



**SORM**  
State Office of Risk Management

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

**FY 2023 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

October 18, 2022

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 2023 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 Darlene Brown at 713.968.1617 or Stephen Vollbrecht at 512. 936.1508 if you should have any questions about this audit plan.

Sincerely,

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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 document 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.

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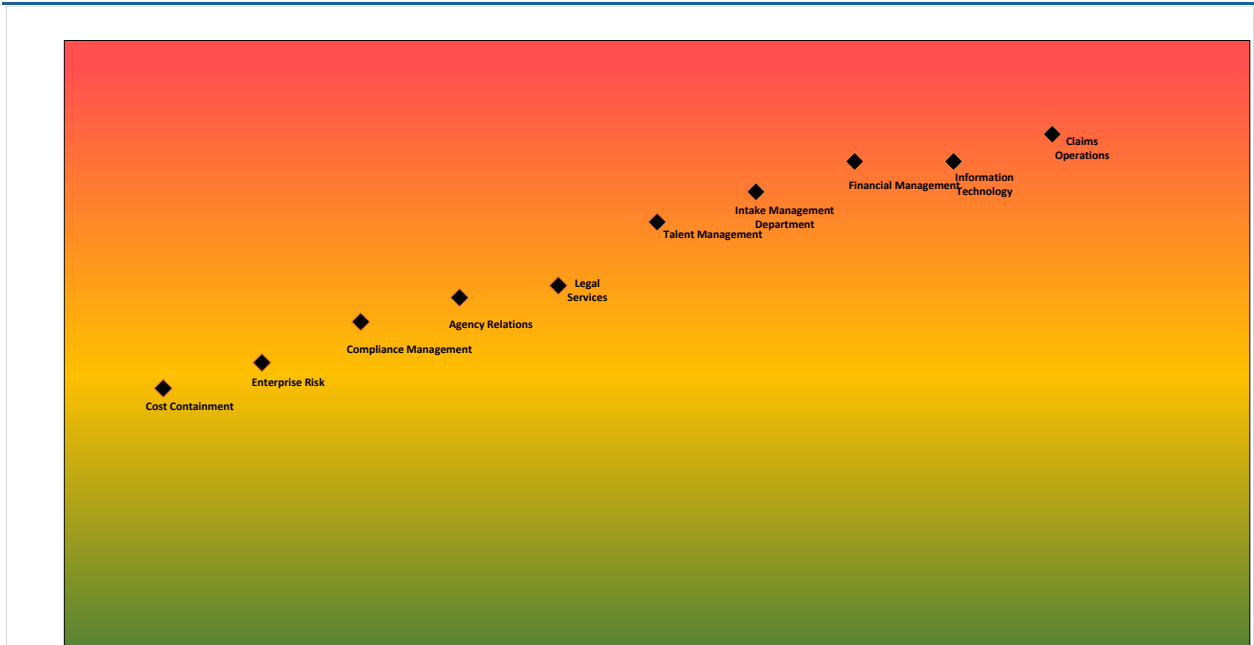
MJ reviewed SORM's key documents such as the Legislative Appropriations Request (LAR), Strategic Plan, Budget, Annual Internal Audit Reports, Sunset Staff Report, State Auditor's Office reports and previous internal audit risk assessments.

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. SORM is in the process of implementing two major information systems: Origami for claims processing and the state's Centralized Accounting and Payroll/Personnel System (CAPPS) for financial management. Additionally, the agency is in the process of redistributing some training and professional development responsibilities between Talent Management and Agency Relations. As a result, the risk scores have changed from prior years.

**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 2022**

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. Although claims operations, financial management, and intake management rated high risk, we do not have these included in the proposed FY2023 audit plan because these areas will be in significant transition during FY2023 as a result of implementing new information systems.

**4.0 FY 2023 Annual Internal Audit Plan**

MJ will conduct one scheduled audit, review the external cyber security review results and remediation status, perform a risk assessment, conduct prior audit finding follow-up activities, prepare the fiscal year 2024 Annual Internal Audit Plan and prepare the fiscal year 2023 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **268 hours**. The planned audits, timing and estimated hours are summarized in the table below.

**Fiscal Year 2023 Annual Internal Audit Plan**

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Agency Relations  <u>Scope:</u> <ul style="list-style-type: none"> <li>✓ Internal Professional Development and Training</li> <li>✓ External Communications</li> <li>✓ Internal Communications</li> </ul>	High	Nov. 2022 – February 2023	168

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
2	External Cyber Security Assessment Follow-Up ✓ Findings remediation status	High	December 2022	40
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	37
4	Risk Assessment and Annual Internal Audit Plan	Compliance	March 2023	13
5	Annual Internal Audit Report (FY 2023)	Compliance	September 2023	3
6	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	7
	<b>Total</b>			<b>268</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.