



State Office of Risk Management

Internal Audit Services

FY 2020 Annual Internal Audit Report

Prepared by:



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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,

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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.

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 suitably 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. Firms can receive 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

See Vision Our Focus



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 nature, 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. 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 deemed 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 communicated by the Firm, if applicable, in determining the nature and extent of our procedures.

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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 <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 January 2021 – February 2021 Final Assessment 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
Total				224

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.