review would help to ensure that staff perform quality assurance reviews accurately, effectively, and consistently.

In addition, for 15 (50 percent) of the 30 quality assurance reviews that auditors tested, the quality assurance and training department determined that the claims examiner had made an error. For 21 (70 percent) of the 30 quality assurance reviews that auditors tested, the quality assurance and training department determined that the claims adjuster had made an error.

Furthermore:

- For all 15 of the quality assurance reviews in which a claims examiner had made an error, the quality assurance and training department had no documentation that it notified Association management about those errors.
- For all 21 of the quality assurance reviews in which a claims adjuster had made an error, the quality assurance and training department had no documentation that it notified Association management about those errors.

The Association has no written policies and procedures specifically requiring the quality assurance and training department to notify Association management about the errors that it identifies. The Association asserts that it

makes such notifications through email, and auditors were unable to determine whether that process was working and effective.

The quality assurance and training department also produces monthly reports of reviews completed for Association management. Auditors reviewed those reports for January 2012 and determined that they were not accurate. Association management relies on those reports to determine any necessary corrective action that claims examiners and claims adjusters must take. Specific report inaccuracies included the following:

- The reports did not include 36 adjuster reviews and 37 examiner reviews that were conducted.
- The method for compiling the reports erroneously included results that were not relevant for all claims and did not consider various scenarios that exist for claims.

## Recommendations

The Association should:

- Develop and implement written procedures to ensure that its quality assurance and training department performs quality assurance reviews consistently and accurately reports the results.
- Ensure that its quality assurance and training department achieves its monthly goals for the number of quality assurance reviews it will perform.
- Develop and implement procedures for performing supervisory reviews of the work of quality assurance and training department analysts, and document the results of those supervisory reviews.
- Require the quality assurance and training department to notify Association management about errors it identifies in its quality assurance reviews.
- Produce accurate reports to determine corrective actions that claims examiners and claims adjusters must take.

## Management's Response

*We agree with the findings during the period audited. The standard of 100 claims per examiner made more sense when we were handling 10,000 to 12,000 claims per month under Ike. We will take steps to align expected number of quality assurance reviews with claim volume. We will also develop and implement procedures to address the other findings. The expected*

*completion date for this item is by November 30, 2012. The action agent for implementation is the Vice President of Claims.*

## ***The Association's Controls Produce Accurate Financial Information and Help Ensure Accountability for Funds, But the Association Should Make Certain Improvements to Its Processing of Premium Payments***

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### **The National Association of Insurance Commissioners' Statements of Statutory Accounting Principles**

The National Association of Insurance Commissioners' Statements of Statutory Accounting Principles specify the fundamental concepts on which statutory financial accounting and reporting standards are based. Those concepts provide a framework to guide the National Association of Insurance Commissioners in the continued development and maintenance of statutory accounting principles and constitute an accounting basis for the preparation and issuance of statutory financial statements by insurance companies in the absence of state statutes and/or regulations.

Source: The National Association of Insurance Commissioners.

The Association's accounting practices for reporting premiums, unpaid claims, losses, loss adjustment expenses, property and casualty reinsurance, and allocation of expenditures complied with selected Statements of Statutory Accounting Principles of the National Association of Insurance Commissioners (see text box for additional details).

In addition, the Association has implemented controls over premium payment collection and processing to help ensure accountability for Association funds. Auditors tested 30 premium payments that the Association received from January 1, 2011, through March 31, 2012. The Association properly recorded and had supporting documentation for all 30 payments.

The Association has opportunities to strengthen its (1) segregation of duties, (2) reconciliations of premium payments with deposit information on its bank statements, and (3) adjusting journal entry process.

**Segregation of duties.** The Association's processes for collecting and depositing checks, reviewing adjustments, and reconciling deposits with payments in its information system lack segregation of duties. The lack of segregation of duties exposes the Association to risks of misappropriation of premium payment checks.

**Reconciliations of premium payments with deposit information on bank statements.** Auditors tested 30 daily reconciliations the Association performed from January 1, 2011, through March 31, 2012, and determined that the Association did not always complete or review those reconciliations. Specifically:

- For 6 (20 percent) of the 30 reconciliations, the Association identified reconciling items totaling \$21,026 for which it did not have supporting documentation indicating that it had resolved those reconciling items.
- For 2 (7 percent) of the 30 reconciliations, the Association did not have documentation of supervisory review. Supervisory review is important due to the lack of segregation of duties discussed above.

In March 2012, the Association improved its daily reconciliation process by recording the balances being reconciled; any reconciling items; and the date when the Association resolved a reconciling item, a description of the reconciling item, and how the Association resolved the reconciling item.

Adjusting journal entries. Auditors also tested 16 adjusting journal entries that the Association posted during June 2011, December 2011, and March 2012. The journal entries tested represented approximately 66 percent of the total dollar amount of adjusting journal entries that the Association posted during those months. Auditors identified the following:

- For 2 (13 percent) of the 16 adjusting journal entries, the Association could not support that the adjusting journal entries complied with the National Association of Insurance Commissioners' accounting principles. The tested portion of those 2 journal entries totaled \$496,342,718.
- For 4 (25 percent) of the 16 adjusting journal entries, the Association did not have evidence of its having performed supervisory review before it posted those adjusting journal entries. The tested portion of those 4 adjusting journal entries totaled \$234,615,618.

## Recommendations

The Association should:

- Implement segregation of duties across all accounting functions.
- Maintain documentation of its reconciliations of premium payments with the bank deposits it makes, and ensure that it consistently reviews those reconciliations.
- Maintain supporting documentation for adjusting journal entries, and document management's review of adjusting journal entries for compliance with accounting principles.

## Management's Response

*Recommendation: Implement segregation of duties across all accounting functions.*

*We agree with the finding during the period audited. Effective, April 1, 2012 the accounting and finance department was reorganized into functional areas and by July 1, 2012 filled all outstanding vacancies. We expect the staff to be sufficiently trained and that complete segregation of duties will be complete by September 30, 2012. The Controller of the Association is responsible for implementation.*

*Recommendation: Maintain documentation of its reconciliations of premium payments with the bank deposits it makes, and ensure that it consistently reviews those reconciliations.*



*We agree with the finding during the period audited. Effective, March 1, 2012 initial changes were made to improve the reconciliations. The Association is developing additional reports to assist with the reconciliations and expects these reports by September 2012. The business processes using these reports will be implemented in the 4th quarter 2012 and by December 31, 2012, the Association is expected to be have fully implemented this. The Controller of the Association is responsible for implementation.*

*Recommendation: Maintain supporting documentation for adjusting journal entries, and document management's review of adjusting journal entries for compliance with accounting principles.*

*We agree with the finding during the period audited. Complete documentation and review of adjusting journal entries was effective in the 2nd quarter 2012. No additional implementation action required.*

## ***The Association's Non-claims-related Expenditures Generally Were Properly Supported and Authorized, But the Association Should Improve Supporting Documentation for Payroll and Contracts***

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The Association's non-claims-related expenditures, including payroll, generally were properly supported and authorized.

The Association paid \$123,615,341 in non-claims-related expenditures from January 1, 2011, through March 31, 2012. Auditors tested 30 transactions for non-claims-related expenditures the Association made within that time period. All 30 transactions were properly recorded, supported, and approved. (See Appendix 5 for a list of Association non-claims-related expenditures by category for calendar year 2011.)

In addition, auditors tested 30 Association payroll transactions processed between January 1, 2011, and March 31, 2012. In general, the Association had effective processes and controls to ensure that payroll was processed accurately. However, it should improve its documentation of employee service agreements. Seven (23 percent) of the 30 payroll transactions tested could not be traced to source documents. All seven transactions were for contract claims examiners. The National Association of Insurance Commissioners' control best practices require insurers to have procedures to ensure that all service agreements are in written form and document services covered and fees charged. The Association hired the contract claims examiners in 2008 and 2009 through a verbal agreement. It subsequently began phasing out the hourly pay rate to which it had verbally agreed when it entered into a written employee service agreement for claims examiner services in March 2011. For the payroll transactions tested, the Association made the last payment according to the terms of its verbal agreement in September 2011.

Auditors also reviewed five Association payroll registers between January 2011 and March 2012 to verify that payroll could be traced to the Association's general ledger. All five payroll registers tested were traced to the general ledger.

The Association should improve the documentation of its allocation of payroll expenditures between the Association and the Texas Fair Access to Insurance Requirements (FAIR) Plan Association.

Certain Association employees perform services, such as information technology services, executive staff services, and legal services, for both the Association and the Texas FAIR Plan Association.<sup>1</sup> While the Association

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<sup>1</sup> The Texas FAIR Plan Association is an entity established by Texas Insurance Code, Chapter 2211, to provide residential property insurance to qualified consumers who are having difficulty obtaining this coverage from licensed insurance companies.

had a methodology for determining the salary allocations between the two organizations, it was unable to support the allocation percentages it used for those employees. Therefore, the Association did not have assurance that the allocation percentages accurately reflected the work staff performed and whether the Texas FAIR Plan Association reimbursed the Association for the correct amount.

The Association should improve certain contracts, and its contracts database is not reliable.

Excerpts from  
Texas Insurance Code,  
Section 2210.056(b),  
Use of Association Assets

(b) The association's assets may not be used for or diverted to any purpose other than to:

(1) satisfy, in whole or in part, the liability of the association on claims made on policies written by the association;

(2) make investments authorized under applicable law;

(3) pay reasonable and necessary administrative expenses incurred in connection with the operation of the association and the processing of claims against the association.

According to the Association, it had at least 332 active contracts from January 1, 2011, through March 31, 2012. Auditors tested 30 contracts for reasonableness and necessity as stated in Texas Insurance Code, Section 2210.056(b)(3) (see text box). Seven (23 percent) of the 30 contracts tested were for contract workers, and the contracts did not contain detailed descriptions of services to be provided. Therefore, auditors were unable to determine whether the services and related expenditures associated with those contracts were reasonable and necessary. Those seven contracts were with Odyssey Information Services, Inc. for consultants and programmers. The Association paid \$1,050,836 to Odyssey Information Services, Inc. in calendar year 2011.

According to the National Association of Insurance Commissioners' *Financial Condition Examiner's Handbook*, a common control for the performance of third-party service providers is to maintain formal agreements with the service provider that identifies roles and responsibilities, expected deliverables, performance standards, and credentials.

In addition, the Association's contracts database was not reliable because it contained (1) duplicate contracts, (2) incorrect dates for contract inception and contract expiration, (3) contracts that had expired or had been replaced, and (4) documents for items that were not contracts for services. As a result, the information contained within the database is not complete for management reporting purposes. Not having reliable data in the contracts database also increases the risk that the Association may not be able to accurately identify which contracts are in effect.

## Recommendations

The Association should:

- Document and maintain all employee service agreements.
- Document and maintain its payroll allocation percentage determinations for employees who perform duties for both the Association and the Texas FAIR Plan Association.

- Ensure that all of its contracts contain detailed descriptions of the services to be provided.
- Ensure that its contracts database has complete and accurate information.

### Management's Response

*Recommendation: Document and maintain all employee service agreements.*

*We agree with the finding during the period audited. Beginning in May 2011 the process for documenting and maintaining employee service agreements changed and is now fully implemented. No additional implementation action required.*

*Recommendation: Document and maintain its payroll allocation percentage determinations for employees who perform duties for both the Association and the Texas FAIR Plan Association.*

*We agree with the finding during the period audited. Effective, April 1, 2012 changes were made to document to payroll allocation percentages and will be fully implemented by September 30, 2012. The Controller of the Association is responsible for implementation.*

*Recommendation: Ensure that all of its contracts contain detailed descriptions of the services to be provided.*

*The Association agrees with the findings and recommendation, and the Vice President of Compliance will be responsible for implementation of corrective action. The Association will implement changes to future contracts by September 30, 2012 to ensure that expenses are reasonable and necessary in compliance with Texas Insurance Code Section 2210.056(b). In addition, future contracts will clearly identify roles and responsibilities, expected deliverables, performance standards, and credentials for the parties in the contracts.*

*Recommendation: Ensure that its contracts database has complete and accurate information.*

*It is important to note the database utilized to maintain contracts is a central repository for the Association's records which includes more than contracts. This database was created in response to issues raised by the Texas Department of Insurance in 2010 and houses all the Association's agreements, contracts, and other records. As such, the Association agrees with the findings and recommendation, and the Vice President of Compliance will be responsible for implementation of corrective action.*

*The Association will enhance the features in its tracking system for all the Association contracts by September 30, 2012. This revised system will*

*address the specific areas from the SAO report to ensure no duplicative contracts exist in the database; validate the inception and expiration dates of all contracts; and record contract expiration, extension, or replacement for tracking purposes. Because the central repository contains all Association records, the removal or non-placement of certain documents that are not contracts for services, such as license agreements, is not recommended. However, additional fields in the database will be utilized to clearly designate these types of documents as opposed to contracts for goods and services.*

## ***The Association Should Implement Prior Recommendations and Address Other Issues Auditors Identified Related to Information Technology***

Since December 2008, the Association’s information technology operations have been subject to three reviews conducted by external entities (see Table 3). The most recent review was conducted in January 2012. Each review identified similar issues related to information security. As of May 2012, the Association had not corrected all issues regarding information security.

Table 3

Previous Information Technology Reviews at the Association		
External Entity	Date of Report	Scope of Review
Department of Insurance	December 2008	Security of financial data and claims data, data recovery, and network security.
Deloitte and Touche LLP	February 2011	Data recovery, information security controls, and change management controls.
KPMG LLP	January 2012	General controls, including logical access, data retention, network security, and segregation of duties.

Source: Reports issued by the external entities listed above.

The Association developed a plan to implement the 38 recommendations from the information technology review that KPMG LLP conducted. As of April 2012, the Association reported that it had fully implemented 14 (37 percent) of those 38 recommendations. However, the State Auditor’s Office reviewed 2 of the 14 recommendations reported to be complete and determined that those 2 recommendations were still in the process of being implemented. The Association estimates that it will take 39 staff months to fully implement prior recommendations.

**The Information Systems Audit and Control Association’s (ISACA) Definition of Governance**

“Governance ensures that stakeholder needs, conditions and options are evaluated to determine balanced, agreed-on enterprise objectives to be achieved; setting direction through prioritization and decision making; and monitoring performance and compliance against agreed-on direction and objectives.”

Because of the issues identified in the previous reviews, the State Auditor’s Office focused on the governance structure for selected areas within the Association’s information technology. Auditors identified a need for improvement in two areas: security management and application management. In addition, the Association should work to improve information technology controls to help ensure the integrity of the information contained within its automated systems. For example, the Association should work to improve controls over access, audit trails, and other general controls. Due to the sensitive nature of the issues identified, the State Auditor’s Office provided detailed information on the issues to the Association in a separate document.

While the State Auditor's Office identified areas for improvement, certain Association controls were operating effectively. For example, the Association had processes for managing changes to various applications and to help identify and correct data consistency issues between its transactional and reporting databases. In addition:

- The Association's network password and account lockout settings followed best practices.
- The Association properly limited access to its quality assurance database.
- The Association had an audit trail for selected financial transactions within its claims information system.

### Recommendations

The Association should:

- Develop a complete implementation plan that prioritizes all information technology issues identified in this audit and in previous reviews.
- Report the status of its implementation of recommendations related to information technology to the State Auditor's Office every six months.

### Management's Response

*Recommendation: Develop a complete implementation plan that prioritizes all information technology issues identified in this audit and in previous reviews.*

*The Association agrees with the findings and recommendation, and the Vice President – Chief Information Officer will be responsible for implementation of corrective action. The Association has developed an implementation plan based on previous reviews and will incorporate new findings included in the State Auditor's Report by November 30, 2012.*

*Recommendation: Report the status of its implementation of recommendations related to information technology to the State Auditor's Office every six months*

*The Association accepts the recommendation and will submit the status every six months to the State Auditor's Office by November 30th and May 31st of each year. The Vice President – Chief Information Officer will be responsible for providing such status.*

# Appendices

Appendix 1

## **Objectives, Scope, and Methodology**

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### **Objectives**

The objectives of this audit were to determine:

- Whether the Texas Windstorm Insurance Association's (Association) controls over selected financial processes produce accurate financial information and help ensure accountability for Association funds.
- Whether the Association's claims processing procedures and related controls help ensure that claims payments are authorized, supported, processed in a timely manner, and made in compliance with applicable requirements.
- Whether selected Association expenses are reasonable and necessary; properly authorized; supported; and paid in accordance with applicable statutory, regulatory, and contractual requirements and Association policies and procedures.

### **Scope**

The scope of this audit included the Association's processes for (1) reporting selected financial information, (2) authorizing and paying claims, and (3) authorizing and paying for non-claims-related expenditures. Auditors examined those processes and related transactions from January 1, 2011, through March 31, 2012.

### **Methodology**

The audit methodology included collecting and reviewing documentation from the Association; conducting interviews with Association staff; and reviewing Association policies, procedures, and statutes. Specifically, auditors evaluated controls over the Association's financial reporting and accounting, processing of claims payments, and processing of non-claims-related expenditures. That included analyzing and testing selected transactions within those areas.

Auditors assessed the reliability of the Association's internal accounting system, premiums processing system, claims processing system, and quality assurance and training database and determined that the data in those systems and database was sufficiently reliable for the purposes of this audit. To make that determination, auditors performed data reliability tests on selected data from those systems and database.



Auditors also assessed the reliability of the Association's internal contract database and determined that it was not sufficiently reliable because it contained duplicate contracts, inaccurate dates, expired contracts, and agreements that were not for services rendered.

Information collected and reviewed included the following:

- Available policies and procedures for reporting selected financial information, processing claims payments, and authorizing expenditures.
- Association audited annual financial reports for calendar years 2008, 2009, and 2010.
- Association annual financial statements submitted to the Department of Insurance for calendar years 2008, 2009, 2010, and 2011.
- Association litigation management guidelines and supporting documentation.
- Association premium collection transactions and supporting documentation.
- Association claims payment transactions and supporting documentation.
- Association quality assurance and training department data and supporting documentation.
- Association expenditures and supporting documentation.
- Payroll data from the Automatic Data Processing (ADP) payroll registers.
- Information technology policies, procedures, and supporting documentation.

Procedures and tests conducted included the following:

- Interviewed Association management and staff.
- Analyzed and tested premium collection transactions.
- Analyzed and tested claims payment transactions.
- Analyzed and tested non-claims-related expenditure transactions.
- Analyzed and tested quality assurance and training department quality assurance reviews.
- Analyzed and tested payroll transactions.
- Reviewed and analyzed claims litigation billing and expenditures.

- Analyzed and tested controls for reporting selected financial data.
- Reviewed Association contracts and tested selected contracts.
- Evaluated the Association's governance of its information technology environment.
- Reviewed general controls for selected information technology systems.
- Analyzed and tested administrative access to selected information technology systems.

Criteria used included the following:

- Texas Insurance Code, Chapter 542 and Chapter 2210.
- National Association of Insurance Commissioners' *Financial Condition Examiners Handbook*, 2011 Edition.
- National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* as of March 2011.
- Association policies and procedures.
- U. S. Fair Labor Standards Act.
- Office of the Comptroller of Public Accounts' *Texas Payroll/Personnel Resource*.
- Federal Information Security Management Act - Elements of an Information Security Program.
- Information Systems Audit and Control Association's *COBIT 5: A Business Framework for the Governance and Management of Enterprise IT*.
- Information Systems Audit and Control Association's *COBIT 5: Enabling Processes*.
- Information Systems Audit and Control Association's *COBIT 5: Implementation*.

## Project Information

Audit fieldwork was conducted from March 2012 through May 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:

- Michael A. Simon MBA, CGAP (Project Manager)
- Ben Carter (Assistant Project Manager)
- Erin Cromleigh, CGAP
- Carl Ela, CGAP, CIDA
- Tracy L. Jarratt, CPA, CISA
- LaTrice Levels
- Michael Yokie, CISA
- Michael C. Apperley, CPA (Quality Control Reviewer)
- Lisa R. Collier, CPA, CIDA (Assistant State Auditor)

## Letter Regarding Administrative Oversight of the Association

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The letter below specifies the terms and conditions of the Department of Insurance's administrative oversight of the Texas Windstorm Insurance Association.



### Texas Department of Insurance

Financial, General Management, Mail Code 305-2A  
333 Guadalupe • P. O. Box 149104, Austin, Texas 78714-9104  
512-322-5040 telephone • 512-322-5074 fax • www.tdi.state.tx.us

September 30, 2011

John Polak, Interim General Manager  
Texas Windstorm Insurance Association  
5700 S. Mopac, Bldg. E, Suite 530  
Austin, TX 78749

**Via Hand Delivery**

Re: Amended Administrative Oversight

Dear Mr. Polak:

This letter supersedes my letter of February 28, 2011 and sets forth amended terms and conditions for administrative oversight of the Texas Windstorm Insurance Association ("TWIA") by the Texas Department of Insurance ("TDI"), pursuant to § 441.053 of the Texas Insurance Code, and in conjunction with all applicable law.

1. TWIA management shall continue to submit all senior and executive level personnel decisions to TDI staff for prior review and approval.
2. TWIA management shall continue to submit expenditures for review and prior approval. Revised expenditure request guidelines are set forth in attached Exhibit 1.
3. TWIA management shall comply with the attached communications plan which requires complete, accurate, and timely communications to the Board to ensure that the Board can meet its primary objectives, as set forth in § 2210.107 of the Texas Insurance Code, and any and all other responsibilities under Texas law. TDI shall be copied on the bi-weekly report to the board. The Board shall consider adoption of an appropriate communications plan at its next meeting.
4. TWIA has submitted an Operations Improvement Plan (the "Plan") designed to address operational deficiencies and compliance issues identified by TDI and TWIA staff. TWIA shall continue its efforts to implement the Plan as written and as it evolves with input from TDI staff. In order for TDI to evaluate TWIA's progress in implementing the Plan, TWIA shall report to TDI as set forth in Exhibit 2.
5. TWIA shall continue to document all claim settlements as previously directed by TDI and to submit such documentation for review as set forth in Exhibit 3.
6. TWIA shall account for its reinsurance and reinstatement premium as directed by TDI.
7. TWIA shall amend its 2008 Annual Statement and all subsequent annual statements as directed by TDI.
8. TWIA shall engage a third party consultant acceptable to TDI to conduct an audit of TWIA's IT expenditures, operations and planning.

9. Norma Garcia was named as a special advisor for TDI on ethics and compliance issues related to TWIA effective September 19, 2011. Ms. Garcia will remain on site at TWIA until TWIA is released from administrative oversight. TWIA should view Ms. Garcia as a resource regarding matters of transparency, accountability, conflicts of interest, and the like, in TWIA's practices, policies and procedures.

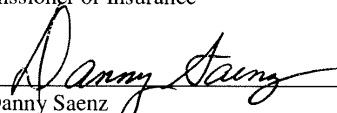
10. In order to evaluate proposed transactions and major issues, TDI will conduct regularly scheduled conference calls with TWIA management to address upcoming matters, problems or issues.

Pursuant to the authority set forth in Chapters 401 and 2210 of the Texas Insurance Code, any information and documentation obtained by TDI in connection with this administrative oversight proceeding will be treated confidentially to the extent provided therein.

Nothing in this letter relieves TWIA of its obligation to comply with all applicable law. Nothing in this letter ratifies any action taken by TWIA, or by its management or staff, nor does it express the Commissioner's or TDI's approval of any such action, nor does anything in this letter prevent the Commissioner or TDI from initiating any proceeding, taking any action, seeking any remedy, or pursuing any right at any time.

Sincerely,

Eleanor Kitzman  
Commissioner of Insurance

By:   
\_\_\_\_\_  
Danny Saenz  
Senior Associate Commissioner  
Financial Program  
Commissioner's Order No. 10-1088

c: TWIA board members  
Danny Saenz  
Sara Waitt  
Angel Garrett  
Jamie Walker  
Rachel Giani

EXHIBIT 1

Expenditures

No expenditure of TWIA funds, whether in cash, by check, credit card, wire transfer, or other form of payment, shall be made without prior approval by TDI and/or as set forth herein. All expenditure requests must be in writing and shall include the detail described below, as well as a recommendation signed by a senior level **employee** (non- contractors or consultants) of TWIA familiar with the proposed expenditure.

Specifically, the following information is to be provided for each type of expenditure:

**Non-claims checks (including legal bills):**

1. A log of all checks that are printed during each day.
2. TDI staff may select checks for review prior to release to the payees. TWIA shall not release any checks until informed by TDI staff of the checks to be reviewed prior to release.
3. For the checks that are selected for review prior to release, TWIA shall provide TDI staff the unsigned check, the completed disbursement form used by TWIA, the invoice or billing statement supporting the amount of the payment, a copy of any associated contract or agreement, and any other information requested to facilitate its evaluation of the disbursement.
4. A log of upcoming checks at least one week prior to the due date of the payment;

**Non-claims wire transfers:**

1. Email notification including the documentation that supports the payment of the liability, including the completed disbursement form used by TWIA, the invoice or billing statement supporting the amount of the payment, and a copy of any associated contract or agreement.
2. All wire transfer requests shall be made by TWIA at least one week prior to the due date of the payment;

**Claims payments:**

1. Daily Claims Check Report and the accompanying daily Claims Check Run Log Excel Spreadsheet. The contents of these reports shall not be changed without prior approval by TDI staff.
2. Access to the NOTUS system by TDI staff.
3. All claims payments of \$100,000 or greater will be reviewed by TDI staff prior to the checks being released to the payees.
4. TDI staff will notify TWIA which, if any, of the less than \$100,000 claims checks have been selected for review prior to release. TWIA shall not release any checks that have been selected for review until TDI staff has provided their approval;

**Other:**

1. With regards to expenditures with third parties who have withdrawal authority on TWIA accounts, such as the 401K and payroll administrators, and credit cards, provide all necessary

documentation needed by TDI staff to review such payments at least a week ahead of the scheduled withdrawal. All of these types of disbursements will be reviewed by TDI staff.

2. Contracts that are not the standard pre-approved contracts shall be submitted for review by TDI staff prior to execution.
3. If an expenditure is determined to be appropriate and has been properly documented, TDI will provide a statement of non-objection within 2 business days of receipt, allowing TWIA to make the proposed expenditure or complete the proposed transaction. TDI staff may also select disbursements after they have been released to payees to verify that TWIA is following its processes and procedures.
4. For routine, recurring expenses, TWIA may submit the name and address of the payee and the usual amount or range of the amount of the recurring payment. If approved by TDI, these expenditures may be processed and transmitted without additional prior approval by TDI; provided, however, that TDI is notified within 48 hours of the payment. TDI may review these disbursements after they have been made to verify that TWIA is following its processes and procedures.
5. TWIA shall provide TDI with a list, including name, address, telephone number and a contact name, if appropriate, of all vendors with whom TWIA does business, including consultants, contractors, suppliers, etc. No expenditure shall be approved by TDI unless the vendor information has been provided to TDI in advance.

EXHIBIT 2

General Reporting

In order to facilitate monitoring of implementation of and compliance with TWIA's Operation Improvement Plan, TWIA will provide the following information to TDI:

1. Monthly status reports regarding TWIA's implementation of the Plan. The format of the reports will reference the unique identifier used in the Plan and provide a detailed discussion of that item and any new supporting documentation for that item. The status report is due the first working day of each month.
2. Monthly financial statements, presented in the format of pages 1-5 of the NAIC blank. The financial statement shall be provided to TDI staff by the 15<sup>th</sup> of the following month.
3. Any instances of non-compliance with TWIA's policies and procedures should be reported to TDI staff immediately.
4. Daily cash report.
5. Mass employee communications shall be copied to TDI staff when distributed.
6. TDI staff shall continue to be notified of media inquiries and any articles, op-ed columns, letters to the editor, and the like shall be submitted to TDI prior to submission for publication.



EXHIBIT 3

Settlement of Litigated and Non-Litigated Claims

1. TDI has developed a spreadsheet for all claim settlement information related to both litigated and non-litigated claims. TDI will provide the spreadsheet electronically to TWIA, and TWIA shall update the information on at least a daily basis starting from October 3, 2011.
2. TWIA shall place the spreadsheet provided by TDI on a shared system that will allow TDI access to the claim settlement information at any time.
3. The claim settlement data collected through the spreadsheet shall include, but is not limited to, the following: claim number, claimant name, date of loss, date of first notice of loss, date suit filed (if applicable), plaintiff firm (if applicable), plaintiff's estimate or demand (if applicable), name of public adjuster, upper end of recommended settlement range, amount of prior payments on the loss, amount of prior expenses paid, amount of reserves, amount of total remaining policy limits, date of formal mediation or proposed informal negotiation, TWIA rating, names of independent adjusting firm and independent adjuster, date of final settlement, final settlement value, and zip code of risk. The additional data to be collected is set out in detail in the template spreadsheet to be provided by TDI.
4. TDI staff will review prior to the settlement negotiations claim settlement packets for the following claims: all claim settlement packets for claims with total settlement ranges of \$100,000 or more (including prior payments on the loss and any requests for additional authority); and claim settlement packets for claims selected by TDI staff with a settlement range of less than the \$100,000 threshold.
5. Prior payments to the claimants on the loss shall be included in calculations to determine whether the settlement value reaches the dollar threshold triggering TDI staff's review prior to settlement negotiations.
6. In the future, TDI staff may choose to review only those packets for claims with recommended settlement ranges over \$250,000.
7. All settlement packets associated with claims exceeding the dollar threshold triggering TDI staff's review shall be provided at least a week before the proposed mediation/informal negotiation.
8. All settlement packets that are selected by TDI staff for review which are less than the dollar threshold triggering TDI staff's review shall be provided to TDI staff within 2 days of TDI staff selecting the claim for review prior to settlement negotiations.
9. The settlement packets submitted to TDI staff related to settlements that are being reviewed shall continue to contain the information relied on to settle the claims, which should be substantially similar to Forms C01 and C02, as previously developed jointly by TDI staff and TWIA. That

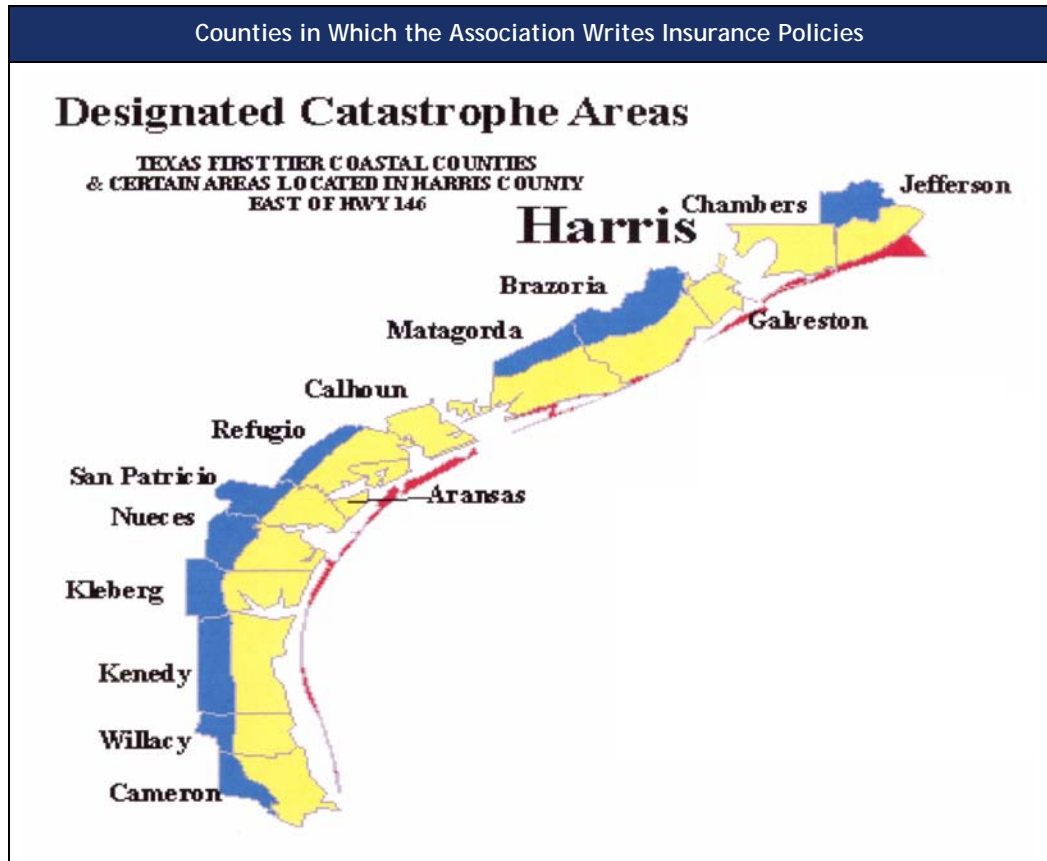
documentation includes, but is not limited to, the claim settlement review form, the examiner write-up/summary, the defense counsel evaluation (where applicable), and other supporting documents. The materials supporting the settlement shall also include the recommended settlement ranges determined by TWIA's examiner and defense counsel, the amount of reserves, the name of the adjusting firm and the independent adjuster, and a list of documents received from plaintiff.

10. TDI and TWIA will collaboratively develop a revised claim settlement review form which will reflect whether the claim settlement packet was reviewed by TDI.
11. TDI staff reserves the right to review any claim settlement packet either before or after the settlement negotiations occur to verify that the information being maintained by TWIA related to any settlement is complete and complies with TWIA's processes and procedures. Therefore, TWIA shall continue to compile all of the settlement documentation as outlined above for each claim to ensure completeness of their own files.

## Counties in Which the Association Writes Insurance Policies

Figure 1 shows the first tier coastal counties and parts of Harris County in which the Texas Windstorm Insurance Association (Association) writes insurance policies.

Figure 1

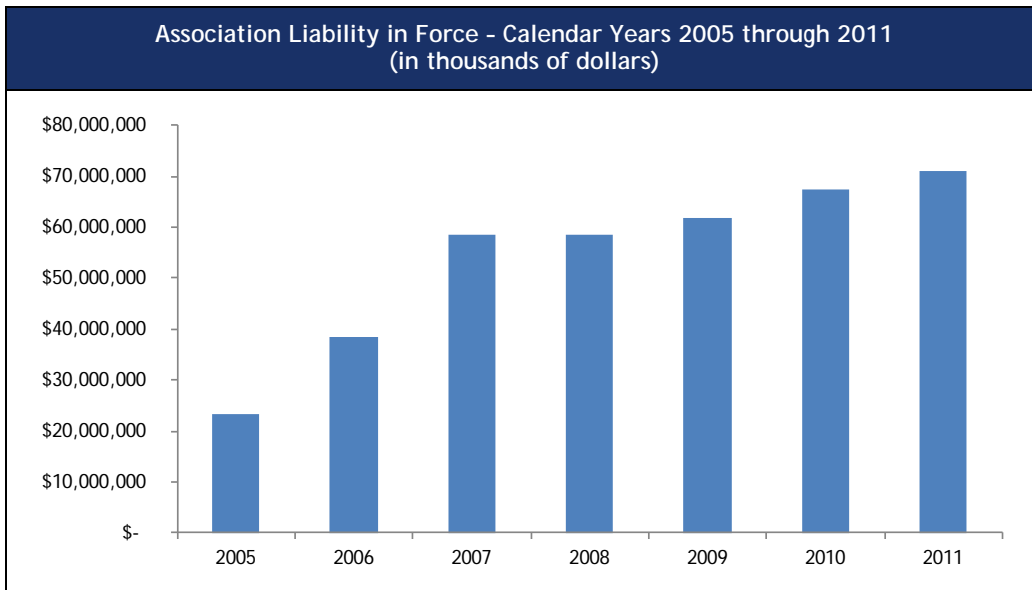


Source: The Association and the Texas Department of Insurance.

## **Background Information on the Association's Liability in Force, Premiums Written, Number of Policies, and Claims Paid from Hurricane Ike Losses**

Figure 2 shows information on the Texas Windstorm Insurance Association's (Association) liability in force for calendar years 2005 through 2011.

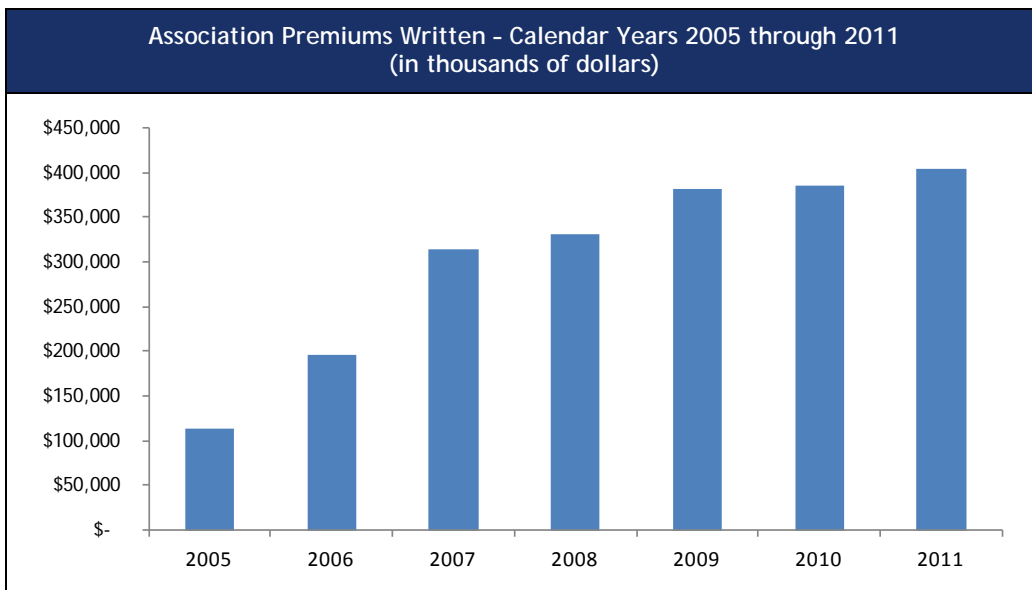
Figure 2



Source: Information the Association prepared for its May 15, 2012, board meeting.

Figure 3 shows information on the Association's premiums written for 2005 through 2011.

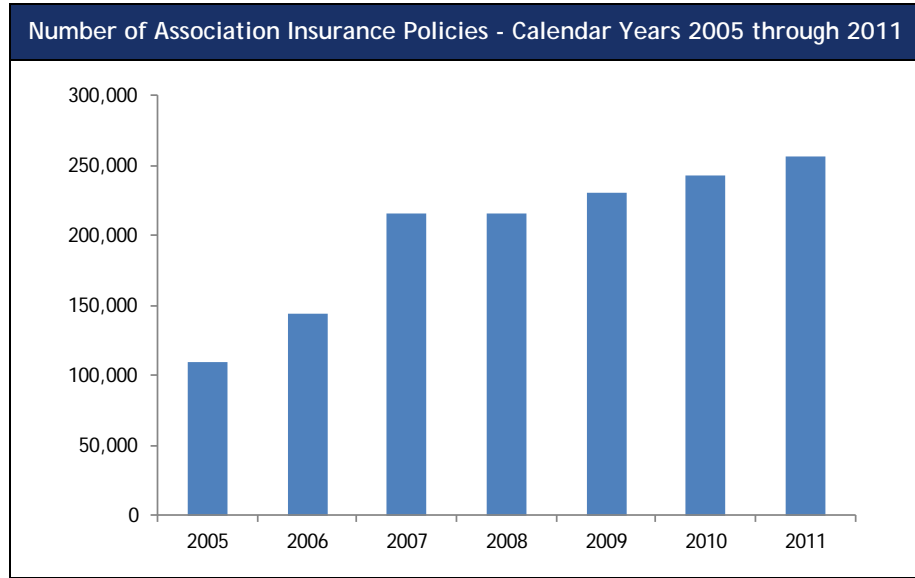
Figure 3



Source: Information the Association prepared for its May 15, 2012, board meeting.

Figure 4 shows information on the number of Association insurance policies for 2005 through 2011.

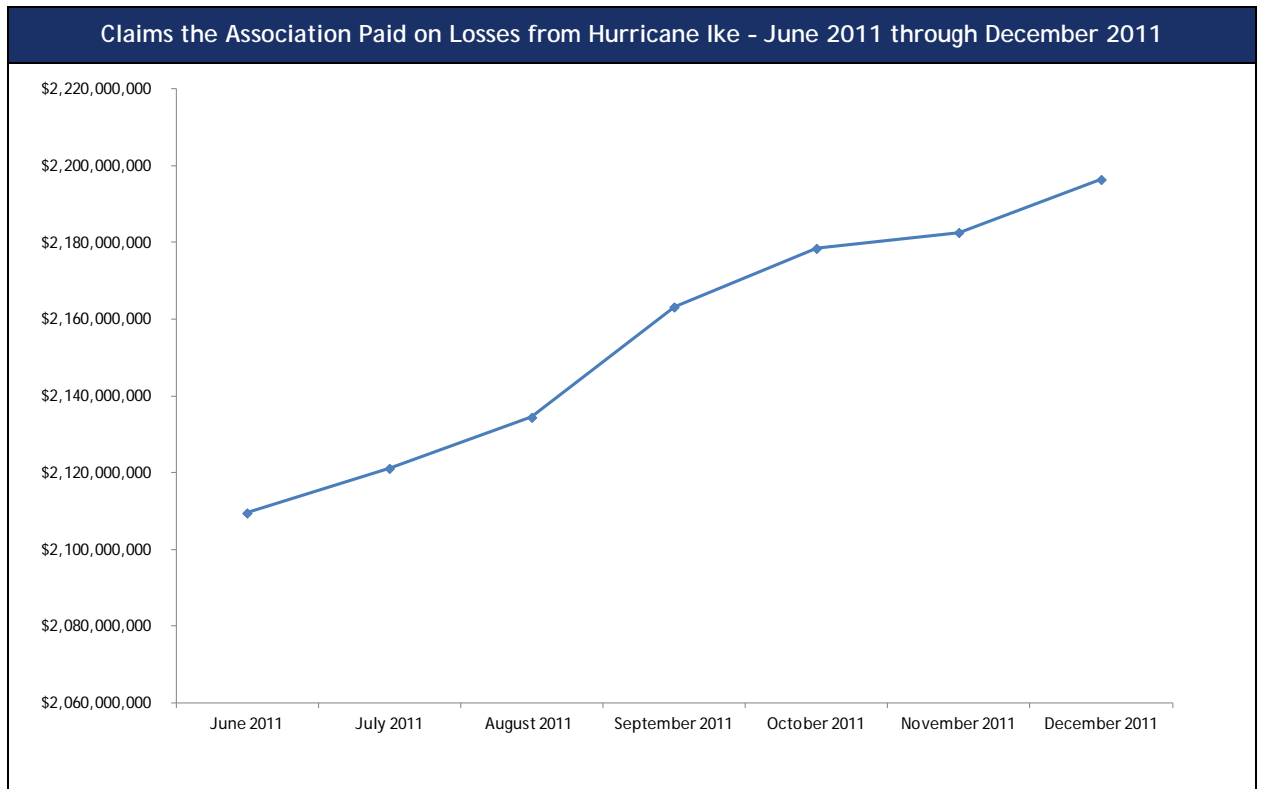
Figure 4



Source: Information the Association prepared for its May 15, 2012, board meeting.

Figure 5 shows information on claims the Association paid on losses from Hurricane Ike.

Figure 5



Source: The Association's March 2012 monthly operating report.

## Association Expenditures Not Related to Claims Losses in 2011

Table 4 lists the Texas Windstorm Insurance Association's (Association) general administrative expenditures not related to claims losses for calendar year 2011.

Table 4

Association General Administrative Expenditures Not Related to Claims Losses Calendar Year 2011	
Category (as listed in the Association's records)	Amount
Agents Commission	\$ 65,454,747
Gross Premium/Maintenance Tax	7,825,963
Salary - Full Time Permanent (Excluding General Manager Salary)	5,818,014
General Manager Salary - \$295,000	204,231 <sup>a</sup>
IT Consulting - PolicyCenter project	3,541,245
Broker flat fees - Excess of Loss	1,733,572
Catastrophic salaries - Supervisors	1,696,460
IT Consulting - Billing Center project	1,522,402
Legal Services	1,509,173
Group Insurance	1,191,515
Inspection Program Expense	1,115,988
Office Rent	952,194
Outside Services	731,178
Postage/Courier Svc	723,863
Depreciation Expense	674,930
Payroll Taxes - FICA	638,877
Line of Credit-Chase	420,596
Pension Plan	418,309
IT Consulting	413,887
IT Claims Systems Projects (formerly New Archt)	394,436
Bond Issuance Expense	392,552
IT Disaster Recovery Expense	364,669
Employee Recruitment	347,113
Employee Savings Plan	316,953
IT Equipment - Hardware	295,435
Certified Public Accounting Services	287,447
Temporary Office Help	275,714
IT Equipment - Software	268,089
Office Supplies	255,623
Salary - Part Time - Permanent	230,904

Association General Administrative Expenditures Not Related to Claims Losses Calendar Year 2011	
Category (as listed in the Association's records)	Amount
Telephone	211,443
Public Relations & Media Services	170,389
Repairs & Maintenance	163,757
Mobile Home - Agent Commission	113,327
Overtime - Regular	99,122
Utilities Expense	97,433
Board/Committee Meetings	84,562
Supervisor Expenses - Storm Activity	82,417
Uncollectible Premium Expense	66,934
Workshop Expenses - Claims	59,215
Travel & Lodging	39,035
Payroll Services Expense	32,507
Training Expense	30,438
Printing	29,704
Ad Valorem Taxes (Property Taxes)	25,297
Hurricane Awareness project	22,778
Dues & Subscriptions	21,424
Workshop Expenses - Underwriting	19,324
Property Insurance Plans Service Office	18,740
Meals/Entertainment	12,188
Bank Service Fee	9,942
Employee Relations	8,535
General Insurance	5,745
Equipment/Storage Rental	4,577
Direct Adjuster Program Catastrophe Seminars	3,582
Catastrophe Mobile Office Expense	1,891
Overage/Shortage Adjustment Sweep Account	1,358
Cable expense	563
IT Supplies/Service	110
	Total \$101,452,416
<sup>a</sup> The general manager's annual salary is \$295,000, but the expenditure amount was \$204,231 because the general manager was not hired until April 2011.	

Source: The Association.

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 Harvey Hilderbran, House Ways and Means Committee

### **Office of the Governor**

The Honorable Rick Perry, Governor

### **Department of Insurance**

Ms. Eleanor Kitzman, Commissioner of Insurance

### **Texas Windstorm Insurance Association**

Members of the Texas Windstorm Insurance Association

Board of Directors

Mr. Michael Gerik, Chair  
Ms. Georgia R. Neblett, Vice Chair  
Ms. Alice H. Gannon, Secretary/Treasurer  
Mr. Richard Clifton Craig  
Mr. Steven Lawrence Elbert  
Mr. William David Franklin, Sr.  
Mr. Ron Lawson  
Mr. Michael O’Malley  
Mr. Gene Seaman  
Mr. Edward James Sherlock III  
Mr. John Polak, CPCU, General Manager





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