



State Office of Risk Management

Internal Audit Services

FY 2022 Annual Internal Audit Report

Prepared by:



McConnell Jones

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McConnell Jones

September 7, 2022

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 2022 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 2022 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 2022 is due November 1, 2022.

Please contact Darlene Brown at 713.968.1617 or Stephen Vollbrecht at 512. 936.1508 if you should have any questions about this Annual Internal Audit Report.

Sincerely,

Darlene Brown, CIA, CFE
Partner

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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 2022 INTERNAL AUDIT PLAN STATUS

The fiscal year 2022 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 2022 Annual Internal Audit Plan was completed as approved. The chart below reflects the approved audit plan status as of August 31, 2022

Fiscal Year 2022 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Origami (RMIS) Implementation Review and Evaluation	N/A	N/A	N/A	Postponed to September 2022
2	Risk Management	22-001	April 26, 2022	Risk Management Function	Completed
3	Follow-Up on Open Audit Findings	On-Going			
4	Update Annual Risk Assessment & Audit Plan	N/A	N/A	N/A	Completed
5	Annual Audit Report	N/A	N/A	N/A	Completed
6	Audit Communications, Project Management	N/A	N/A	N/A	On-going

Deviation from 2022 Plan:

The Origami review was postponed until September 2022 due to the system's go-live delay.

III. RISK MANAGEMENT FUNCTION AUDIT REPORT SUMMARY

The objective of this audit was to assess if management controls and processes in place are effective to meet the Risk Management Department's responsibilities.

SORM's Risk Management function has encountered many challenges in their ability to conduct On Site Consultations (OSC) and Risk Management Program Reviews (RMPRs) due to the pandemic and the accessibility of agencies. Although they have made great efforts to achieve their performance measures, they were not able to meet with all the state entities identified to have the highest risks.

As the insurance manager for the state, SORM provides insurance services and obtains insurance policies that are generally available to Texas state agencies. SORM continues to partner with the Department of Information Resources (DIR) to develop a state-sponsored cybersecurity insurance policy. In the interim, several state agencies have obtained cybersecurity coverage through a rider to Directors' and Officers' policies. However, at the time of this audit, the insurance provider stopped allowing additional agencies to be provided this same rider. This lack of insurance, which is outside of SORM's control, may put the state at risk for financial recovery of future cyber incidents.

Finally, the function has been challenged by high turnover that has impacted their ability to train newer team members on the recent changes to the Risk Management Guidelines and all team members utilizing a standardized check list when working with state agencies.

We concluded that SORM's management control structure in place for the Risk Management function requires some improvement. We made the following recommendations. SORM has already implemented recommendation one.

- i. Consider upgrading one or two risk specialist positions to team lead with responsibility of ensuring the Risk Management team understands and can implement all components of their respective positions.
- ii. Assign specific individual(s) the responsibility for ensuring that all documentation and tools used by the Risk Management Department are up to date, and that staff are adequately trained on the updates. Require all risk managers to apply the updated Texas Enterprise Risk Management (TERM) Guidelines in a consistent manner, refer to the TERM Guidelines when completing inspections and reports, and complete all required checklists.
- iii. Implement process to ensure the risk matrix is reviewed and updated each fiscal year and is used to prioritize risk management consultations by risk level and/or demonstrated need. Implement processes to assure high risk state entities are prioritized and risk management consultations are completed each fiscal year. Consider creating internal performance measures for risk managers setting a specified number of reviews of high-risk state entities each year.

IV. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit provided no consulting and advisory services during FY 2022.

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, 2020, 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 deficiency(ies)*, or *fail*. **McConnell & Jones, LLP** has received a peer review rating of *pass*.

Turner, Stone & Company, L.L.P.

• Turner, Stone & Company, L.L.P.

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Report on the Firm's System of Quality Control

June 18, 2021

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, 2020. 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/prsummary. 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 and audits of employee benefit plans.

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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VI. INTERNAL AUDIT PLAN FISCAL YEAR 2023

MJ developed the fiscal year 2023 Annual Internal Audit Plan based on results of a risk assessment. The risk assessment included prioritizing the risk universe 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 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.

Contract management is not included in the FY 2023 Annual Internal Audit Plan as this was one component of the Legal Services Compliance Management audit we performed in FY 2020 and Agency Relations poses a higher risk to the agency.

Fiscal Year 2023 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Agency Relations <u>Scope:</u> <ul style="list-style-type: none"> ✓ Internal Professional Development and Training ✓ External Communications ✓ Internal Communications 	High	Nov. 2022 – February 2023	168
2	External Cyber Security Assessment Follow-Up <ul style="list-style-type: none"> ✓ Findings remediation status 	High	December 2022	40
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	37
4	Risk Assessment and Annual Audit Plan	Compliance	March 2023	10
	Annual Internal Audit Report	Compliance	September 2022	3
5	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	6
	Total			268

VII. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2022

External audit services procured in fiscal year 2022 consisted of the internal audit function.

VIII. 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.

IX. 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.