

**STATE OFFICE OF RISK MANAGEMENT**  
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2017



STATE OFFICE OF RISK MANAGEMENT  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2017

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# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and  
Audit Committee Members  
State Office of Risk Management  
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the internal control structure over the Claims Operations Department of the State Office of Risk Management (SORM) for the 6 months ended February 28, 2017. Our audit was conducted for the limited purpose of determining SORM's compliance in processing workers' compensation claims and indemnity payments in accordance with the Texas Workers' Compensation Act, the Texas Administrative Code; and, SORM's established policies and procedures.

The results of our tests disclosed that SORM's internal control structure over the Claims Operations Department, as applicable to its compliance in processing workers' compensation claims and indemnity payments in accordance with the Texas Workers' Compensation Act, the Texas Administrative Code; and, SORM's established policies and procedures, were generally adequate and no material instances of noncompliance were noted; however, we did identify certain matters, included in this report, that are opportunities for strengthening internal controls and ensuring compliance with SORM's established policies and procedures. Based on the degree of risk or effect of these matters in relation to the audit objective(s), these matters were rated as either Priority, High, Medium, or Low, which is further described in the "Summary and Related Rating of Observations/Findings and Recommendations," included in page 11 of this report.

We also performed a follow-up of the findings and recommendations that were presented in the prior year annual internal audit reports. This report reflects the implementation status of our follow-up procedures performed; and, includes all information required for compliance with the State Texas Internal Audit Annual Report requirements.

We have discussed the comments and recommendations from the Claims Operations Department audit; and, the implementation status from the follow-up performed with various SORM personnel; and, will be pleased to discuss them in further detail; to perform an additional study of these matters; or, to assist you in implementing the recommendations.



May 1, 2017 – Claims Operations  
September 27, 2017 – 2017 Follow-up

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## INTRODUCTION

The State Office of Risk Management (SORM) was created by House Bill 2133, 75<sup>th</sup> Legislature and became a state agency effective September 1, 1997. SORM was created from the merger of the Workers' Compensation Division of the Office of the Attorney General (OAG) and the Risk Management Division of the Texas Workers' Compensation Commission (TWCC), now the Division of Workers' Compensation at the Texas Department of Insurance (TDI).

SORM is charged by Texas Labor Code §412.011 to administer state risks and insurance services obtained by state agencies, including the government employees' workers' compensation insurance program and the state risk management programs.

Some of SORM's statutory objectives and key functions are to:

- administer the workers' compensation insurance program for state employees established under Chapter 501;
- operate as a full-service risk manager and insurance manager for state agencies;
- maintain and review records of property, casualty, or liability insurance coverage purchased by or for state agencies;
- administer the program for the purchase of surety bonds for state officers and employees; and,
- review, verify, monitor, and approve risk management programs adopted by state agencies.

SORM's operations are governed by the Texas Labor Code, Chapters 412 and 501; and, by a five-member board, appointed by the Governor, that serves staggered terms.

### **2017 Internal Audit Plan**

Following are the internal audits and other functions performed, as identified in SORM's 2017 Internal Audit Plan, dated August 11, 2016 and approved by SORM's Board of Directors on January 31, 2017.

- Claims Operations
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of the Claims Operations audit; reflects the results of the follow-up procedures performed in the current year of the findings and recommendations that were presented in prior year internal audit reports; and, meets the State of Texas Internal Audit Annual Report requirements.

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### INTERNAL AUDIT OBJECTIVES

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope encompassed the examination and evaluation of the adequacy and effectiveness of SORM's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope included the following objectives:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Policies, Procedures, Laws, Regulations, and Contracts** – Review the systems established to ensure compliance with those policies, procedures, laws, regulations, and contracts which could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

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### I. **Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information**

To comply with the provisions of Texas Government Code 2102 and the State Auditor's Office, within 30 days after approval by SORM's Board of Directors, SORM will post the following information on its website:

- An approved fiscal year 2018 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2017 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The internal audit annual report includes any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor as well as the summary of the action taken by SORM to address such concerns.

### II. **Consulting and Nonaudit Services Completed**

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Audit Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards, December 2011 Revision*, Sections 3.33-3.58.

### III. **External Quality Assurance Review**

The internal audit department's most recent *System Review Report*, dated October 7, 2015, indicates that its system of quality control has been suitably designed and conforms with applicable professional standards in all material respects.

### IV. **Internal Audit Plan for Fiscal Year 2017**

The Internal Audit Plan (Plan) included one audit to be performed during the 2017 fiscal year. The Plan also included a follow-up of the prior year audit recommendations, other tasks as may be assigned by the Board of Directors or Audit Committee, and preparation of the Annual Internal Audit Report for fiscal year 2017.

#### **Risk Assessment**

Utilizing information obtained through the inquiries and background information reviewed, 15 audit areas were identified as potential audit topics. A risk analysis utilizing 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

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Following are the results of the risk assessment performed for the 15 potential audit topics identified:

<b>HIGH RISK</b>	<b>MODERATE RISK</b>	<b>LOW RISK</b>
Claims Operations Information Resources	Indemnity Quality Assurance Risk Management Medical Quality Assurance Accounting and Financial Reporting Compliance Management	Fixed Assets Special Investigations Interagency Contract Assessments Internal/External Training Procurement/HUB Compliance/Travel Performance Measures Document Management/Records Retention Payroll and Human Resources

In the prior 3 years, the internal auditor performed the following audits and functions:

Fiscal Year 2016:

- Preparation of the Annual Internal Audit Report
- Risk Assessment and Internal Audit Plan for Fiscal Year 2017

Fiscal Year 2015:

- Document Management/Records Retention
- Follow up of Prior Year Audit Recommendations
- Preparation of the Annual Internal Audit Report

Fiscal Year 2014:

- Accounting and Financial Reporting
- Procurement/HUB Compliance/Travel
- Follow up of Prior Year Audit Recommendations
- Preparation of the Annual Internal Audit Report

The internal audit and other tasks performed for fiscal year 2017 were as follows:

<b>Report No.</b>	<b>Audits/Report Titles</b>	<b>Report Date</b>
1.	Claims Operations <i>Objective:</i> To determine whether the processes and controls in place on the Claims Operations Department provide reasonable assurance for compliance with applicable state requirements and SORMS's established policies and procedures.	5/1/2017
2.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	9/27/2017
-	Other Tasks Assigned by the Board of Directors or Audit Committee	None

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### V. EXECUTIVE SUMMARY

#### BACKGROUND

#### CLAIMS OPERATIONS

The Claims Operations Department (Department), under the Strategic Programs Division of the State Office of Risk Management (SORM), is supervised by the Strategic Programs Chief. The Department is comprised of a director, 3 supervisors, 4 team leads, 18 adjusters, 2 medical management adjusters, and 1 nurse. There are 5 vacancies, which includes the Strategic Programs Chief that cannot be filled due to the hiring freeze on state agencies through the end of August 2017.

The Department is divided into 3 units assigned to administer workers' compensation claims from specific state agencies; and, 1 unit, which operates the call center and processes medical-only claims. The call center and processing of medical claims was not included in the scope of this audit.

#### Systems

*Risk Management Information System (RMIS)* – an interactive internet based website that allows state agencies to report claim information directly to SORM.

*Filenet* – a document management system used to index and store all documents related to the claims.

*Claims Management System (CMS)* – an internally developed software used by SORM for processing and managing claims.

#### Workers' Compensation Claims

The Texas Workers' Compensation Act (the Act) covers on-the-job injuries and occupational diseases directly caused by the workplace for Texas employees. SORM serves as the state's insurance carrier and provides payment for lost wages and medical treatment in compliance with the Act.

The Department is responsible for investigating, accepting or denying, and determining compensability for all workers' compensation claims (claims). SORM receives claims by the following methods: 1) through RMIS, as submitted by a state agency; 2) through its call center, as reported by the claimant; or, 3) from a medical provider. When a claim is initially set up in CMS by the Document Processing Department, a notification is sent to the unit assigned to oversee claims of the respective state agency. The unit's supervisor reviews claims received and assigns them to an adjuster, taking into consideration the complexity of the claim and experience level of the adjuster. The assigned adjuster will oversee the claim through its life cycle.

The assigned adjuster is responsible for contacting the claimant, the employer, and the treating doctor within 24 hours of being assigned a claim; and, sending the claimant a letter (form C1) to inform them of claim receipt and to provide them with the assigned adjuster's contact information.

Chapter 409 of the Act requires SORM to issue a notice of denial or initiate benefit payments no later than the 15<sup>th</sup> day after the claim receipt date. Accordingly, the Department conducts an investigation and makes a determination to accept or deny a claim within 7 business days of the claim receipt date.

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### **Indemnity Benefits**

Benefits paid to the claimant are calculated using the employee's wages for the previous 13 weeks, as submitted through RMIS by the claimant's employer (state agency) in the wage statement (form DWC-3). If the DWC-3 is not received in a timely manner, the adjuster will make a "fair and just" estimate of the employee's wages to comply with the 15-day deadline. The employee's wages are entered into CMS, which will automatically calculate the employee's average weekly wage (AWW) and the indemnity benefit payment amounts. Indemnity benefits are limited to state imposed maximum or minimum weekly benefit amounts, as established by the Act, and programmed into CMS.

### **Temporary Income Benefits (TIBs)**

Employees who are unable to return to work for more than 7 days due to their injury are entitled to temporary income benefits (TIBs). The first 7 consecutive or cumulative days following the injury date are referred to as the "waiting period" and employees are not paid for lost time during that period. Thereafter, TIBs are paid on a weekly basis 1) for a maximum of 104 weeks; 2) until the employee returns to work; or, 3) until the employee reaches the maximum medical improvement (MMI), as determined by an authorized doctor.

TIBs are paid at 70% of the employee's AWW, if they earn \$10 or more per hour; or, at 75% of AWW for the first 26 weeks, and at 70% of AWW, thereafter, if they earn less than \$10 per hour.

### **Impairment Income Benefits (IIBs)**

An impairment rating, the percentage of permanent impairment of the whole body resulting from the injury, is assigned by an authorized doctor once the employee is determined to have reached MMI. The employee is entitled to IIBs beginning the day after the employee reaches MMI. IIBs are paid weekly, for a period of time that is based on the assigned impairment rating. Three weeks of IIBs is paid for every 1% of impairment; and, is required to be paid within 5 days of receipt of the doctor's report.

IIBs are paid at 70% of the employee's AWW.

### **Supplemental Income Benefits (SIBs)**

SIBs are paid monthly at the termination of IIBs while the employee is unemployed or under-employed due to injury. Employees are eligible for SIBs if they meet the following eligibility requirements:

- Assigned an impairment rating of 15% or higher;
- Applied for SIBs using form DWC-52;
- Earned less than 80% of AWW as a result from injury;
- Made an active effort to obtain employment; and,
- Not commuted (lump sum) any portion of IIBs.

Benefits are determined by reviewing the employee's wages for the prior 13 weeks (eligibility period); and, are paid monthly over a 3-month period. A form DWC-52 is required to be filed with SORM on a quarterly basis by the employee, to continue receiving payments. SIB payments expire 401 weeks after the date of injury; or, when it is determined that the employee no longer meets the eligibility requirements.

SIBs are paid at 80% of the difference between the amount the employee earned during the eligibility period and 80% of their AWW, multiplied by 4.34821.

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### **Lifetime Income Benefits (LIBs)**

Employees who suffer a catastrophic injury (i.e. loss of sight in both eyes, loss of both feet and/or hands, paralysis, etc.) are entitled to receive LIBS until their death.

LIBs are paid at 75% of the employee's AWW and increase 3% annually.

### **Death Income Benefits (DIBs)**

Death benefits are payable to the deceased employee's legal beneficiary when a death results from an on-the-job injury and begin on the day after the date of the employee's death and expire 1) after 364 weeks; 2) when the beneficiary dies; 3) when the spouse (beneficiary) remarries; or, 4) when the child (beneficiary) turns 18 or 25, if enrolled in an accredited educational institution. Legal beneficiaries must provide proof of their eligibility; such as, marriage license or birth certificate.

DIBs are paid at 75% of the employee's AWW.

As of February 28, 2017, SORM received a total of 3,581 worker's compensation claims and had a total claims cost (inclusive of indemnity, medical, and administrative costs) of \$19,664,680.

### **Denied Claims**

If the adjuster determines that SORM is not liable for compensation of the injury or the injury is not compensable, the claim may be denied upon supervisor approval. In accordance with TAC 124.3, SORM must send a notice of denial (form PLN1) to the Division of Workers Compensation (DWC) and the claimant no later than the 15<sup>th</sup> day after the claim receipt date. SORM's failure to file a notice of denial by this date, constitutes acceptance of the claim as a compensable injury, subject to its ability to contest compensability on or before the 60<sup>th</sup> day from the claim receipt date.

As of February 28, 2017, 568 claims were denied.

### **Subsequent Injury Fund**

When a compensable death occurs and the deceased employee has no legal beneficiaries, Texas Labor Code §403.007 requires SORM to deposit an amount equal to 364 weeks of DIBs to the Subsequent Injury Fund.

During the 6-month period ended February 28, 2017, there were no occurrences that required SORM to make deposits to the Subsequent Injury Fund.

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### AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

#### Objective

The objective of our audit was to gain an understanding of the processes and controls in place over the Claims Operations Department to determine whether they provide reasonable assurance for compliance with applicable state requirements and SORM's established policies and procedures.

#### Scope

The scope of this audit was limited to determining compliance in processing workers' compensation claims (claims) and indemnity payments in accordance with applicable state requirements and SORM's established policies and procedures for the 6-month period ended February 28, 2017.

#### Methodology

The audit methodology included a review of applicable laws and regulations; SORM's established policies and procedures, and other internal and external documentation; and, an interview with selected SORM personnel.

We obtained and/or reviewed the following information:

- a. SORM's internal policies and procedures related to the Claims Operations Department.
- b. Claims Operations Department organizational chart.
- c. Listing of claims accepted and/or denied during the period from September 1, 2016 to February 28, 2017.
- d. Access to the RMIS, CMS, and Filenet systems to review the selected claims.
- e. Deposits made to the SIF during the period from September 1, 2016 to February 28, 2017.
- f. Samples of various notices and letters used by the Claims Operations Department.
- g. Listing of LIBs and DIBs payments made during the period from September 1, 2016 to February 28, 2017.

We performed various procedures to achieve the objective of this audit; to include, the following:

1. Reviewed and obtained an understanding of the applicable sections of the Act, the TAC, and SORM's policies, procedures, and practices in place related to Claims Operations Department.
2. Conducted interviews with the Claims Operations Department director and the compliance director to document formal and/or informal processes and controls in place related to processing claims and indemnity payments.

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3. Obtained a listing of deposits made to the SIF during the period from September 1, 2016 through February 28, 2017, which indicated none were required to be made during this period.
4. Obtained a listing of claims that were accepted and/or denied during the period from September 1, 2016 through February 28, 2017, and selected a sample of 25 accepted and 25 denied claims to ensure compliance with the Act, the TAC, and SORM's policies and procedures; and, to test the following attributes:
  - a. Claim was assigned to an adjuster within 24 hours from the claim receipt date.
  - b. The adjuster contacted the claimant, the employer (state agency), and the treating physician, within 24 hours of being assigned a claim.
  - c. A notification letter was sent to the claimant to inform them of claim receipt.
  - d. Claim was accepted or denied within 7 days of claim receipt date.
  - e. Supervisor approval was obtained for denied claims.
  - f. A denial letter was sent to the claimant and to the DWC by the due date.
5. From our selection of 25 accepted claims, 6 claims were entitled to indemnity benefits. We selected all 6 claims to determine if the payments were:
  - a. For valid claims.
  - b. Computed accurately and the correct amount was paid.
  - c. Paid within the required timeline and the first payment was sent within 15 days of receipt of the claim.
  - d. First payment notice was sent to claimant.
  - e. A recorded statement was taken.
6. Obtained a listing of LIBs and DIBs paid during the period from September 1, 2016 through February 28, 2017, and, selected the 1 claim that was approved during this period to receive DIBs to ensure compliance with the Act, the TAC, and SORM's policies and procedures; and, to test the following attributes:
  - a. Payment was computed accurately and the correct amount paid.
  - b. Payments were made within the required timeline and the first payment was sent within 7 days of receiving the beneficiary's proof of eligibility.
  - c. First payment notice was sent to claimant.

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**VI. OBSERVATIONS/FINDINGS and RECOMMENDATIONS**

SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS

As SORM's internal auditors, we used our professional judgment in rating the audit findings identified in this report. The rating system used was developed by the Texas State Auditor's Office and is based on the degree of risk or effect of the findings in relation to the audit objective(s). The table below presents a summary of the findings in this report and the related rating.

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
1	Duplicate Denied Claims	Low
2	Supervisor Approval of Denied Claims	Low
3	Recorded Statements	Medium
Observation No.		
1	Initial (C1) Letters	Low
2	Policies and Procedures	Low
<u>Description of Rating</u>		
<p>A finding is rated <i>Priority</i> if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.</p> <p>A finding is rated <i>High</i> if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A finding is rated <i>Medium</i> if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A finding is rated <i>Low</i> if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.</p> <p>Note: Observations are always rated <i>Low</i>.</p>		

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1	5/1/2017	Claims Operations	<p>1. Duplicate Denied Claims</p> <p>Before a new claim is set up in CMS, a search is conducted in CMS to ensure the claim has not already been reported. On occasion, a duplicate claim will be set up due to inconsistencies in the claim reports; such as, date of injury, social security number, etc., as submitted by the claimant's employer or medical provider. When the error is discovered, the claim is denied since it is considered a duplicate claim and cannot be deleted in CMS.</p> <p>Of the 25 denied claims selected for testing, 7 were identified as duplicate claims. Our testing disclosed 1 instance where a duplicate claim was set up in CMS; however, since there were no inconsistencies in the claim reports; it should have been located in the initial CMS search and not been duplicated.</p> <p><b>Recommendation</b> We recommend that SORM strengthen the procedures in place to ensure a thorough CMS search is conducted to avoid claims being duplicated. In addition, SORM should continue to explore new software to enhance the claims process, where feasible.</p> <p><b>Management's Response</b> Management agrees. The Compliance Director has worked with the Claims Operation Department and the Document Processing Department on new policies and procedures to reduce duplicate claims. Also, SORM is considering systemic approaches to these issues through a new case management software.</p> <p>2. Supervisor Approval of Denied Claims</p> <p>It is SORM's policy that denied claims be approved by the respective unit's supervisor; and, a practice that such approval be denoted in the supervisor's notes section of CMS.</p> <p>Our testing of 25 denied claims disclosed 2 instances where the supervisor's approval was not documented in the supervisor's notes section of CMS.</p> <p><b>Recommendation</b> We recommend that SORM strengthen their current practice to demonstrate that claims are denied only upon a supervisor's approval.</p> <p><b>Management's Response</b> Management agrees. SORM notes the process was followed and, therefore, policies and procedures need to be enforced and not revised. SORM is considering systemic approaches to these issues through a new case management software.</p>		<p>To reduce the number of claims denied due to errors.</p> <p>To demonstrate claims were denied only upon supervisor's approval.</p>

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1	5/1/2017	Claims Operations	<p>3. Recorded Statements</p> <p>SORM's policies and procedures, <i>401.00-Investigation of Lost Time Claims</i>, state that a recorded statement is required for all lost time and denied claims.</p> <p>Our testing of 6 lost time claims disclosed 4 instances where there were no recorded statements stored in the Filenet imaging system. Per discussion with staff, we also noted SORM no longer requires recorded statements for denied claims.</p> <p><b>Recommendation</b> We recommend that SORM comply with their policies and procedures by obtaining a recorded statement for all lost time claims and denied claims or otherwise revise the policies to be consistent with current practices.</p> <p><b>Management's Response</b> Management agrees. SORM will update its procedure and policies to reflect current practices.</p> <p><b>Observations</b></p> <p>1. Initial Letters (C1)</p> <p>Per our discussion with staff, it was noted that the initial letters (C1) are not retained and scanned into the Filenet imaging system. During our testing, we relied on notes made in CMS indicating that a C1 was sent to the claimant.</p> <p><b>Recommendation</b> We recommend that SORM retain the C1 letters to document compliance with SORM's policies and procedures.</p> <p><b>Management's Response</b> Management agrees.</p> <p>2. Policies and Procedures</p> <p>Our review of the Department's policies and procedures indicated that they were last reviewed between 2008 and 2012.</p> <p><b>Recommendation</b> We recommend that SORM review their policies and procedures and revise them, as deemed necessary to reflect compliance with current regulations and established practices.</p> <p><b>Management's Response</b> Management agrees.</p>		<p>To ensure compliance with policies and procedures.</p> <p>To provide evidence that C1 was sent to comply with policies and procedures.</p> <p>To ensure policies and procedures are up-to-date and reflect SORM's current practices.</p>

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2	9/27/17	2017 Follow-Up	<p><u>Follow-Up of Prior Year Audits</u></p> <p>Following is the status of the recommendations made in previous fiscal years that had not been fully implemented.</p> <p><u>Document Management &amp; Records Retention</u></p> <ol style="list-style-type: none"> <li>Records Retention Schedule (Schedule)  SORM should review its current Schedule and revise it accordingly to ensure it is complete and accurate and reflects its current records retention practice.</li> <li>Records and Information Management Compliance Procedures  SORM should comply with the Records and Information Management Compliance Procedures by requiring each Division Chief to certify compliance with records retention for their Division on a quarterly basis or develop other procedures to monitor compliance and revise the existing procedures, as considered necessary.</li> <li>Business Continuity and Disaster Recovery Plans  SORM should continue with the development of a business continuity and disaster recovery plan to ensure procedures are in place for business continuity and the safety of vital records.</li> <li>Archived Claims Files  We recommend SORM conduct an inventory of the archived workers' compensation claim files stored both on and offsite and review the retention period to evaluate the necessity of continued storage and scanning, versus destruction, of the documents.</li> </ol>	<p><b>Fully Implemented</b></p> <p><b>Incomplete/Ongoing</b> SORM is currently evaluating enterprise content management systems to manage documents. When SORM completes its electronic content migration, policies and procedures will be implemented to ensure compliance.</p> <p><b>Fully Implemented</b></p> <p><b>Incomplete/Ongoing</b> This process has been delayed due in part to the State hiring freeze and the overhaul in the Document Processing Department operations.</p>	<p>Ensure the Schedule reflects the proper records retention practice.</p> <p>Ensure policies and procedures are adequately documented.</p> <p>Ensure business continuity and safety of vital records.</p> <p>To ensure records are retained in accordance with the Schedule and to maintain employee efficiency by not scanning records unnecessarily.</p>

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Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
2	9/27/17	2017 Follow-Up	<p><u>Accounting &amp; Financial Reporting</u></p> <p>1. Purchasing Policies and Procedures</p> <p>Adopt written policies and procedures over the purchasing process.</p> <p><b>FY2017 Management's Response</b> Upon further review, SORM does not agree with the recommendation. The administrative attachment with the OAG ensures that SORM complies with the State of Texas Procurement Manual which was created and is updated by the Comptroller in conjunction with the Office of the Attorney General, Department of Information Resources, and the State Auditor's Office. SORM also adopted OAG's procurement policies and procedures, which clearly delineated roles and responsibilities between SORM and the OAG.</p> <p>2. Accounting Policies and Procedures</p> <p>Review and revise the Accounting policies and procedures to properly reflect current practices.</p> <p><u>Procurement/HUB Compliance/Travel</u></p> <p>1. Travel Vouchers and Request</p> <p>Ensure all travel requests be approved by both the employee and the Division Chief to comply with SORM's policies and procedures.</p> <p>2. Travel Policies and Procedures</p> <p>Review travel procedures and revise their policies accordingly.</p>	<p><b>Not Implemented</b></p> <p><b>Incomplete/Ongoing</b> The Compliance Director will work with the Accounting and Finance Director to ensure SORM's accounting procedures and policies are revised and updated; and, are consistent with the Interagency Contract between SORM and the OAG.</p> <p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></p>	<p>Ensure policies and procedures are adequately documented.</p> <p>Ensure policies and procedures are adequately documented.</p> <p>To ensure compliance with documented policies and procedures.</p> <p>Ensure policies and procedures are adequately documented.</p>



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### **VII. External Audit Services Procured in Fiscal Year 2017**

SORM procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2017. No other external audit services were performed.

### **VIII. Reporting Suspected Fraud and Abuse**

SORM has provided information on its website home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. SORM has also developed a Fraud Policy that provides information on how to report suspected fraud, waste, and abuse to the SAO.

### **IX. Proposed Internal Audit Plan for Fiscal Year 2018**

The risk assessment performed during the 2017 fiscal year was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2018. The Internal Audit Plan for fiscal year 2018 will be developed and presented to the Audit Committee and Board of Directors, for acceptance and approval, at a meeting to be determined at a later date.

- Information Resources
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Board of Directors or Audit Committee

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**X. Organizational Chart**

