

BOARD OF DIRECTORS'  
**MEETING AGENDA**  
October 6, 2020



State Office of Risk Management  
300 W. 15<sup>TH</sup>, AUSTIN, TEXAS 78701 / P.O. BOX 13777, AUSTIN, TEXAS 78711-3777  
(512) 475-1440, FAX (512) 370-9025 / [WWW.SORM.TEXAS.GOV](http://WWW.SORM.TEXAS.GOV)

## Virtual Public Meeting

Board of Directors  
October 6, 2020, 9:30 a.m.  
William P. Clements Building, Room 604F  
Austin, Texas

1. Call to order, roll call, and recognition of a quorum
2. Consideration and possible action to excuse previous board member absences
3. Approval of the minutes from the July 14, 2020, meeting
4. Presentation and discussion of Agency Operations Report
5. New business
  - 5.1 Presentation, discussion, and action regarding the Fiscal Year 2020 Internal Audit Report
  - 5.2 Presentation, discussion, and action regarding the Fiscal Year 2021 Internal Audit Plan
  - 5.3 Presentation, discussion, and action on negotiations for Insurance Support Services contracts
  - 5.4 Distribution and acknowledgement of Board Training Manual
6. Old business
7. Public comment\*
8. Discussion and possible action on future meeting dates
9. Adjournment

Individuals who may require auxiliary aids or services for this meeting should contact Audrea Blake at (512) 936-1564 or [audrea.blake@sorm.texas.gov](mailto:audrea.blake@sorm.texas.gov) at least two days prior to the meeting so that appropriate arrangements can be made.

\*All public comments must be emailed to Ms. Blake by noon the day prior to the meeting. In the subject line of your email, please include the meeting date and topic of your comment. All comments received by this deadline will be read or summarized at the meeting and included in full to the official record of the meeting.



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| BOARD MEMBERS              | DATES OF TERM | HOMETOWN    |
|----------------------------|---------------|-------------|
| Lloyd Garland, M.D., Chair | 02/01/2025    | Lubbock     |
| Ricardo Galindo III        | 02/01/2025    | San Antonio |
| Rosemary Gammon, PAHM      | 02/01/2021    | Plano       |
| Tomas Gonzalez             | 02/01/2023    | El Paso     |
| Gerald Ladner              | 02/01/2021    | Austin      |

**1. Call to order, roll call and recognition of a quorum**

**Information**

The Chair:

1. Calls the meeting to order;
2. Identifies the board members present.

**Action Required**

**The Chair recognizes a quorum is established.**



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## **2. Consideration and possible action to excuse previous board member absences**

### **Information**

Board member absences may be excused for good cause as determined by the Board.

### **Action Required**

**The Chair may entertain a motion for consideration and possible action to excuse previous absences, if any.**



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### **3. Approval of the minutes from the July 14, 2020, meeting**

#### **Information**

Attached are the minutes from the July 14, 2020, meeting.

#### **Action Required**

**The Chair may entertain a motion for approval of the minutes, with any amendments.**



**Minutes of the Public Meeting  
on  
July 14, 2020**

The following Board of Directors meeting was conducted via ZOOM during the COVID-19 quarantine.

Board Members Lloyd Garland (Chair), Gerald Ladner, Rosemary Gammon, Tomas Gonzalez, and Ricardo Galindo were present.

- Item 1. Board Chair Garland called the public meeting to order at 9:33 a.m. on July 14, 2020. Board Chair Garland recognized Members present. A quorum was established.
- Item 2. No previous absences requiring action.
- Item 3. Board Chair Garland asked for any comments or changes to the Minutes of the April 7, 2020, meeting. Hearing no changes, Board Member Gammon moved to accept. Board Member Ladner seconded the motion, which carried without objection (5-0 vote).
- Item 4. Agency Operations Report:
  - 4.1 Executive Director Overview. Stephen Vollbrecht (Executive Director and State Risk Manager) addressed the changes to the presentations in this report, the Office's restructuring/renaming changes, and gave an update to measures taken regarding COVID-19 in the office.
  - 4.2 Division Reports. Todd Holt (Deputy Executive Director) and Keith Despain (Director of Project Management) introduced department structure and gave a presentation on current project organization repository, statistics, and focus. Mr. Holt introduced Shelby Hyman (Director of Public Relations) to present modifications to training, YouTube views, and outreach. Stuart B. Cargile (Chief of Internal Operations) and Linda Griffin (Director of Talent Management) introduced new employees, provided a list of current vacancies, provided updates to turnover, and an internal transfer/promotion. Mr. Cargile introduced Lori Shaw (Director of Financial Management and Chief Financial Officer), to present the administrative and claim budgets with projected costs. Mr. Cargile with Leo Ramirez (Director of Information Technology) gave an update on current projects, including laptop deployment, cybersecurity posture, anticipated activity, and support. James Cox (Chief of Strategic Programs) introduced Jackie Baynard (Director of Enterprise

Risk) who presented an update on visit counts (in-person and virtual), COOP program, and the Statewide Insurance Program. Mr. Cox with help from Mitchell Griffin (Claims Supervisor) presented on behalf of Lydia Scranton (Director of Claims Operations) an update on current workers' compensation claims with a focus on COVID-19 claims. Deea Western (General Counsel and Chief of Legal Services) and Tshau Todman (Director of Indemnity Quality Assurance) presented an update on indemnity files and compliance. Janine Lyckman (Director of Medical Quality Assurance) provided an update on medical cost savings, network/non-network claims, pre-authorization requests, prescriptions, and disputes. Discussion on COVID-19 impact to non-pandemic workers' compensation claims. Ms. Western introduced Red Tripp (Director of Litigation Management) who provided information on current litigation and how COVID-19 has affected hearings and subrogation. Ms. Western added a section to her report regarding Compliance Management letting the Board know what to expect in future presentations. Staff heard comments, tasks, and answered questions from the Board.

Item 5. New Business:

- 5.1 Ms. Shaw presented claims cost trending and staff recommendations for the Fiscal Year 2021 assessment totals. Staff heard comments and answered questions from the Board. Board Member Ladner moved to accept the recommendations as offered. Board Member Gammon seconded the motion, which carried without objection (5-0 vote).

Item 6. Old Business.

- 6.1 Board Chair Garland expressed concerns regarding closure of Out-of-Network issue raised by Board Member Gammon at the last meeting. Discussion was opened to outstanding questions and concerns. Staff heard comments and answered questions from the Board and will report back.

Item 7. No Public Comment.

Item 8. Future Meeting Dates. Discussion on suggested dates for the next Board meeting. Board Chair Garland set October 6, 2020, as the next tentative in-person meeting date with a back-up of October 20, 2020. More direction will follow regarding if it will be virtual.

Item 9. Board Chair Garland adjourned the meeting at 11:31 a.m.



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#### **4. Presentation and discussion of Agency Operations Report**

##### **Presentation of division reports**

##### **Information**

Management will be available to summarize agency and division activities and provide additional information requested by the Board.

Board identification of key metrics or other components for inclusion or removal in subsequent reports.

##### **Action Required**

**No official action required.**



# **AGENCY OPERATIONS REPORT FY20Q4 TO THE SORM BOARD OF DIRECTORS**

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**October 6, 2020**



## EXECUTIVE ADMINISTRATION

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### EXECUTIVE OFFICE

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#### I. RISK MANAGEMENT INFORMATION SYSTEM

- Initial Statement of Work (SOW) and seven-year contract have been signed and executed with Origami Risk pursuant to delegated Board authority.
- Next steps: Hosting a kick-off meeting with Origami, finalizing the SORM Implementation Team, hiring dedicated support employee in Information Technology, and standing up formal SORM Project Change Management process with authorities.

#### II. SELECTED PROJECTS

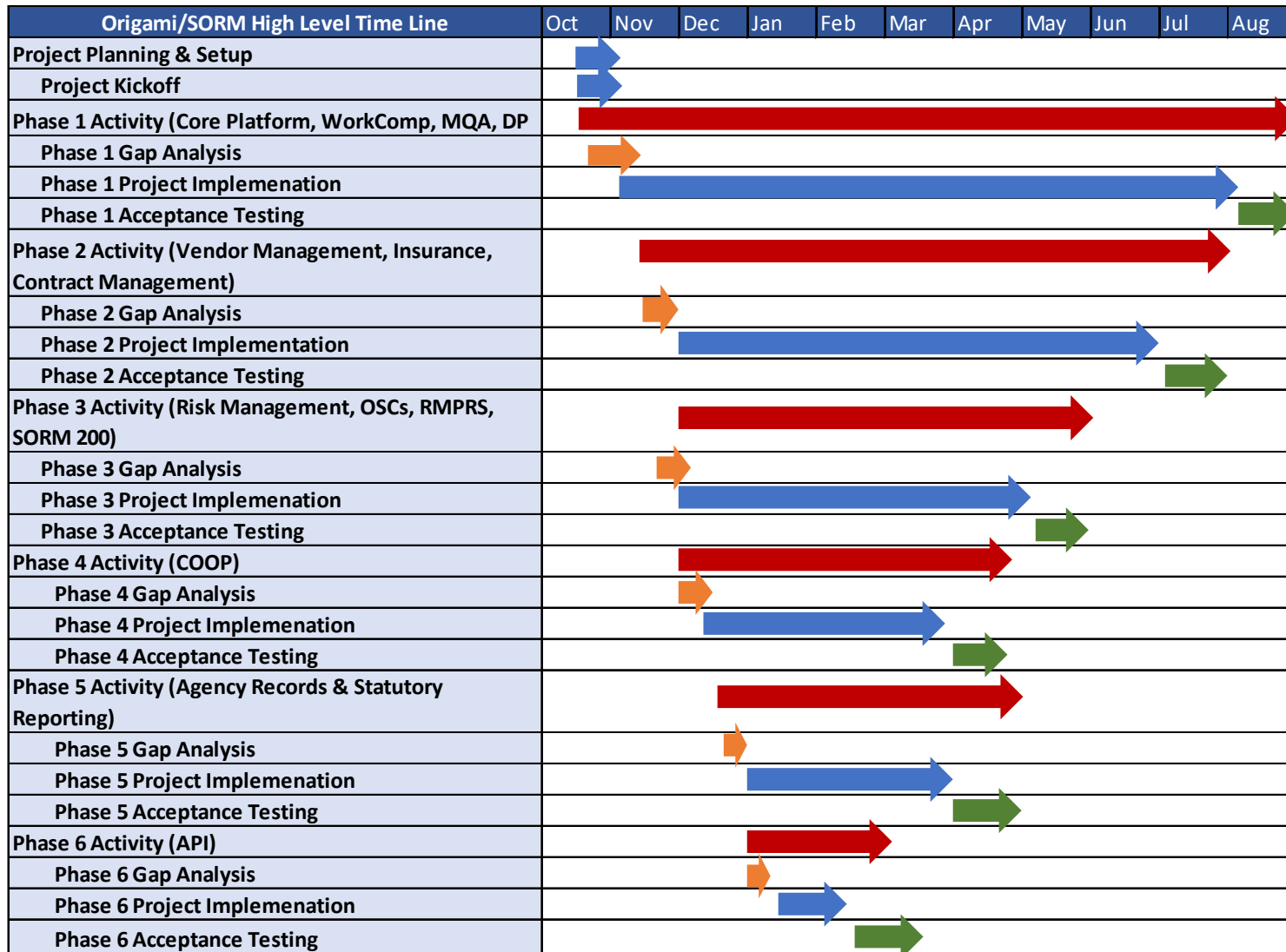
- SORM has submitted its initial report to the State Auditor's Office regarding implementation status of Sunset management recommendations. All recommendations are currently completed or ongoing.
- A new Risk Management Guidelines Advisory Council has been formed to undertake a full review and revision of the current Risk Management for Texas State Agencies guidelines. This project is anticipated be developed during this fiscal year with the input of all stakeholders, and new guidelines will be submitted to the Board for final review and formal approval in a future meeting.
- New Return-to-Work guidelines in active development based on an exhaustive review of existing external models. Hybrid approach has been proposed and will be trialed within SORM to determine feasibility, efficacy, and scalability before adoption.

#### III. COVID-19 RESPONSE

- Return-to-Site staged transition plan was executed effective October 5, 2020 (staggered presence with a three-day on-site baseline, transitioning to four- and five-day returns over time). Telework options as appropriate will be retained and further process redesigns under active development in concert with system and infrastructure implementations. All safety protocols remain in full force and effect.
- Formed Strategic Task Forces to meet performance metrics and quality assurance reviews impacted by COVID-19. The Task Forces were Risk Management Program Reviews (RMPR), On Site Consultations (OSC), Insurance Services (INS), Continuity of Operations (COOP), Critical Response Teams Claims Assist (CA), Risk Management Guidelines review (RMTSA), and Risk Management Information System (RMIS). Each was assigned specific deliverables and a Task Force Leader along with personnel. All end of fiscal year goals were met.
- DWC C-19 data call manual review and secondary system automation project completed ahead of schedule and submitted September 23, 2020.
- Enhanced communications with the Board, Governor's Office, House Appropriations, and Senate Finance in place and continuing.

## PROJECT MANAGEMENT

- Adding Value to our Framework – Project Change Management
- New RMIS – Origami
- Project Implementation Structure and Timeline



### Quarterly Statistics

|                 |    | Opened | Complete | Withdrawn | In Progress | On Hold | Pending Approval | Not Started |
|-----------------|----|--------|----------|-----------|-------------|---------|------------------|-------------|
| Prior to FY20Q1 |    | 7      | 0        | 1         | 0           | 1       | 0                | 0           |
| 2020            | Q1 | 59     | 6        | 5         | 10          | 11      | 1                | 8           |
|                 | Q2 | 24     | 24       | 0         | 3           | 2       | 1                | 0           |
|                 | Q3 | 21     | 17       | 0         | 6           | 1       | 0                | 0           |
|                 | Q4 | 7      | 15       | 0         | 3           | 1       | 1                | 1           |
| 2021            | Q1 | 6      | 0        | 1         | 2           | 0       | 0                | 3           |
|                 | Q2 | 0      | 0        | 0         | 0           | 0       | 0                | 0           |
|                 | Q3 | 0      | 0        | 0         | 0           | 0       | 0                | 0           |
|                 | Q4 | 0      | 0        | 0         | 0           | 0       | 0                | 0           |
| Totals          |    | 124    | 62       | 7         | 24          | 16      | 3                | 12          |

## PUBLIC RELATIONS

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During FY20Q4, Public Relations continued routine communications with the Office of the Governor on SORM's response to COVID-19. As we shared details on the increased number of COVID-19 claims and constraints of the Critical Response Team, the Governor's Office responded by facilitating meetings with the Texas Department of Insurance to help staff obtain emergency adjuster licenses to respond to the claims surge.

The Office reported the implementation status of its Sunset management directives to the State Auditor's Office last month. The Sunset Commission charged the agency with 19 management directives. Of those, 15 are fully implemented or substantially implemented.

**Sunset Management Directives**

| Issue Area            | Fully Implemented | Substantially Implemented | Ongoing  | Total     |
|-----------------------|-------------------|---------------------------|----------|-----------|
| Contracting Processes | 7                 | 1                         | 0        | 8         |
| Cost Containment      | 2                 | 1                         | 2        | 5         |
| Enterprise Risk       | 0                 | 3                         | 2        | 5         |
| Board Training        | 1                 | 0                         | 0        | 1         |
| <b>Total</b>          | <b>10</b>         | <b>5</b>                  | <b>4</b> | <b>19</b> |

Additionally, the agency implemented two statutory requirements. The board training requirement has been fully implemented. The requirement to review risk management guidelines biennially is ongoing with a target completion date of FY21Q4. Public Relations worked with Enterprise Risk to invite state agency risk managers to participate on a Risk Management Advisory Council. Those meetings will begin October 2020, with key SORM staff facilitating those working groups.

Public Relations also focused on translating all classroom-based training to a virtual platform. Though the number of classes taught decreased, we saw an increase in the number of students per class. We continue to adapt to the virtual environment and evolve our approach to training to support client agency needs.

### Agency Training for FY20Q4

| Virtual Course Name                       | Classes Taught | Students   |
|---|----------------|------------|
| 15 Passenger Van                          | 1              | 51         |
| Anger Management                          | 1              | 40         |
| Driving Safety                            | 11             | 331        |
| Heat Stroke and Heat-Related Illness      | 1              | 10         |
| Office Safety                             | 1              | 50         |
| Personal Safety and Situational Awareness | 2              | 69         |
| Stress Management                         | 1              | 40         |
| <b>TOTAL</b>                              | <b>18</b>      | <b>591</b> |



### FY20Q4 TOP 3 VIDEOS

|                                       |             |
|---------------------------------------|-------------|
| How to Survive an Active Shooter      | 6,482 views |
| How to Prevent Heated-Related Illness | 5,361 views |
| Chair Adjustment Guide                | 1,735 views |

### FY20Q4 TOTAL

|             |        |
|-------------|--------|
| Total views | 20,659 |
|-------------|--------|

### FY20Q4 TOP 5 US STATES

| State      | Views |
|------------|-------|
| California | 782   |
| Texas      | 775   |
| Florida    | 298   |
| Illinois   | 123   |
| Missouri   | 115   |

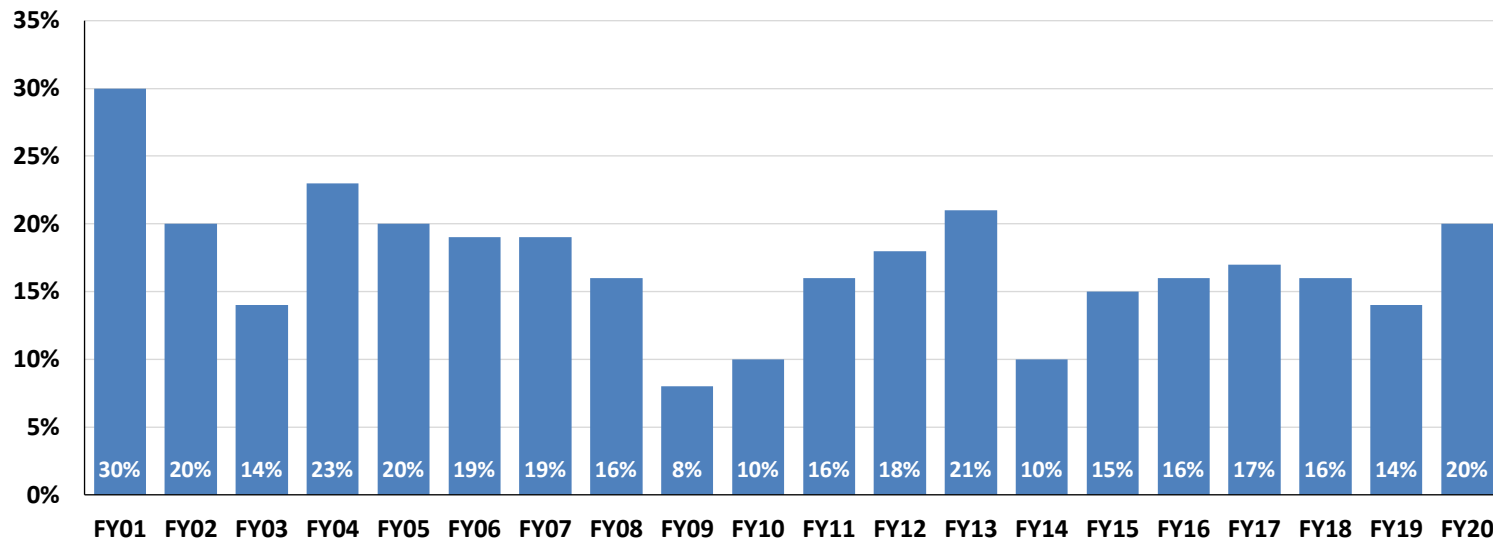


## INTERNAL OPERATIONS

### TALENT MANAGEMENT

| New Hires                              | Vacancies                         |
|--|-----------------------------------|
| Caylee Dearth, Document Specialist     | Director of Compliance Management |
| Jo Laguana, Risk Manager               | System Administrator              |
| Janice McCoy, Public Relations Liaison | Data Manager                      |
| Jamell Collins, Training Consultant    | Web Systems Administrator         |
|  | Senior Adjuster                   |
|  | Adjuster (2)                      |
|  | Receptionist (2)                  |
|  | Talent Coordinator                |

Annual Turnover Rates



## FINANCIAL MANAGEMENT

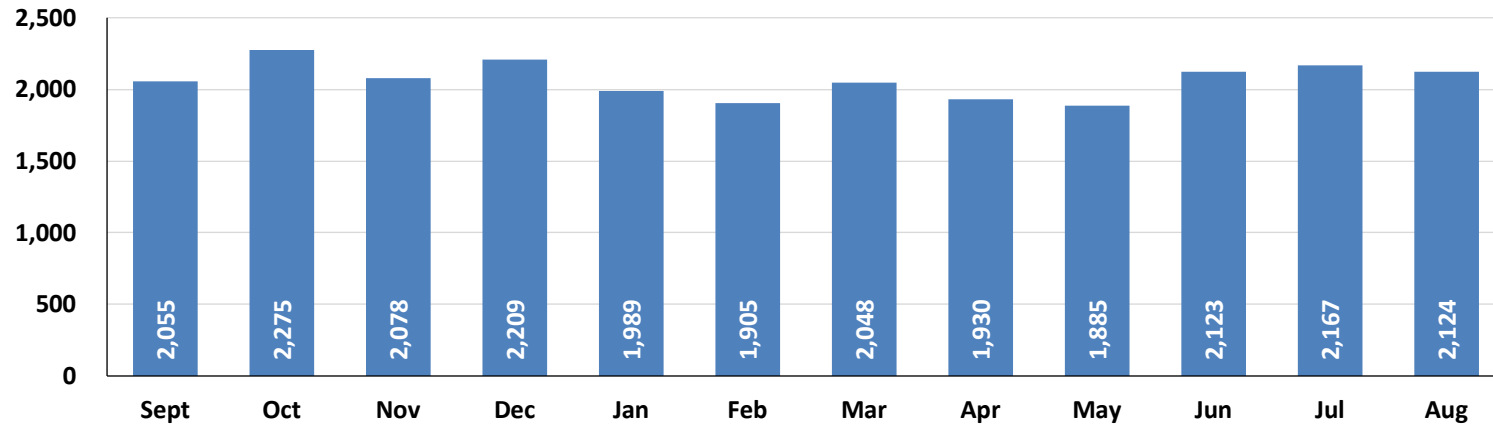
### FY20 AGENCY (CONSOLIDATED) BUDGET

August 31, 2020

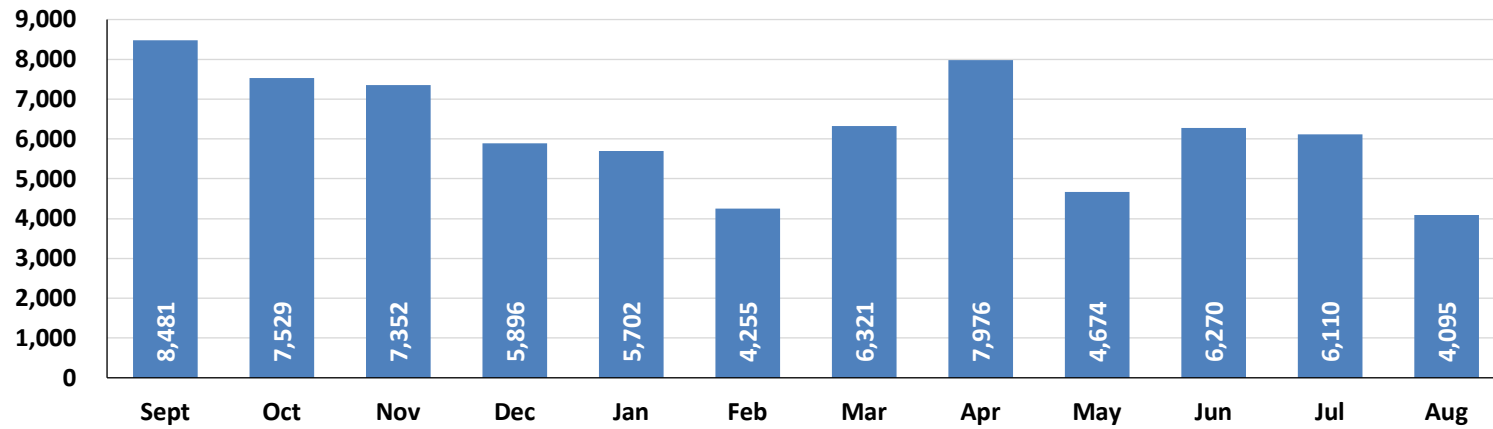
| Objects of Expense    | Initial Budget:   | Adjustments Transfers (+ In, - Out) | Revised Budget:   | Expenditures Year to Date @ 8/31/2020 | Encumbrances @ 8/31/2020 | Remaining Budget @ 8/31/2020 | Unpaid Expenses Incurred | Percent of Budget Expended/Incurred | Percent of Fiscal Year Elapsed |
|-----------------------|-------------------|-------------------------------------|-------------------|---------------------------------------|--------------------------|------------------------------|--------------------------|-------------------------------------|--------------------------------|
| Salaries & Wages      | 7,400,000         | 0                                   | 7,400,000         | 6,465,267                             | 0                        | 934,733                      | 595,371                  | 95.4%                               | 100.0%                         |
| Other Personnel Costs | 250,000           | 0                                   | 250,000           | 239,949                               | 0                        | 10,051                       | 220,152                  | 184.0%                              | 100.0%                         |
| Professional Services | 1,500,000         | 0                                   | 1,500,000         | 1,003,541                             | 900,897                  | (404,438)                    | 102,023                  | 73.7%                               | 100.0%                         |
| Consumable Supplies   | 32,000            | 0                                   | 32,000            | 27,242                                | 7,294                    | (2,536)                      | 757                      | 87.5%                               | 100.0%                         |
| Utilities             | 5,500             | 0                                   | 5,500             | 4,271                                 | 2,618                    | (1,389)                      | 416                      | 85.2%                               | 100.0%                         |
| Travel                | 150,000           | 0                                   | 150,000           | 98,654                                | 0                        | 51,346                       | 385                      | 66.0%                               | 100.0%                         |
| Rental of Space       | 720               | 0                                   | 720               | 720                                   | 0                        | 0                            | 0                        | 100.0%                              | 100.0%                         |
| Rental of Equipment   | 22,500            | 0                                   | 22,500            | 14,531                                | 13,987                   | (6,017)                      | 0                        | 64.6%                               | 100.0%                         |
| Operating Costs       | 2,118,504         | 0                                   | 2,118,504         | 1,266,928                             | 116,974                  | 734,602                      | 197,748                  | 69.1%                               | 100.0%                         |
| Capital Expenditures  | 250,000           | 0                                   | 250,000           | 0                                     | 0                        | 250,000                      | 0                        | 0.0%                                | 100.0%                         |
| <b>Total</b>          | <b>11,729,224</b> | <b>0</b>                            | <b>11,729,224</b> | <b>9,121,102</b>                      | <b>1,041,769</b>         | <b>1,566,352</b>             | <b>1,116,852</b>         | <b>87.3%</b>                        | <b>100.0%</b>                  |

| Objects of Expense          | Initial Budget:   | Adjustments Transfers (+ In, - Out) | Revised Budget:   | Expenditures Year to Date @ 8/31/2020 |  | Remaining Budget @ 8/31/2020 |  | Percent of Budget Expended/Incurred | Percent of Fiscal Year Elapsed |
|-----------------------------|-------------------|-------------------------------------|-------------------|---------------------------------------|--|------------------------------|--|-------------------------------------|--------------------------------|
| Indemnity                   | 17,669,415        | (871,106)                           | 16,798,309        | 14,779,035                            |  | 2,019,274                    |  | 88.0%                               | 100.0%                         |
| Medical                     | 22,898,335        | (1,128,894)                         | 21,769,441        | 16,531,081                            |  | 5,238,361                    |  | 75.9%                               | 100.0%                         |
| <b>Total Exps.</b>          | <b>40,567,750</b> | <b>(2,000,000)</b>                  | <b>38,567,750</b> | <b>31,310,116</b>                     |  | <b>7,257,634</b>             |  | <b>81.2%</b>                        | <b>100.0%</b>                  |
| Subrogation and Restitution | (567,750)         | 0                                   | (567,750)         | (813,850)                             |  | 246,100                      |  | 143.3%                              | 100.0%                         |
| <b>Net Total</b>            | <b>40,000,000</b> | <b>(2,000,000)</b>                  | <b>38,000,000</b> | <b>30,496,266</b>                     |  | <b>7,503,734</b>             |  | <b>80.3%</b>                        | <b>100.0%</b>                  |

**Indemnity Bills Processed FY20**  
**Total 24,788**



**Medical Bills Processed FY20**  
**Total 74,661**

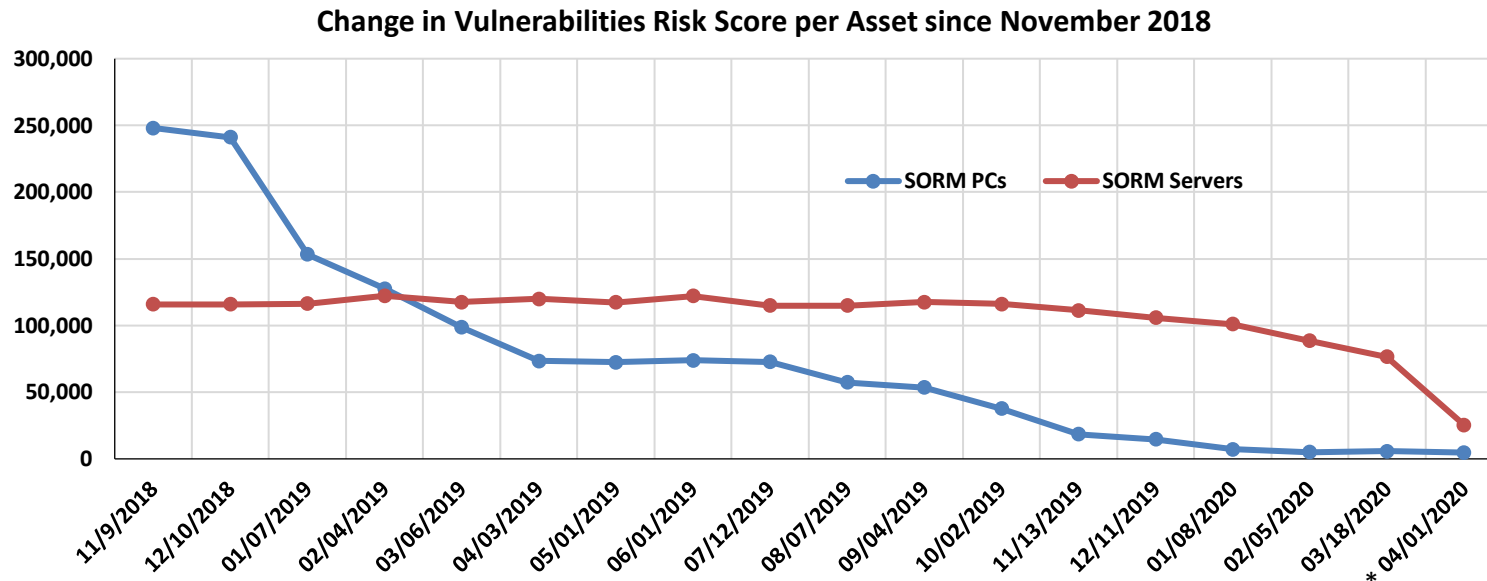


## INFORMATION TECHNOLOGY

### I. ONGOING AGENCY SUPPORT

Information Technology (IT) continues to support the agency operations through infrastructure support, processing, and reporting. Significant areas of activity in FY20Q4 include:

| Area  | Task   |
|---|--|
| <b>Equipment – Servers, desktops, laptops, and peripherals</b>              | <ul style="list-style-type: none"> <li>Replaced all desktop computer with new laptops across the agency, to allow for remote connectivity for SORM personnel</li> <li>Rebuilding and reconfiguring our Disaster Recovery server</li> </ul>   |
| <b>Software Changes (mainframe, web, client/server and PC applications)</b> | <ul style="list-style-type: none"> <li>Upgrading servers to new Windows 2016, for better functionality and security</li> <li>Completed Application Server structure improvements</li> <li>Updated web/mainframe development projects in Team Foundation Server (TFS)</li> </ul>  |
| <b>Projects for Business Owners</b>   | <ul style="list-style-type: none"> <li>Reports Analysis for new RMIS System: report type, report information, and schedule time</li> <li>Implemented COVID Claims flags on CMS</li> <li>Rewriting the EOR Parser program for better usage and security</li> <li>Rewriting the Employee Checklist with Talent Management as the project champion</li> </ul>   |
| <b>Cybersecurity</b>  | <ul style="list-style-type: none"> <li>Completed an Information Security Assessment to measure the agency's current state of security</li> <li>Vulnerability Scan Reports for SORM computers and servers               <ul style="list-style-type: none"> <li>Installed updates on computers and servers to address vulnerabilities and comply with cybersecurity standards</li> <li>SORM successfully reached a 95% reduction in vulnerabilities for all computing systems</li> </ul> </li> <li>Met with OAG's Cybersecurity team to assess current and future vulnerabilities and plan for addressing possible cyber threats               <ul style="list-style-type: none"> <li>SORM vulnerabilities continue decreasing at a steady rate for all our devices, including desktops, laptops, tablets, and printers</li> </ul> </li> </ul> |
| <b>Behind the Scenes Improvements</b>                                       | <ul style="list-style-type: none"> <li>Batch Processing Standardization</li> <li>Security upgrades/updates to web applications and batch programs</li> <li>Updating technical documentation</li> </ul>   |
| <b>Other Items</b>  | <ul style="list-style-type: none"> <li>Interviewing for the Systems Administrator position for new RMIS</li> <li>Completed the Biennial Operating Plan legislative report</li> <li>Provided application and desktop support to SORM staff</li> <li>Managed and supported server infrastructure and mainframe</li> <li>Supported server and/or database changes for our public website and intranet</li> </ul>  |



\* The Security Posture Initiative has successfully reduced the number of PC and Server vulnerabilities through infrastructure and software resource modernization. This chart will be deprecated in future board reports.

## II. ANTICIPATED ACTIVITY

In addition to routine support functions congruent with operations for the Office, we anticipate the following activities during FY21Q1 and beyond:

- A. Security Policy Initiative
- B. RMIS Implementation – Continue working to migrate
- C. Complete the Employee Checklist upgrade
- D. Deploy new Helpdesk ticket system to replace outdated email system
- E. Update/create cybersecurity documentation
- F. Implement the System Center Configuration Manager (SCCM)
- G. Update PHP frameworks to improve our security posture
- H. Continue supporting our public website and intranet server/database
- I. Continue supporting the Learning Management System (LMS) server/database

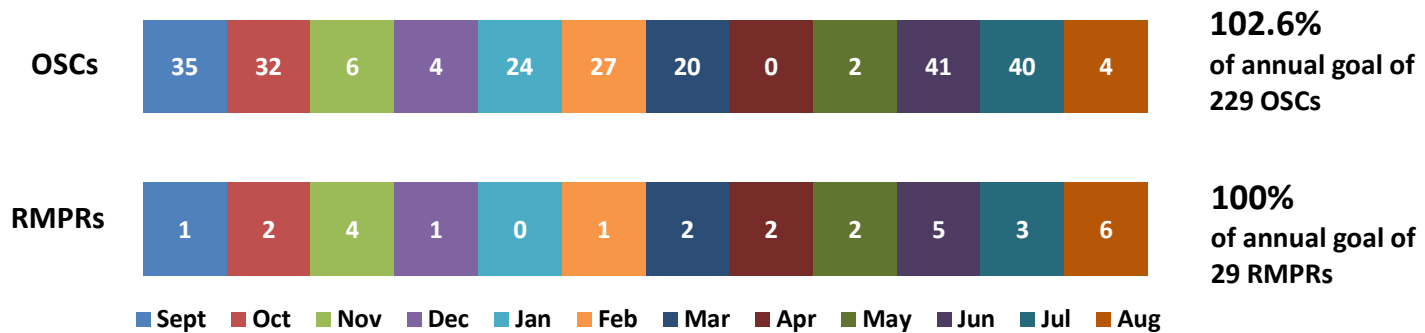


## STRATEGIC PROGRAMS

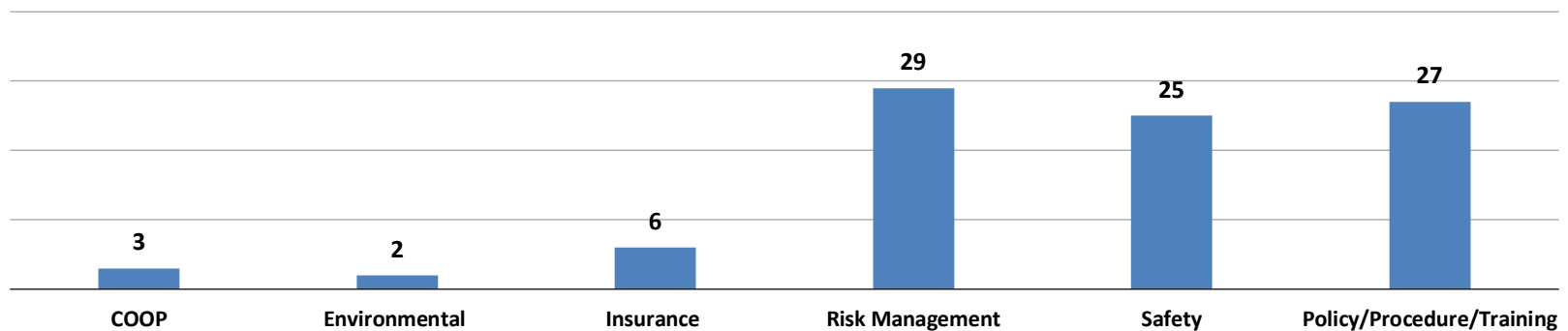
### ENTERPRISE RISK

#### I. STATEWIDE RISK MANAGEMENT PROGRAM

##### ON-SITE CONSULTATIONS (OSCs) AND RISK MANAGEMENT PROGRAM REVIEWS (RMPRs)

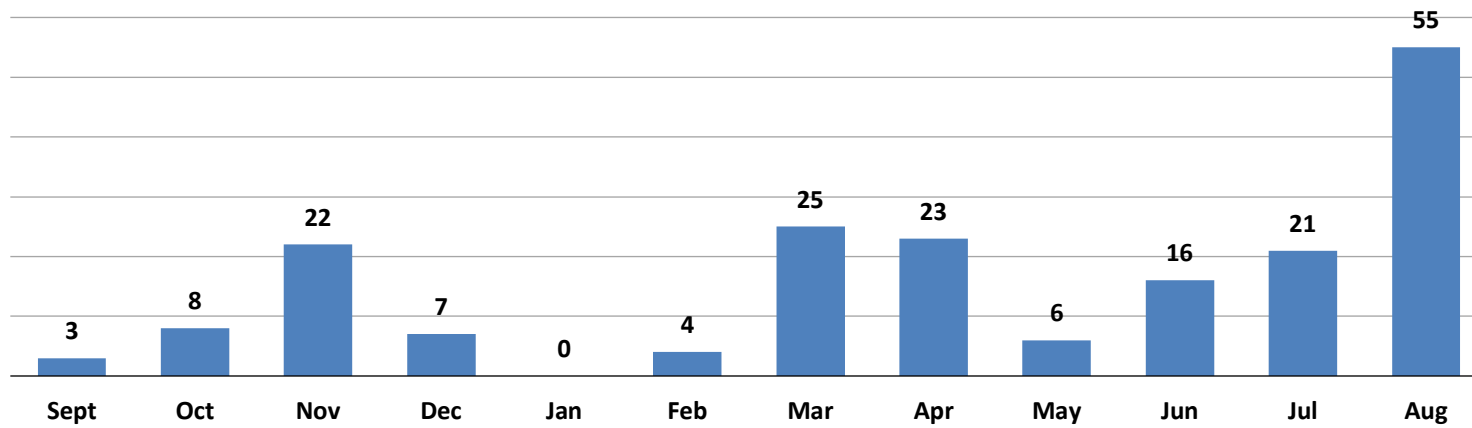


##### Category of Recommendations FY20Q4 Total: 92



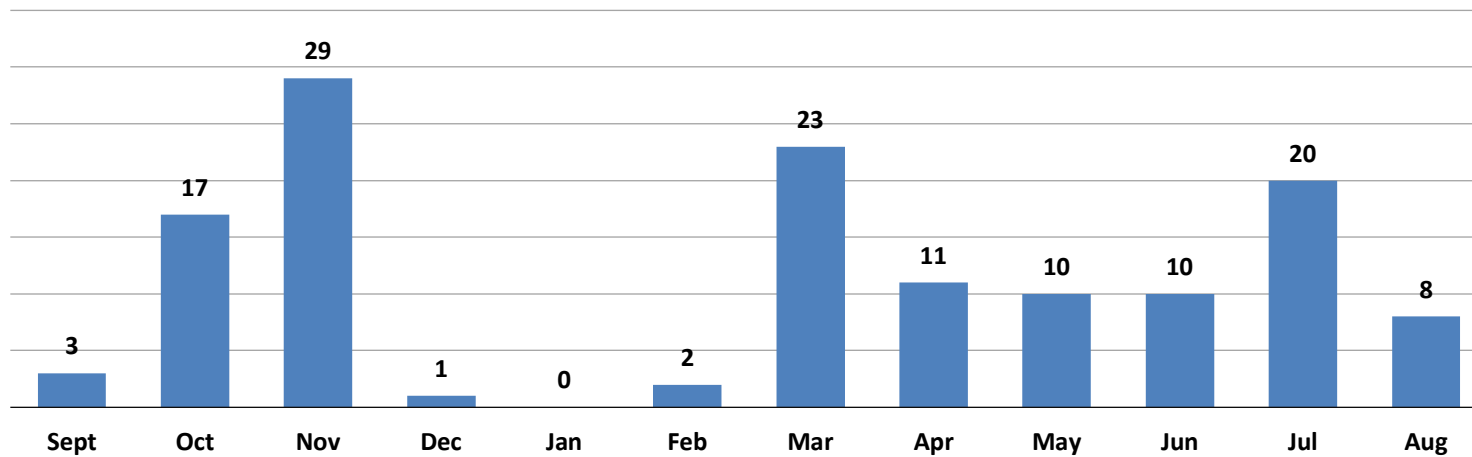
### Recommendations Provided FY20 YTD

Total: 190



### Recommendations Closed FY20 YTD

Total: 134



## II. STATEWIDE CONTINUITY OF OPERATIONS (COOP) PROGRAM

**COOP Activity FY20 YTD**

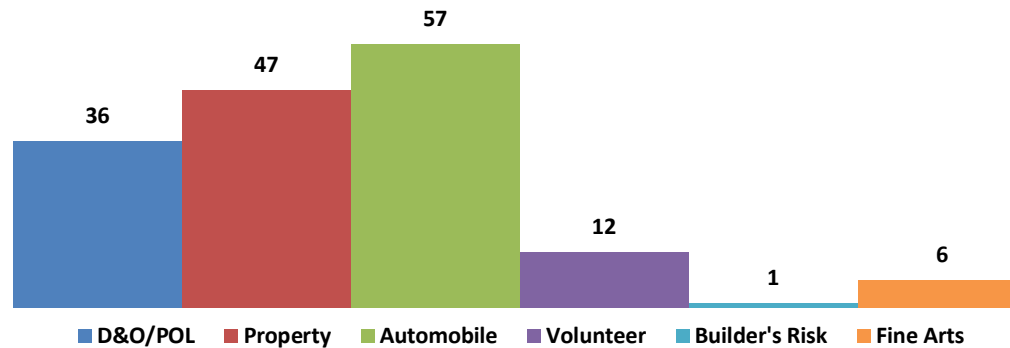
|                                  |    |
|----------------------------------|----|
| State Entity Plans Evaluated     | 12 |
| State Entity Exercises Evaluated | 19 |
| Onsite Consultations             | 17 |
| Training Programs Conducted      | 3  |

**COOP Recommendations FY20 YTD**

|                                   |   |
|-----------------------------------|---|
| Administrative Sections           | 2 |
| Alternate Facilities              | 1 |
| Budgeting and Acquisition         | 2 |
| Communications                    | 1 |
| COOP Standards                    | 2 |
| Essential Functions               | 3 |
| Human Resources                   | 1 |
| Multi-year Strategic Planning     | 1 |
| Training, Testing, and Exercising | 1 |

## III. STATEWIDE INSURANCE PROGRAM

### A. PARTICIPANTS IN STATEWIDE INSURANCE LINES FY20Q4



### B. MONITORING

404 notary applications were processed during FY20Q4

### C. INSURANCE PURCHASES

Number of SORM 201s processed: 10  
 Number approved and premium paid: 10 for \$477,980

**SORM 201s FY20Q4**

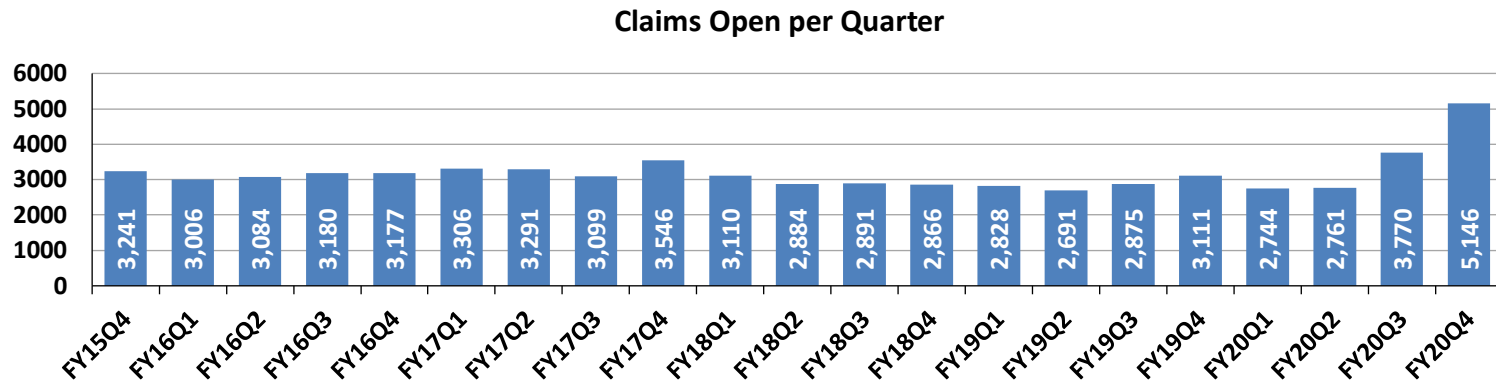
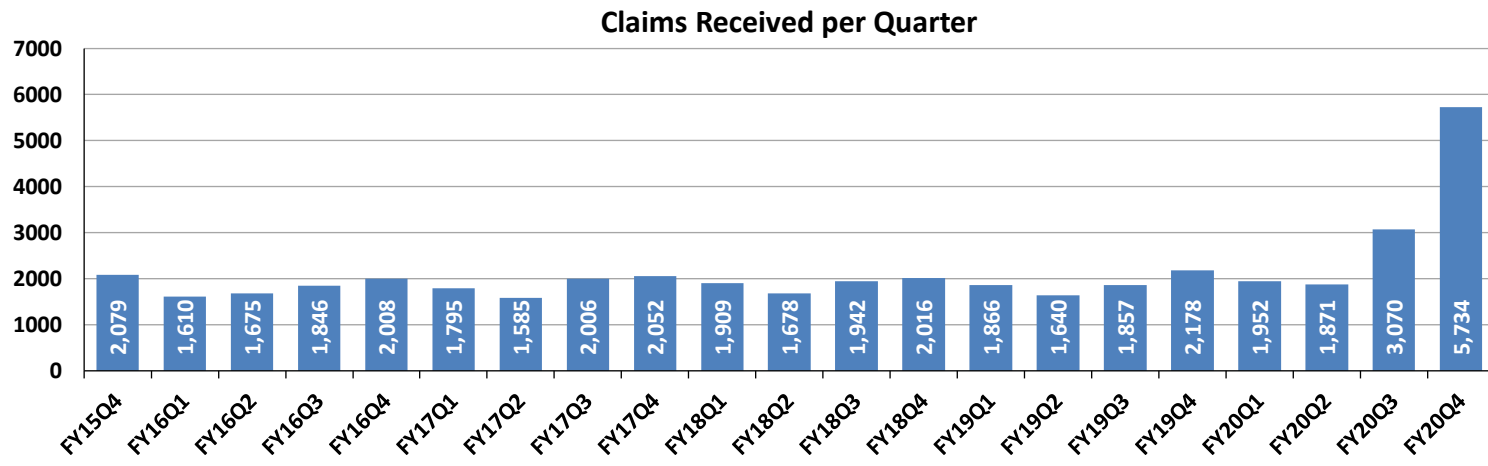
| <b>Line</b>                                   | <b>Approved</b> | <b>Comments</b>  | <b>Premium</b>   |
|---|-----------------|--|------------------|
| <b>Extraterritorial Workers' Compensation</b> | X               | Coverage for employees, accountants, auditors and clerical office staff who provide work on behalf of the State of Texas but operate and reside outside of the state.  | \$5,800          |
| <b>Crime</b>                                  | X               | Coverage is designed to mitigate potential exposure from criminal acts. A crime policy can provide coverage for several different types of crime hazards, including but not limited to: employee dishonesty; forgery or alteration; computer fraud; funds transfer fraud coverage; money and securities coverage; and/or social engineering. | \$22,306         |
| <b>Athletic Accident</b>                      | X               | Coverage protects student-athletes who do not have medical insurance, decreases the frequency with which a student-athlete or parent sues the university to recover medical expenses, and ensures compliance with NCAA bylaws.   | \$92,000         |
| <b>Aviation</b>                               | X               | Coverage is for claims and losses arising from the ownership, maintenance, or use of aircraft, hangars, or airports including damage to aircraft, personal injury, and property damage. This policy covers aircraft for various agencies.  | \$345,165        |
| <b>General Liability</b>                      | X               | General Liability insurance is designed to protect an organization against liability claims for bodily injury or property damage that they may be held responsible for. This policy is a requirement of the lease agreement.   | \$1,305          |
| <b>Inland Marine</b>                          | X               | Purchase of this Inland Marine policy is designed to protect equipment due to a windstorm loss specific to FEMA funding request from a hurricane loss.   | \$1,000          |
| <b>Extraterritorial Workers' Compensation</b> | X               | Coverage for employees, accountants, auditors and clerical office staff who provide work on behalf of the State of Texas but operate and reside outside of the state.  | \$1,659          |
| <b>Disability</b>                             | X               | Coverage to provide income in the event an employee is unable to work and earn money due to a disability of an off-the-job injury or illness. This is required for State of Texas employees working in New York.   | \$4,995          |
| <b>General Liability</b>                      | X               | General Liability insurance is designed to protect an organization against liability claims for bodily injury or property damage that they may be held responsible for. This policy is a requirement of the lease agreement.   | \$2,500          |
| <b>General Liability</b>                      | X               | General Liability insurance is designed to protect an organization against liability claims for bodily injury or property damage that they may be held responsible for. This policy is a requirement of the lease agreement.   | \$1,250          |
| <b>TOTAL</b>                                  |                 |  | <b>\$477,980</b> |

## CLAIMS OPERATIONS

### I. CLAIMS OPERATIONS ACTIVE WORKLOAD FY20Q4

Claims Operations continues to conduct thorough investigations in the initial stages and focuses on maintaining active follow up.

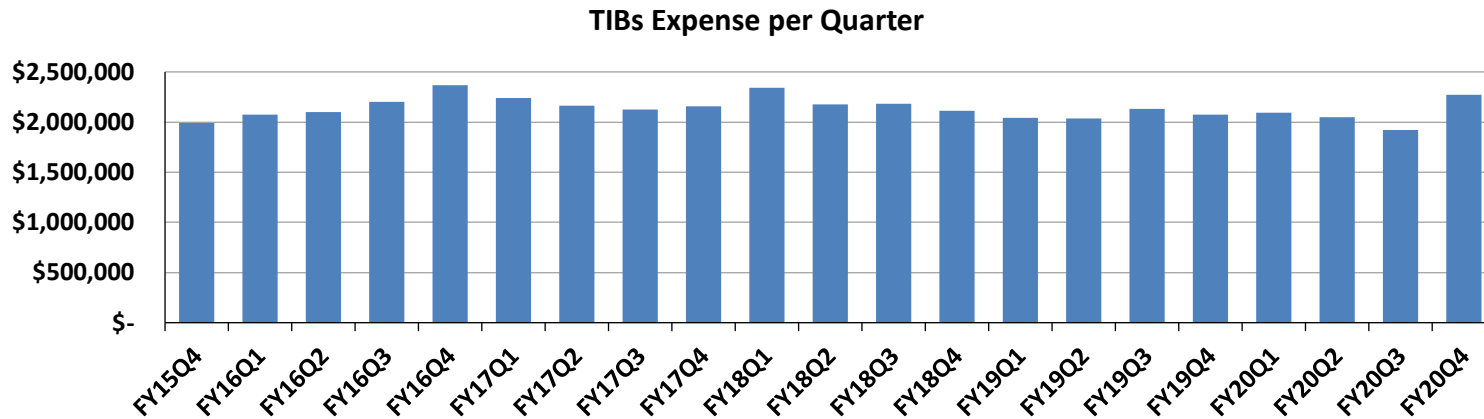
- A. SORM received 5,734 injury reports (claims) in FY20Q4, which is an increase from the number of injury reports received in FY20Q3 (3,070)
- B. 2,593 claims were accepted
- C. 3,330 claims were inactivated
- D. SORM had 5,146 open claims at the end of FY20Q4



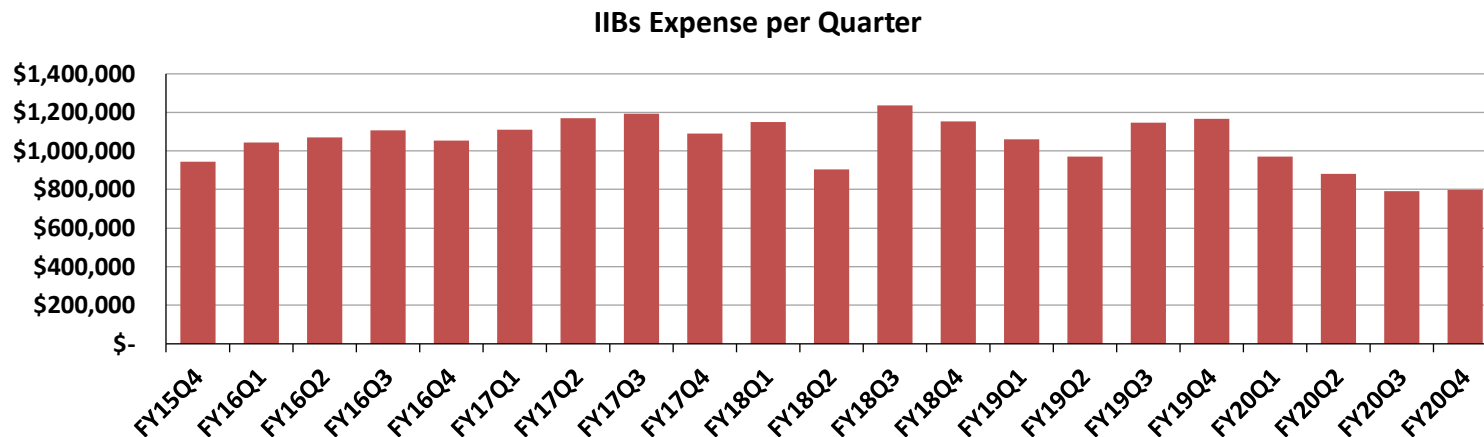
## II. ANALYSIS OF INCOME BENEFITS EXPENSES FOR FY20Q4

- A. FY20Q4 reflects an increase in TIBs indemnity costs from FY20Q3
- B. TIBs payments were \$2,270,642.41 and IIBs payments were \$799,439.48 in FY20Q4
- C. At the end of FY20Q4, there were 526 TIBs, 156 IIBs, 23 SIBs with payment, 12 LIBs, and 64 DIBs claims open

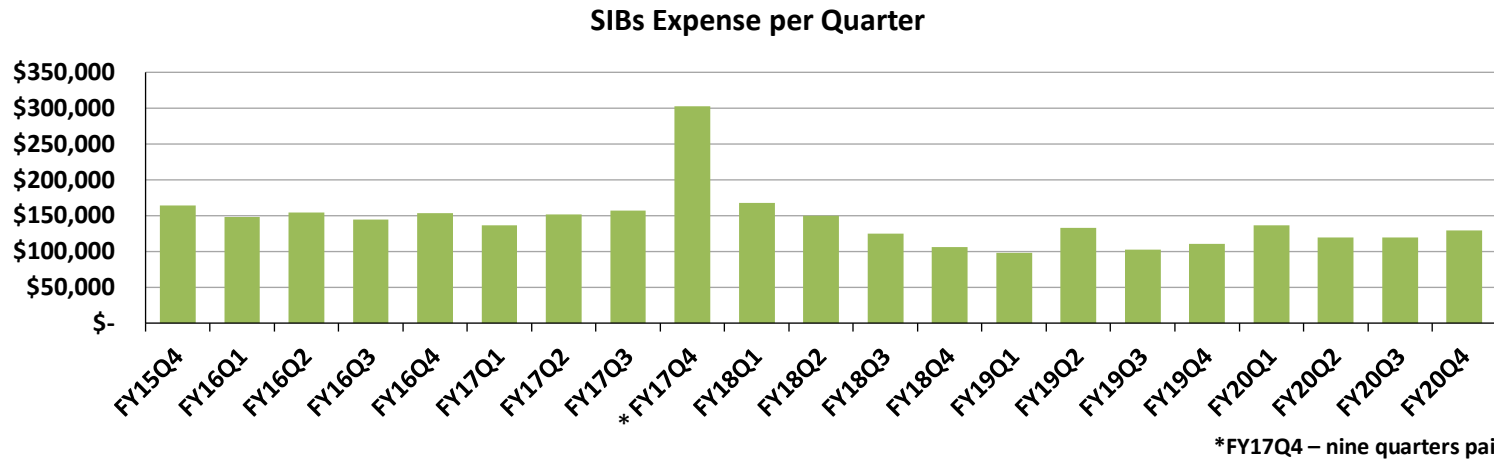
Temporary Income Benefits (TIBs) expenditures for FY20Q4 totaled \$2,270,642.41 on 526 claims



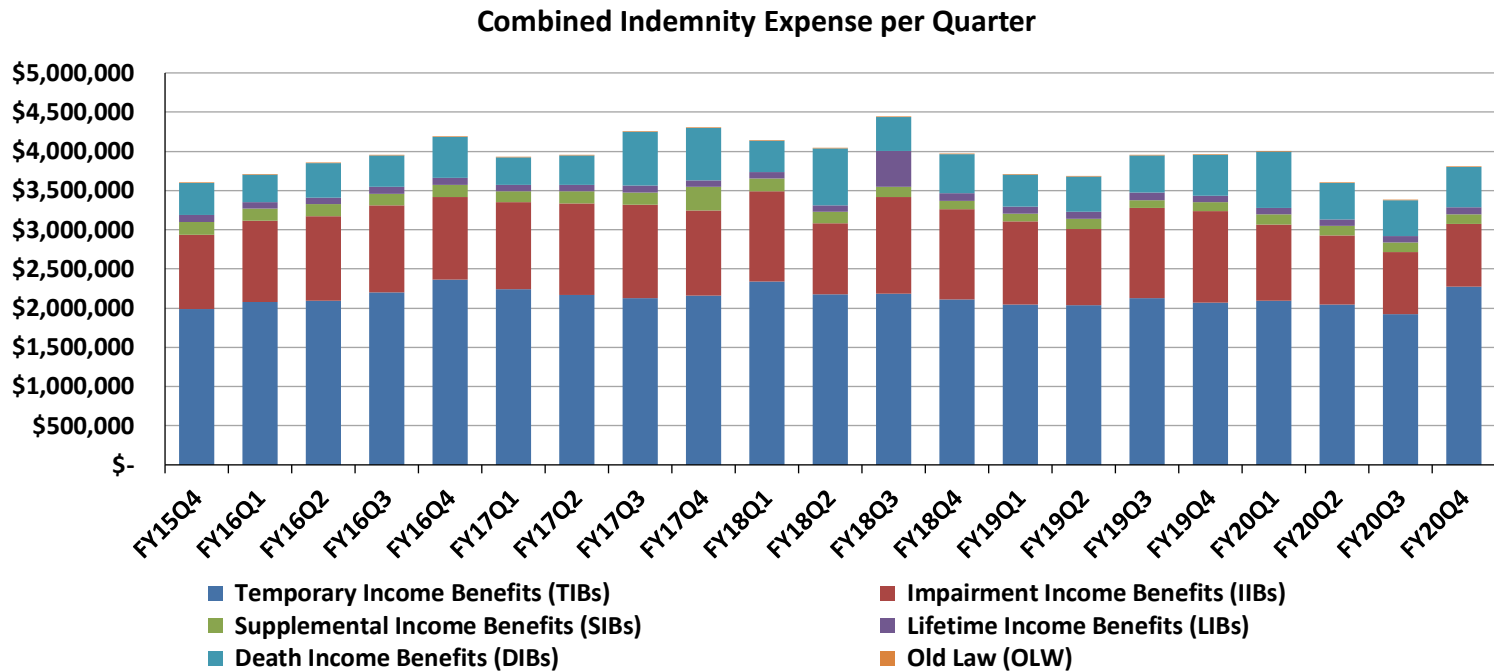
Impairment Income Benefits (IIBs) expenditures for FY20Q4 totaled \$799,439.48 on 156 claims



Supplemental Income Benefits (SIBs) expenditures for FY20Q4 totaled \$129,081.50 on 23 claims



Combined indemnity expenditures for FY20Q4 totaled \$3,801,281.62 on 742 claims





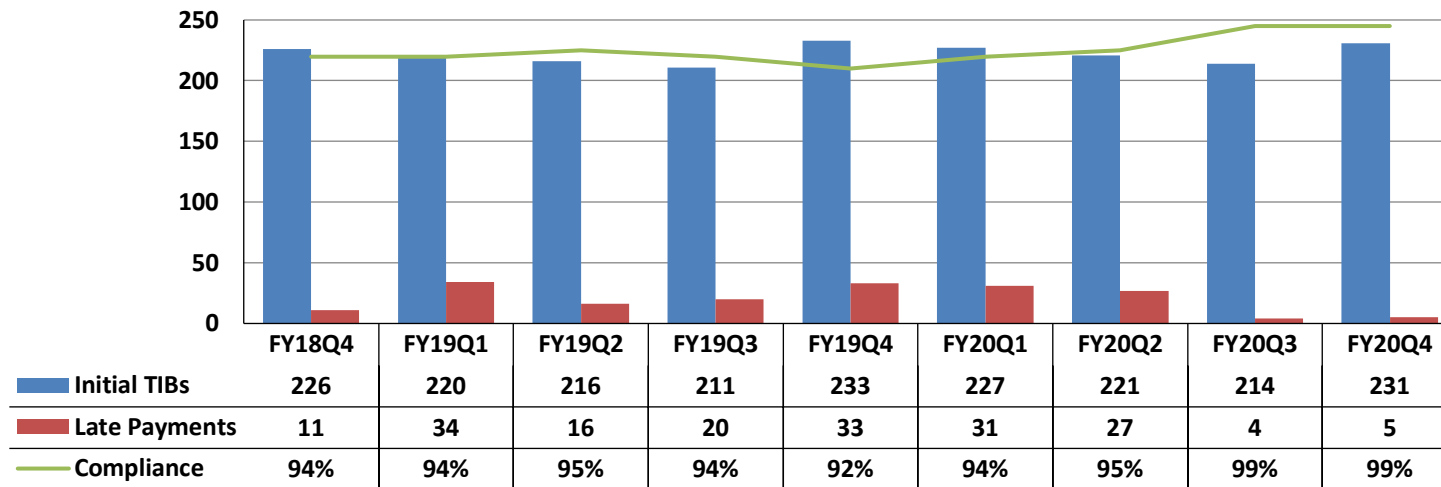
## QUALITY ASSURANCE

### I. INDEMNITY QUALITY ASSURANCE

#### A. TEMPORARY INCOME BENEFIT AUDITS

SORM must initiate temporary income benefits by the 7<sup>th</sup> day after the accrual date (8<sup>th</sup> day of disability) or the 15<sup>th</sup> day after notice of injury.

Initial TIBs Compliance Rate and Late Payments

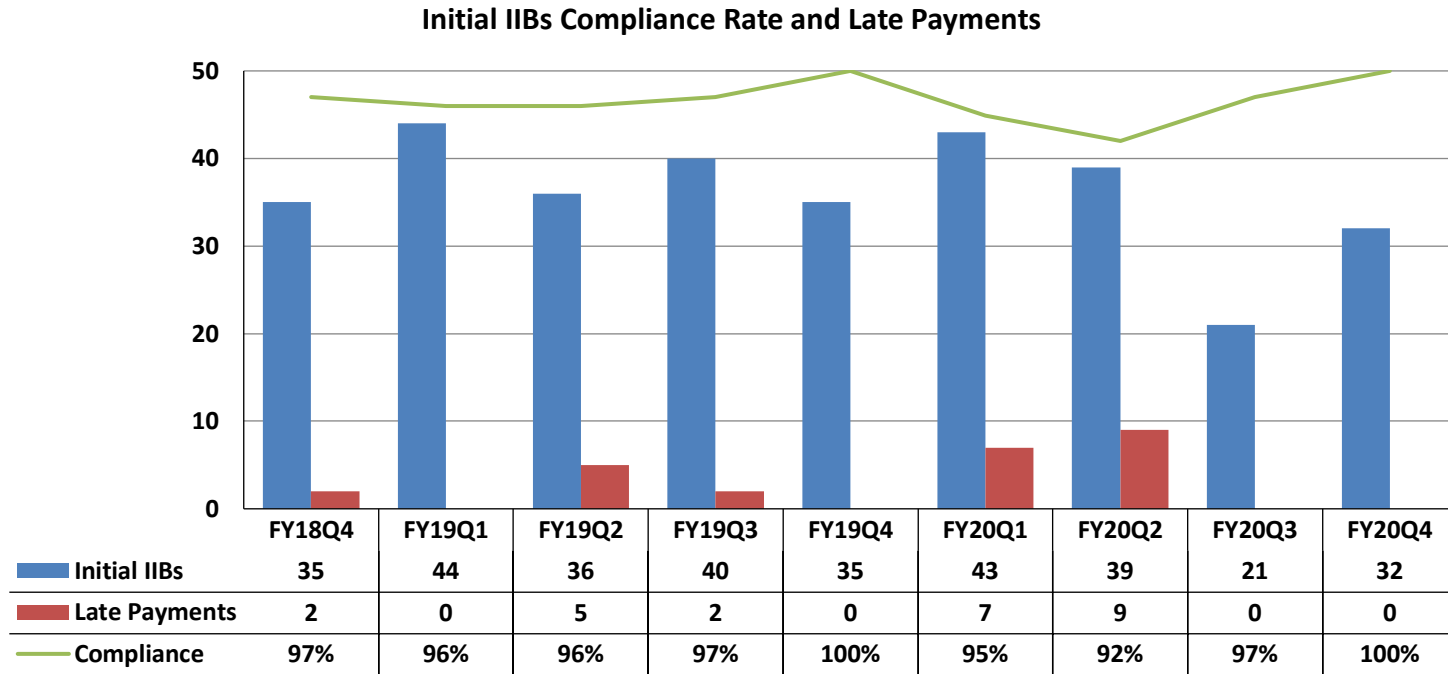


TIBs Late Payments FY20Q4

|           |   |
|-----------|---|
| Physician | 0 |
| Employer  | 0 |
| Carrier   | 5 |

## B. IMPAIRMENT INCOME BENEFIT AUDITS

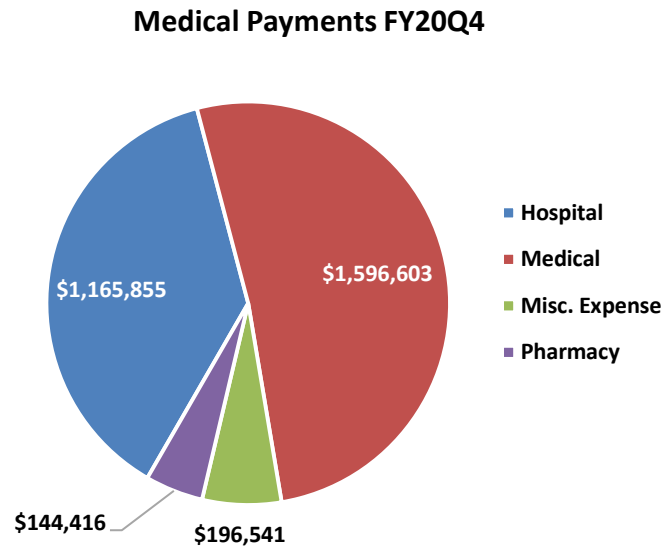
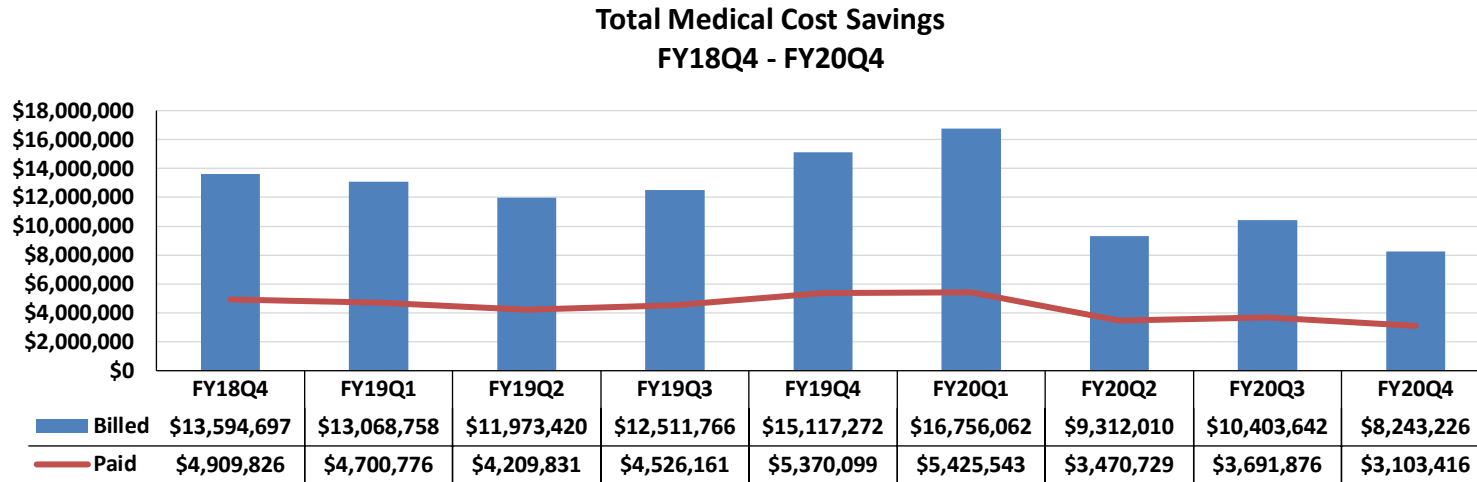
SORM must initiate impairment income benefits by the 5<sup>th</sup> day after receiving a notice of medical evaluation indicating the injured employee has reached maximum medical improvement (MMI).



## II. MEDICAL QUALITY ASSURANCE

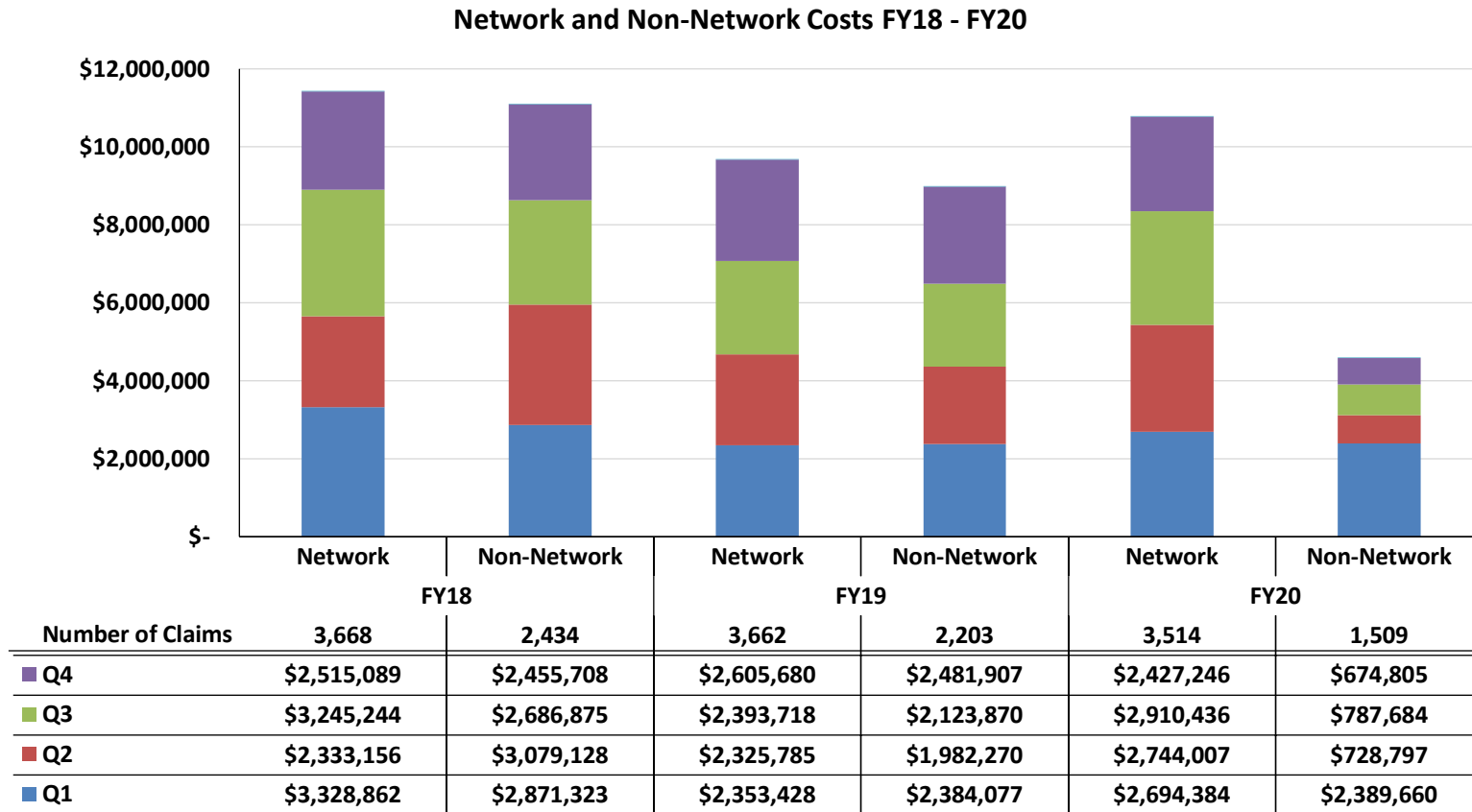
### A. MEDICAL COSTS

Workers' compensation benefits include medically necessary treatment related to the compensable injury.



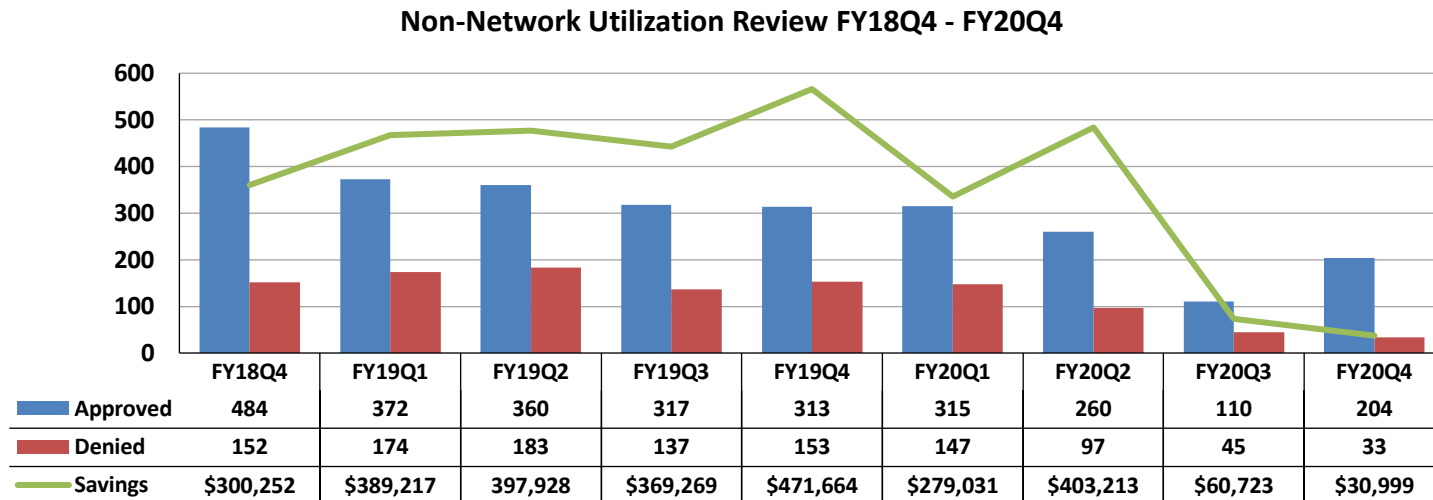
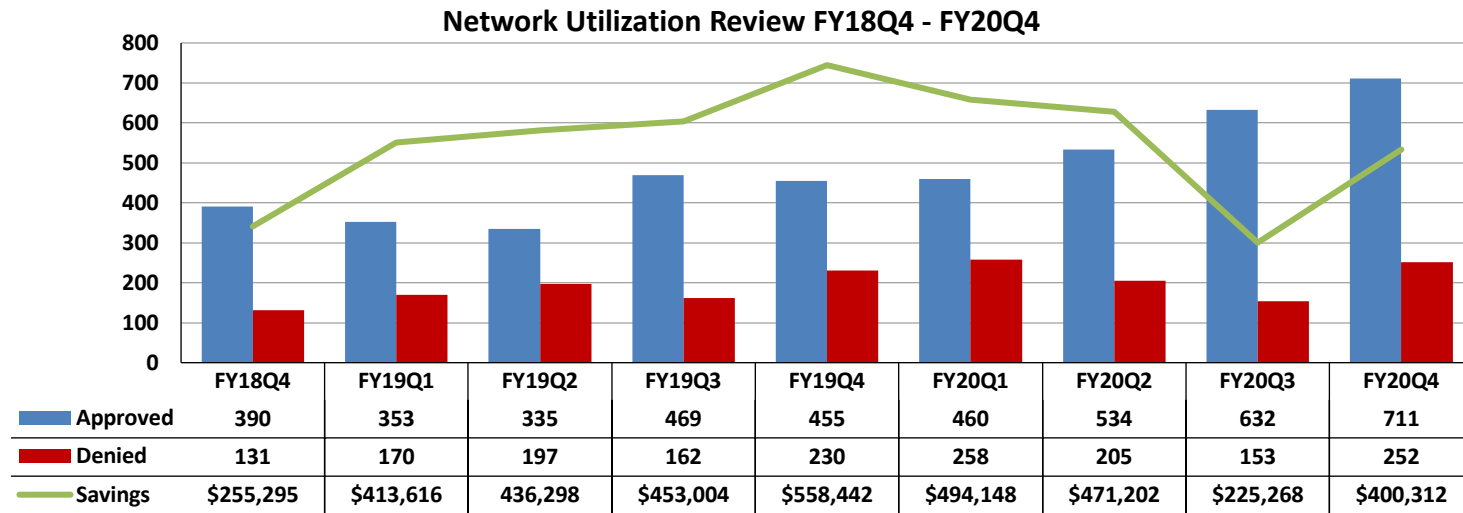
## B. NETWORK AND NON-NETWORK DATA

The following chart shows the number of network and non-network claims.



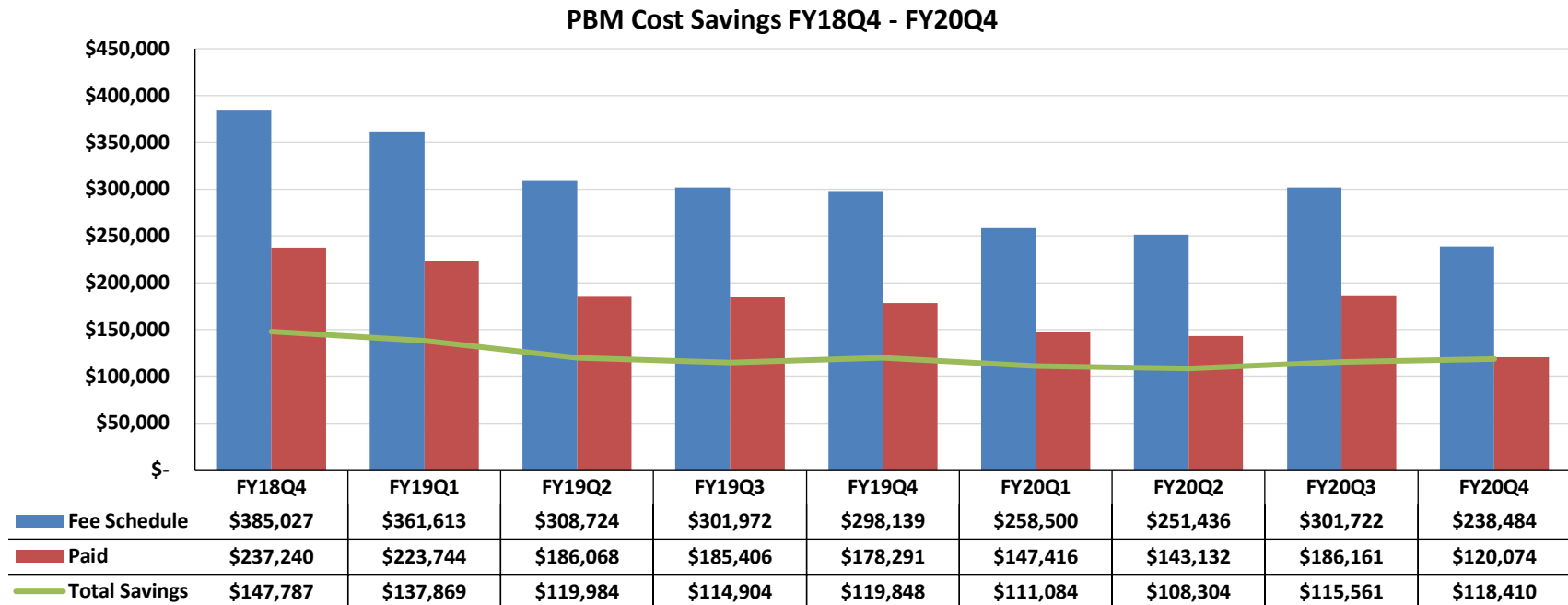
### C. PREAUTHORIZATION

Certain types of health care services must be prospectively reviewed and preauthorized as medically necessary before the service is provided to an injured employee.



#### D. PHARMACY BENEFIT MANAGEMENT

Workers' compensation benefits include medically necessary prescription drugs and over-the-counter medication.



#### E. MEDICAL DISPUTE RESOLUTION FY20Q4

Medical dispute resolution is used to resolve disputes when an insurer reduces or denies payment of a medical bill or to determine the medical necessity of treatment for a compensable injury.

|                            |                         |
|----------------------------|-------------------------|
| Medical Fee Disputes       | 16 Non-Network received |
|                            | 12 Network received     |
| Medical Necessity Disputes | 1 Non-Network received  |
|                            | 3 Network received      |

## LITIGATION MANAGEMENT

### I. BENEFIT DISPUTE RESOLUTION FY20Q4

Disputes regarding compensability or eligibility for benefits can occur throughout the life of a workers' compensation claim.

| BRC Attended | BRC Resolved | Most Common Issue(s) Resolved | Going to CCH           | Primary Issue(s) Appealed |
|--------------|--------------|-------------------------------|------------------------|---------------------------|
| 61           | 5            | MMI/IR                        | 21                     | EOI                       |
| CCH Attended | CCH Resolved | D&O for SORM                  | D&O Against SORM       | Primary Issue in D&O      |
| 14           | 1            | 5                             | 3<br>*1 split decision | EOI                       |

### II. FRAUD INVESTIGATIONS

SORM investigates and reports workers' compensation fraud committed by system participants.

| FY20Q4               | Pending | Opened | Closed | Criminal Referral |
|----------------------|---------|--------|--------|-------------------|
| Fraud Investigations | 16      | 5      | 5      | 2                 |

### III. SUBROGATION AND RECOVERIES

When a claimant's injuries are caused by a third party, SORM can request reimbursement for benefits that have been paid by the state for the compensable injury.

|              | FY20Q1          | FY20Q2           | FY20Q3           | FY20Q4          | YTD Total        |
|--------------|-----------------|------------------|------------------|-----------------|------------------|
| Restitution  | \$2,702         | \$261            | \$5,023          | \$0             | \$8,24           |
| SIF          | \$0             | \$0              | \$0              | \$0             | \$0              |
| Subrogation  | \$83,508        | \$404,839        | \$274,762        | \$42,492        | \$805,603        |
| <b>Total</b> | <b>\$86,210</b> | <b>\$405,100</b> | <b>\$279,785</b> | <b>\$42,492</b> | <b>\$813,850</b> |

## COMPLIANCE MANAGEMENT

---

### I. CONTRACT ADMINISTRATION

| Area                          | Task   |
|-------------------------------|--|
| Procurement                   | <ul style="list-style-type: none"><li>• Insurance Support Services RFP</li></ul>   |
| Contract Management           | <ul style="list-style-type: none"><li>• Contract Management Handbook Update</li><li>• Staff Training</li></ul>   |
| Vendor Performance Monitoring | <ul style="list-style-type: none"><li>• Vendor Performance Evaluation Tool (VPET)</li><li>• Business Owner Input</li><li>• Desk Reviews</li><li>• Issue Log</li><li>• Control Correspondence</li></ul> |
| Vendor Cybersecurity Training | <ul style="list-style-type: none"><li>• Medical Cost Containment Vendors</li></ul>   |
| Vendor Performance Reporting  | <ul style="list-style-type: none"><li>• Annually</li><li>• Expiration and Renewals</li></ul>   |



State Office of Risk Management

300 W. 15<sup>TH</sup>, AUSTIN, TEXAS 78701 / P.O. BOX 13777, AUSTIN, TEXAS 78711-3777  
(512) 475-1440, FAX (512) 370-9025 / [WWW.SORM.TEXAS.GOV](http://WWW.SORM.TEXAS.GOV)

## **5. New business**

### **5.1 Presentation, discussion, and action regarding the Fiscal Year 2020 Internal Audit Report**

#### **Information**

Board Member Ladner, and/or representatives of the agency's audit contractor, will present the final report for Fiscal Year 2020.

#### **Action Required**

**The Chair may entertain motions for consideration and acceptance.**



**State Office of Risk Management**

**Internal Audit Services**

**FY 2020 Annual Internal Audit Report**

*Prepared by:*



**McCONNELL & JONES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

4828 Loop Central | Suite 1000 | Houston, Texas 77081

TEL: 713.968.1600 | FAX: 713.968.1601

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McCONNELL & JONES LLP  
CERTIFIED PUBLIC ACCOUNTANTS

October 7, 2020

The Honorable Greg Abbott, Governor  
Members of the Legislative Budget Board  
Internal Audit Coordinator, State Auditor's Office

Dear Ladies and Gentlemen:

Attached is the 2020 Annual Internal Audit Report for the State Office of Risk Management (SORM). This Annual Internal Audit Report is submitted in accordance with the Texas Internal Auditing Act requirement for state agency internal auditors to prepare and distribute an annual report (Government Code, Chapter 2102).

McConnell & Jones LLP (MJ) was engaged on February 26, 2018 to provide internal audit services to the SORM in accordance with The Texas Internal Auditing Act. Pursuant to the Request for Proposals (RFP) issued December 14, 2017, MJ submits this Annual Internal Audit Report for fiscal year 2020 on behalf of the State Office of Risk Management.

The Texas Internal Auditing Act requires agencies to file an annual report on their internal audit activities and the internal audit reports prepared for governing boards. The purpose of the Annual Internal Audit Report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the Annual Internal Audit Report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the Annual Internal Audit Report for fiscal year 2020 is due November 1, 2020.

Please contact Odysseus Lanier at 713.968.1603 or Stephen Vollbrecht at 512. 936.1508 if you should have any questions about this Annual Internal Audit Report.

Sincerely,

Odysseus Lanier, CPA  
Partner

9130 Jollyville Rd  
Suite 320  
Austin, TX 78759  
Phone: 713.968.1600

WWW.MCCONNELLJONES.COM

## I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports to the agency's internet website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, McConnell & Jones LLP (MJ) will ensure the required internal audit plan, internal audit annual report and any other required internal audit information is provided to the State Office of Risk Management (SORM) for posting to their website.

## II. FISCAL YEAR 2020 INTERNAL AUDIT PLAN STATUS

The fiscal year 2020 Annual Internal Audit Plan was prepared by McConnell & Jones LLP based on a comprehensive risk assessment and approved by SORM's Board of Directors. The approved FY 2020 Annual Internal Audit Plan was completed as approved. The chart below reflects the approved audit plan status as of August 31, 2020.

**Fiscal Year 2020 Internal Audit Plan Status**

| # | Description                                   | Report Number   | Report Date   | Report Title                                    | Audit Status |
|---|---|---|---------------|---|--------------|
| 1 | Legal Services Compliance Management Function | 20-001  | June 15, 2020 | Legal Services Compliance Management Department | Completed    |
| 2 | Follow-Up on Open Audit Findings              | Included with the Legal Services Compliance Management Department Audit |               |   |              |
| 3 | Update Annual Risk Assessment & Audit Plan    | N/A   | N/A           | N/A   | Completed    |
| 4 | Annual Audit Report                           | N/A   | N/A           | N/A   | Completed    |
| 5 | Audit Communications, Project Management      | N/A   | N/A           | N/A   | On-going     |

**Deviation from 2020 Plan:**

MJ completed the approved FY 2020 Annual Internal Audit Plan as approved with no deviations.

### **III. LEGAL SERVICES COMPLIANCE MANAGEMENT AUDIT REPORT SUMMARY**

Internal audit completed a review of the agency's Legal Services Compliance Management function. The audit objectives were to:

1. Determine if the purpose, expectations, and goals for the Compliance Management Department (CMD) are documented and current.
2. Review the current roles, responsibilities, and authority of the CMD and assess if the tasks assigned fit within the department's purpose.
3. Analyze the 33 open internal audit findings to determine:
  - a. the commonality between the findings and identify systemic causes if possible.
  - b. if risk rating should be assigned or updated to each finding based upon the agency's current operations.
  - c. if the finding is still relevant.
  - d. if corrective actions have been implemented either directly or through implementation or revision of other processes within the agency.
  - e. who should be responsible for facilitating the corrective action and timing for remaining open findings.
4. Determine if written policies exist and are updated for key agency functions. If they do not, identify who should be responsible for writing or updating the respective policy and the timing.
5. Determine if written procedures exist and are updated for key agency functions. If they do not, identify who should be responsible for writing or updating the procedure and the timing.

We concluded that some improvement of internal controls is needed. We noted that the need for the agency's Compliance Management Department (CMD) is recognized and supported by the executive team. However, the ability for the CMD to achieve its goals are limited as it has only influence versus authority. Although influence is seen as a critical part of the agency's culture, we do not believe it will lead to CMD's success without having the appropriate "Tone at the Top", authority, tools, and processes in place.

Our review and analysis of 33 open internal audit findings determined that 22 open internal audit findings related to policies and procedures of which 9 have not been resolved but will be addressed when procedures are developed for the RMIS implementation. The remaining findings relate to IT Disaster Recovery, IT Security and potential systems update. As of June 1, 2020, seventeen (17) are fully implemented, one (1) is partially implemented.

We made the following recommendations:

1. Strengthen the importance of the CMD through the agency's "Tone at the Top" which is set by the Executive Director and reinforced by the executive management team.
2. CMD should work with the leadership team to set clear expectations for the compliance function. CMD should also work with department managers to understand what challenges they face in meeting compliance and updating policies and procedures. Once these are identified, CMD should then work department managers to help resolve the challenges and develop a plan with realistic milestones to address the needs.
3. Implement a policy management function where the CMD is responsible for managing the inventory of policies, placing them on a review cycle, facilitating the reviews and updates, and reviewing all policies for legal implications and compliance with regulatory and internal requirements. Separate the task of updating policies from updating procedures. Focus on policies first as these are what set expectations for all employees.

#### **IV. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED**

Internal audit provided no consulting and advisory services during FY 2020.

#### **V. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)**

MJ has been a member of the AICPA since 1987 and is subject to the AICPA's peer review process every three years. Our commitment to quality is underscored by the fact that, in our four most recent peer reviews, we have consistently received an unqualified opinion in external peer review reports on the quality of our accounting and auditing practice by the AICPA. After a thorough review of our procedures and work practices, which include reviews of our nonprofit, governmental, and commercial engagements, the reviewers concluded that MJ complies with the stringent quality control standards established by the American Institute of Certified Public Accountants. We provide a copy of our most recent peer review letter below.

*One Voice One Firm*



**Report on the Firm's System of Quality Control**

January 31, 2018

To the Partners of  
**McConnell & Jones, LLP**  
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP** (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the history, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/peerreview](http://www.aicpa.org/peerreview). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

**Firm's Responsibility**

The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The Firm is also responsible for evaluating actions to promptly remediate engagements determined as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

**Peer Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review.

**Required Selections and Considerations**

Engagements selected for review included engagements performed under Government Auditing Standards, including a compliance audit under the Single Audit Act; audits of employee benefit plans; and an audit of a non-carrying broker-dealer.

As a part of our peer review, we considered reviews by regulatory entities as commissioned by the Firm, if applicable, in determining the nature and extent of our procedures.

Turner, Stone & Company, LLP  
Accountants and Consultants

Turner, Stone & Company, LLP  
2000 Bank Street  
Baltimore, Maryland 21201-3400  
Telephone 410.528.6600, Fax 410.528.6601  
Web: [www.turnerstone.com](http://www.turnerstone.com)



**Opinion**

In our opinion, the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP**, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017, has been properly designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The Firm can achieve a rating of pass, pass with deficiencies, or fail. **McConnell & Jones, LLP** has received a peer review rating of *pass*.

*Turner, Stone & Company, LLP*

Turner, Stone & Company, LLP

## VII. INTERNAL AUDIT PLAN FISCAL YEAR 2021

MJ developed the fiscal year 2021 Annual Internal Audit Plan based on results of a risk assessment. The risk assessment included reviewing the agency's strategic plan, the Legislative Appropriations Request, and policies and procedures; and conducting discussions with management. Our assessment evaluated risk exposures relating to SORM's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts.

MJ will conduct one audit, update the risk assessment, conduct prior audit finding follow-up activities, prepare the Fiscal Year 2022 Annual Internal Audit Plan and prepare the Fiscal Year 2021 Annual Internal Audit Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **224 hours**. The planned audit activities, timing and estimated hours are summarized in the chart below.

The agency is implementing a cloud-based risk management information system (RMIS) which will integrate statutory programs and fundamentally change how statutory functions are performed. We selected to perform an audit of the effectiveness of the implementation of RMIS in FY 2021. The Contract and Statement of Work between SORM and Origami Risk, LLC was effective September 16, 2020. Beginning June 1, 2021, MJ will review and evaluate the implementation process and project management approach from October 1, 2020 through July 31, 2021, and provide observations on areas of success and/or for improvement and make recommendations that can be used as "lessons learned" in future implementations. MJ may identify areas of need for future use of on-going professional service hours.

Contract management is not included in the FY 2021 Annual Internal Audit Plan as this was one component of the Legal Services Compliance Management audit we performed in FY 2020.

### Fiscal Year 2021 Annual Audit Plan Activities

| Audit Activity # | Description   | Risk Rating | Estimated Timing   | Estimated Hours |
|------------------|---|-------------|--|-----------------|
| 1                | RMIS Implementation Review and Evaluation<br><i>MJ will conduct two reviews of the implementation process and project management approach and provide observations on areas of success and/or for improvement and make recommendations that can be used as "lessons learned" in future implementations.</i> | High        | Initial Review<br>January 2021 – February 2021<br>Final Assessment<br>June 1, 2021 – August 31, 2021 | 171             |
| 2                | Follow-Up on Prior Audit Findings   | Compliance  | On-Going   | 26              |
| 3                | Risk Assessment   | Compliance  | February – March 2021  | 18              |

| Audit Activity # | Description  | Risk Rating | Estimated Timing | Estimated Hours |
|------------------|--|-------------|------------------|-----------------|
| 4                | Initial draft - Annual Internal Audit Report (FY 2021)       | Compliance  | September 2021   | 3               |
| 5                | Initial draft – Annual Internal Audit Plan (FY 2022)         | Compliance  | September 2021   | 3               |
| 6                | Audit Communications, Committee Meetings, Project Management | N/A         | On-Going         | 3               |
|                  | <b>Total</b>   |             |                  | <b>224</b>      |

## VIII. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2018

External audit services procured in fiscal year 2020 consisted of the internal audit function.

## IX. REPORTING SUSPECTED FRAUD AND ABUSE

The State Office of Risk Management has implemented measures to comply with Article IX, Section 7.10, the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022. These measures include, but are not limited to, the following:

The State Office of Risk Management includes a link to the State Auditor’s Office (SAO) website for fraud reporting at the footer of the SORM’s website. In addition, information on reporting suspected fraud to the State Auditor is included in the agency’s policies and procedures.

## X. SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to SORM’s Board of Directors for review and approval. Notification of significant changes to the Internal Audit Plan approved by the commissioners will be submitted to the State Auditor’s Office (SAO).

This Annual Internal Audit Report was presented to the State Office of Risk Management Board of Directors.



State Office of Risk Management

300 W. 15<sup>TH</sup>, AUSTIN, TEXAS 78701 / P.O. BOX 13777, AUSTIN, TEXAS 78711-3777  
(512) 475-1440, FAX (512) 370-9025 / [WWW.SORM.TEXAS.GOV](http://WWW.SORM.TEXAS.GOV)

## **5. New business (continued)**

### **5.2 Presentation, discussion, and action regarding the Fiscal Year 2021 Internal Audit Plan**

#### **Information**

Board Member Ladner, and/or representatives of the agency's audit contractor, will present the plan for Fiscal Year 2021.

#### **Action Required**

**The Chair may entertain motions for consideration and acceptance.**



State Office of Risk Management

**State Office of Risk Management  
Internal Audit Services**

**FY 2021 Annual Internal Audit Plan**

*This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.*

**MJ**

**McCONNELL & JONES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

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McCONNELL & JONES LLP  
CERTIFIED PUBLIC ACCOUNTANTS

October 7, 2020

The Honorable Greg Abbott, Governor  
Members of the Legislative Budget Board  
Members of the Sunset Advisory Commission  
Internal Audit Coordinator, State Auditor's Office

Dear Ladies and Gentlemen:

Attached is the FY 2021 Annual Internal Audit Plan for the State Office of Risk Management (SORM) approved by SORM's Board of Directors. The Annual Internal Audit Plan will enable the SORM to comply with the Texas Internal Auditing Act, Texas Government Code Chapter 2102 as amended by House Bill 2485 during the 78th Legislature and House Bill 16 during the 83rd Legislature. McConnell & Jones LLP (MJ) will execute this annual audit plan in accordance with The Texas Internal Auditing Act, The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, and Generally Accepted Government Auditing Standards (GAGAS).

Please contact Odysseus Lanier at 713.968.1603 or Stephen Vollbrecht at 512. 936.1508 if you should have any questions about this audit plan.

Sincerely,

Odysseus Lanier, CPA  
Partner

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## **1.0 Compliance with Texas Government Code, Section 2102.015: Posting the Audit Plan and Annual Report on the Internet**

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports to the agency's internet website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, MJ will provide this Annual Internal Audit Plan, the Annual Internal Audit Report and any other required internal audit information to the State Office of Risk Management's (SORM) Executive Director who will ensure the information is posted to the SORM's website.

## **2.0 Purpose**

The purpose of this report is to communicate the annual risk-based audit plan as approved by the State Office of Risk Management Board of Directors, the methodology used to develop the Annual Internal Audit plan, the timing and resource requirements necessary to complete the audit plan, and the communication of audit results and any significant interim changes to the Annual Internal Audit Plan.

The Annual Internal Audit Plan was developed based on a prioritization of the audit universe, input from SORM's leadership team and guidance provided by the State Auditor's Office (SAO). Using our risk assessment framework, we identified the organizational sources for potential engagements and auditable activities; examined organizational risk factors; evaluated the proposed engagements; and prioritized the audits based on the risk rating.

## **3.0 Risk Assessment**

Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. An organization's risk exposure is determined through the identification of risks and evaluating the impact on operations and likelihood of occurrence.

Risk assessments identify an organization's exposure to business disruptions and barriers to achieving the organization's strategic goals. They serve as a tool to focus limited resources to perform evaluations of controls that are in place to limit the exposure.

In accordance with Texas Internal Auditing Act and The Institute of Internal Auditors (IIA) Standard 2010.A1, this internal audit plan is based on a documented risk assessment and input of the SORM leadership team. Our assessment evaluated risk exposures relating to the SORM's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, policies and procedures, and contracts.

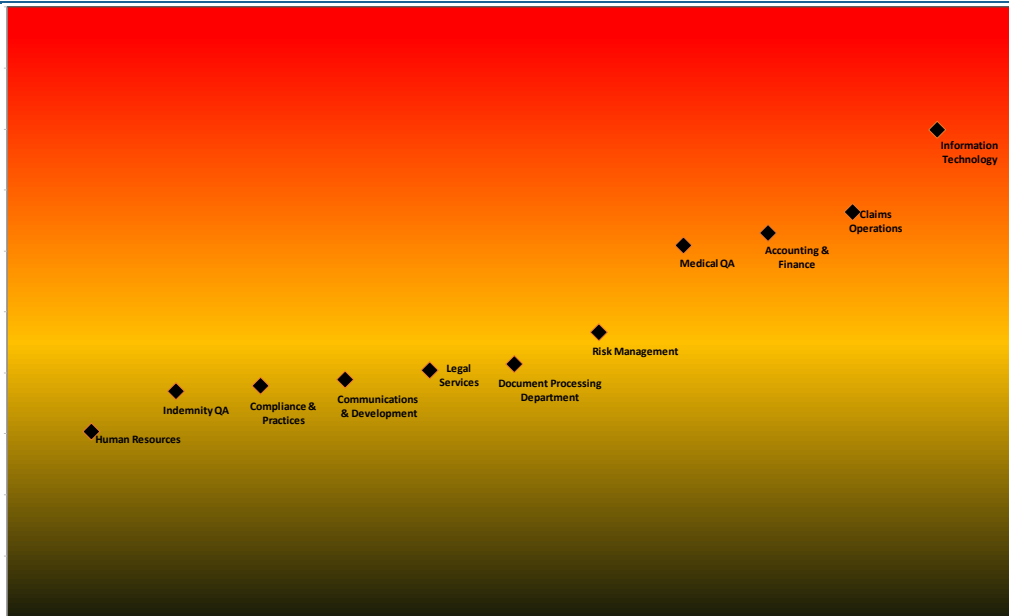
MJ reviewed SORM's key documents such as the Legislative Appropriations Request (LAR), Strategic Plan, Budget, Annual Internal Audit Reports, Sunset Staff Report, State Auditor's Office reports and previous internal audit risk assessments.

The types of risk exposure relevant to the State Office of Risk Management are:

- *Financial Exposure:* Financial exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.
- *Compliance Exposure:* Compliance exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.
- *Information Exposure:* An information exposure exists whenever there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.
- *Efficiency Exposure:* An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.
- *Human Resource Exposure:* A human resource exposure exists whenever an area is managing human resources in a way, which is contrary to agency policy.
- *Environmental Exposure:* An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:
  - Recent changes in key personnel
  - Changing economic conditions
  - Time elapsed since last audit
  - Pressures on management to meet objectives
  - Past audit findings and quality of internal control
- *Public Service Exposure:* A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.
- *Reputational Exposure:* A reputational exposures exists whenever an event in the audit area could jeopardize the reputation of the agency and stakeholder trust.

We assigned weights to each of these risk categories for each SORM department or function.

**Figure 1** provides a heat map of the combined average score for each SORM department.



**Figure 1 State Office of Risk Management Organizational Risk Summary 2020**

MJ discussed the risk exposures with SORM's leadership team. We then prepared the Annual Internal Audit plan based upon current risks facing SORM's operations.

#### 4.0 FY 2021 Annual Internal Audit Plan

MJ will conduct one scheduled audit, perform a risk assessment, conduct prior audit finding follow-up activities, prepare the fiscal year 2022 Annual Internal Audit Plan and prepare the fiscal year 2021 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **224 hours**. The planned audits, timing and estimated hours are summarized in the table below.

##### Fiscal Year 2021 Annual Internal Audit Plan

| Audit Activity # | Description  | Risk Rating | Estimated Timing  | Estimated Hours |
|------------------|--|-------------|---|-----------------|
| 1                | <p>RMIS Implementation Review and Evaluation<br/><i>This review will be performed in two reviews. The first review will occur during the implementation to provide feedback on the process. The second review will occur once the project is completed and provide "lessons learned" for future improvements.</i></p> <p><u>Scope:</u></p> <ul style="list-style-type: none"> <li>✓ Project Management Activities and Tools</li> <li>✓ System Design Input and Sign-off Process for Each Phase</li> <li>✓ User Acceptance Testing, Resolution and Acceptance Process for Each Phase</li> <li>✓ User Roles and Security Settings</li> </ul> | High        | <p>Initial Review<br/>January 2021 – February 2021</p> <p>Final Review<br/>June 1, 2021 – August 31, 2021</p> | 171             |

| Audit Activity # | Description  | Risk Rating | Estimated Timing      | Estimated Hours |
|------------------|--|-------------|-----------------------|-----------------|
|                  | <ul style="list-style-type: none"> <li>✓ End User Training</li> <li>✓ Estimated Implementation Costs vs Actual Costs for Each Phase</li> </ul> |             |                       |                 |
| 2                | Follow-Up on Prior Audit Findings  | Compliance  | On-Going              | 26              |
| 3                | Risk Assessment  | Compliance  | February – March 2021 | 18              |
|                  | Initial draft - Annual Internal Audit Report (FY 2021)   | Compliance  | September 2021        | 3               |
| 4                | Initial draft – Annual Internal Audit Plan (FY 2022)   | Compliance  | September 2021        | 3               |
| 5                | Audit Communications, Committee Meetings, Project Management   | N/A         | On-Going              | 3               |
|                  | <b>Total</b>   |             |                       | <b>224</b>      |

*We will focus on risks, internal controls and business processes.*

## 5.0 Significant Interim Changes

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to SORM executive management and present these changes to the SORM's Board of Directors for review and approval. Notification of significant changes to the internal audit plan approved by the Board of Directors will be submitted to the State Auditor's Office.



State Office of Risk Management

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## **5. New business (continued)**

### **5.3 Presentation, discussion, and action on negotiations for Insurance Support Services contracts**

#### **Information**

Deea Western, Division Chief of Legal Services, will discuss the upcoming insurance support services request for proposal.

#### **Action Required**

**Board approval for Executive Director, or designee, to negotiate and execute ISS contracts.**



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## **5. New business (continued)**

### **5.4 Distribution and acknowledgement of Board Training Manual**

#### **Information**

Deea Western, Division Chief of Legal Services, will provide an update on training manual.

#### **Action Required**

**No official action requested, at this time.**



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## 6. Old business

### Information

Staff is available to address any questions or concerns from the previous meeting.

### Action Required

**No official action requested, at this time.**



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## **7. Public comment**

### **Information**

It is the policy of the Board that members of the public shall be given the opportunity to appear before the Board during public meetings of the Board and to speak on any issue under the jurisdiction of the Board.

### **Action Required**

**No official action requested, at this time.**



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## **8. Discussion and possible action on future meeting dates**

### **Information**

Tentative meeting dates are attached for discussion.

### **Action Required**

**Selection of future meeting dates.**



**Tentative Board of Directors Meeting Dates  
FY21Q2**

| Month   | Day of Week | Date | Notes  |
|---------|-------------|------|--|
| January | Tuesday     | 12   | Office closed for New Years' Day on 01/01/21 |
|         | Tuesday     | 19   | Office closed for MLK Jr. Day on 01/18/21    |
|         | Tuesday     | 26   |  |

**NOTES:**

The Secretary of State requires a minimum of 7 days notice before publication in the Texas Register. Draft rules, revised rules, and final rules must be published in the Register for 30 days.

All dates shown are with notes on upcoming due dates and holidays that will affect the Office.



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## **9. Adjourn meeting**

The Chair:

1. Calls the meeting adjourned and announces time