



BOARD OF DIRECTORS'
MEETING AGENDA
October 17, 2023



State Office of Risk Management

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

Public Meeting

Board of Directors

October 17, 2023, 9:30 a.m.

William P. Clements Building, Room 103
Austin, Texas

1. Call to order, roll call, and recognition of a quorum
2. Recognition and appreciation of Board Member, Tomás “Tommy” Gonzalez, whose term has expired
3. Recognition and welcome of new Board Member, Elizabeth “Lisa” Maciejewski-West
4. Consideration and possible action to excuse previous board member absences
5. Approval of the minutes from the July 25, 2023, meeting
6. Presentation and discussion of Agency Operations Report
7. New business
 - 7.1 Presentation, discussion, and action on the Fiscal Year 2023 Internal Audit Report
 - 7.2 Presentation, discussion, and action on the Fiscal Year 2024 Internal Audit Plan
8. Old business
9. Public comment*
10. Discussion and possible action on future meeting dates
11. Adjournment

Individuals who may require auxiliary aids or services for this meeting should contact Emily Crase at (512) 936-2942 or Emily.Crase@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. Crase 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
Honorable Ricardo Galindo III	02/01/2025	San Antonio
William Brown	02/01/2027	San Antonio
Elizabeth “Lisa” Maciejewski-West	02/01/2029	Horseshoe Bay
Gerald Ladner, Sr.	02/01/2027	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.



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2. Recognition and appreciation of Board Member, Tomás “Tommy” Gonzalez, whose term has expired.

Information

Stephen S. Vollbrecht, Executive Director, requests recognition and appreciation of Board Member, Tomás “Tommy” Gonzalez of El Paso, whose term has expired. Mr. Gonzalez will be succeeded by Elizabeth “Lisa” Maciejewski-West.

Action Required

No action required.



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3. Recognition and welcome of new Board Member, Elizabeth “Lisa” Maciejewski-West

Information

Stephen S. Vollbrecht, Executive Director, requests recognition and welcome of new Board Member, Elizabeth “Lisa” Maciejewski-West, replacing Tomás “Tommy” Gonzalez of El Paso, whose term has expired.

Action Required

No action required.



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4. 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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5. Approval of the minutes from the July 25, 2023, meeting

Information

Attached are the minutes from the July 25, 2023, meeting.

Action Required

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



**Minutes of the Public Meeting
on
July 25, 2023**

The following Board of Directors meeting was in-person with the option for members of the public to view the meeting through Zoom.

Board Members present via in-person were Lloyd Garland (Chair), Gerald Ladner, and Ricardo Galindo.
Board Members William Brown and Tomas Gonzalez were absent.

- Item 1. Board Chair Garland called the public meeting to order at 9:45 a.m. on July 25, 2023. Board Chair Garland recognized Members present. A quorum was established.
- Item 2. The Board acknowledged Board Member Gonzalez's previous absence. Board Chair Garland moved to accept the absence. Board Member Galindo seconded the motion, which carried without objection (3-0 vote).
- Item 3. Board Chair Garland asked for any comments or changes to the Minutes of the April 25, 2023, meeting. Hearing no changes, Board Member Ladner moved to accept. Board Member Galindo seconded the motion, which carried without objection (3-0 vote).
- Item 4. Agency Operations Report:

Stephen Vollbrecht (Executive Director and State Risk Manager) introduced the Agency Operations Report (AOR) highlighting the new RMIS implementation, activities during the last legislative session, insurance negotiations and development, continuity initiatives, including the Office's first cooperative continuity symposium, and training partnership with WorkCompCollege.com.

A brief recess was called for by Board Chair Garland at 9:56 a.m. due to technical difficulties. The meeting was resumed at 10:02 a.m.

Todd Holt (Deputy Executive Director) and Tawn Ihnen (Director of Project Management) presented an RMIS implementation project update, and a project monitor and control update. Mr. Holt introduced Shelby Hyman (Director of Agency Relations) to present for Agency Relations to update the Board on the status of training programs, the Statewide Continuity of Operations Planning (COOP) program development status, and Agency Relations outreach and YouTube analytics for top performing videos. Agency Relations onboarded a new Agency Liaison in Q3, who closely monitored legislative activities. The Executive Director, General Counsel, Chief Financial Officer, and Chief of Internal Operations were invited to testify at the legislature regarding bills relating to workers' compensation. Ms. Hyman also

notified the Board that McConnell Jones began the internal audit process for the department to further develop training and communications plans and strategies for the Office. The final report will be presented in the FY23Q4 board meeting.

Lydia Scranton (Chief of Internal Operations) introduced Linda Griffin (Director of Talent Management) who introduced new employees, provided a list of current vacancies, discussed turnover, and provided an update on recruitment efforts. Ms. Griffin also discussed Talent Management's plans for increased employee retention, including job shadowing opportunities and informational sessions. Ms. Scranton introduced Darwin Hamilton (Director of Financial Management and Chief Financial Officer) to present the FY23 Consolidated Budget and projection numbers. Ms. Scranton introduced Keith DeSpain (Director of Information Technology) who provided an update on department support with a focus on team changes, equipment status, software changes, Origami production support, and cybersecurity efforts. Mr. DeSpain also discussed Information Technology's ongoing collaboration with the Project Management team to support the State Agency RMIS License rollout project.

Mr. Vollbrecht introduced Mitchell Griffin (Director of Claims Operations), who presented on behalf of James Cox (Chief of Strategic Programs). Mr. Griffin introduced Chris Martin (Director of Enterprise Risk) to present an update on risk management visit counts and goals for the next fiscal year and the Statewide Insurance program. The Board had further questions regarding lines of insurance and the roles of brokers. Mr. Martin and Mr. Vollbrecht discussed the Office's approach to facing challenges in a volatile market, and educating client agencies so that they may make informed insurance decisions for their organization. Mr. Martin brought the Board's attention to page 16, section C of the AOR; "SORM's 201's approved and premiums paid YTD" metric, which should be changed from \$1,108,992, to \$970,534. Mr. Griffin then went on to provide an update on Claims Operations' active workload for Q3, and current workers' compensation claims with a breakdown of costs and claims per income benefit.

Mr. Vollbrecht introduced Deea Western (Chief of Legal Services and General Counsel), who presented information for Litigation Management on benefit dispute resolution, special investigations, and subrogation recoveries. Ms. Western then presented on behalf of Janine Lyckman (Director of Cost Containment) to provide an update on cost savings, network vs. non-network claim counts, preauthorization requests, and the pharmacy benefit management program. Ms. Western introduced Dayna Trotter (Director of Compliance Management) who then introduced Tshau Todman (Regulatory Liaison). Ms. Todman presented the Board with an update on regulatory compliance and audits. Ms. Trotter provided an update on contract administration activity. Ms. Trotter then introduced Jason Arrington (Policy Manager) to discuss the Office's efforts to update policies and procedures. Mr. Arrington also informed the Board of PowerDMS, the new software procured to house and develop future policies.

Having concluded the AOR, Mr. Vollbrecht inquired with the Board if a break would be needed before moving on to the next item. The Board requested the meeting continue.

Item 5. New Business:

5.1 Mr. Vollbrecht called Lydia Scranton (Chief of Internal Operations), and Darwin Hamilton (Director of Financial Management and Chief Financial Officer) to present the New Business agenda item to discuss and take action on Fiscal Year 2024 assessment totals. Mr.

Vollbrecht advised to strike the word, “remaining”, from the title of item 5.1. Board approval was requested for the recommended amounts for workers' compensation claims costs by Ms. Scranton and Mr. Hamilton. Board Member Ladner moved to accept the recommended amount, and Board Member Galindo seconded the motion. The motion carried without objection (3-0 vote). Board approval was also requested for the recommended amounts for risk management and workers’ compensation administration. Board Member Ladner moved to accept the recommended amount and Board Member Galindo seconded the motion, which carried without objection (3-0 vote).

5.2 Mr. Vollbrecht called Deea Western (Chief of Legal Services and General Counsel) to address New Business Item 5.2. Ms. Western explained that the Office’s contract with McConnell Jones for internal audit services will be expiring on or about August 31st, 2023. Staff requested delegated authority for the Executive Director to negotiate and enter into a primary contract, and one or more contingent contracts, for internal audit services. Board Member Ladner moved to accept staff’s request, and Board Member Galindo seconded the motion, which passed without objection (3-0 vote).

5.3 Board Chair Garland called the Board into Executive Session at 11:19 a.m., pursuant to Section 551.074, Government Code, to discuss the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.

5.4 Board Chair Garland reconvened in Open Session at 11:43 a.m. for possible action on matters considered in Executive Session. Board Member Ladner discussed an evaluation of the Office’s Executive Director and made a motion to increase the Executive Director’s salary to \$155,068 for FY2024. Board Member Galindo seconded the motion, which passed without objection (3-0 vote).

Item 6. Old Business: None

Item 7. Public Comment: None

Item 8. Discussion and Possible Action on Future Meeting Dates:

After discussing scheduling preferences, the Board selected October 17th, 2023, as their primary choice, with October 3rd, 2023, being the secondary.

Item 9. Adjourn Meeting: Board Chair Garland adjourned the meeting at 11:48 a.m.



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6. 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 FY23Q4 TO THE SORM BOARD OF DIRECTORS

October 17, 2023



EXECUTIVE ADMINISTRATION

EXECUTIVE OFFICE

I. RMIS UPDATE

The new RMIS was successfully rolled out to external clients over the Labor Day Weekend by Project Management and Information Technology. This represents one of the largest and most complex technology initiatives ever undertaken by the Office. With the completion of Phase (1) Claims, the next phases include (2) Vendor Management; (3) Risk Management; (4) Continuity; (5) Agency Records/Reporting; (6) Additional APIs; and (7) Ongoing In-House Development.

II. INSURANCE NEGOTIATIONS UPDATE

The Office continues to be heavily involved in the Automobile and D&O program development and negotiations. Additional advisory calls and market negotiations are being scheduled over the coming months, with multiple partners exploring all available alternatives.

III. INTERNAL AUDIT

We would like to thank our Internal Audit partners for their efforts over the last year in both their follow-ups and the new audit of the Agency Relations section. This year's efforts provided us an opportunity to dive deeply into our processes and to imagine a new future. Our Director of Agency Relations will be available to discuss some very exciting developments on this later in the meeting.

IV. SUCCESSION PLANNING INITIATIVE

Pursuant to direction of the Board, the agency has undertaken a comprehensive succession planning initiative. All leadership has been asked to submit a minimum of three levels of successors and delegates, which will drive additional cross-training and which will also be incorporated into our continuity plan.

V. CATASTROPHIC CLAIMS INITIATIVE

The Director of Claims Operations, in conjunction with multiple other departments, has initiated a new process and expert team to flag and address catastrophic claims immediately on receipt. The process mirrors our efforts in fatality claims, with an emphasis on medical services and care.

VI. GOVERNANCE MANUAL UPDATE

In the coming weeks the board will be provided an updated revision of the current Board Governance and Policy Manual for review. This revision will contain substantive changes from statutory or administrative requirements, as well as procedural or policy matters established by the board.

PROJECT MANAGEMENT

I. RMIS IMPLEMENTATION PROJECT UPDATE

A. PROJECT EXECUTION

The Project Management (PM) team completed three implementations this quarter. Work continues daily to enhance the Origami system for SORM staff and the new external users. PM staff are also working with Origami to strategically scope and plan the remaining phases of the Origami migration project.

B. PROJECT MONITOR AND CONTROL

PM staff are using the Project Monitor and Control Process to actively manage scope, budget, and timelines in a consistent and measurable framework.

In addition to the Origami migration, PM facilitates, monitors, and reports on project activity across the agency. The SORM project activity statistics are presented below. Overall, project numbers remain consistent with the prior quarter.

Quarterly Statistics by Status

		Opened	Complete	Withdrawn	In Progress	On Hold	Pending Approval	Not Started
2019	Prior to FY20Q1	7	0	1	1	0	0	0
FY20	Q1	56	6	9	4	8	0	1
	Q2	23	24	0	0	1	1	0
	Q3	21	17	1	1	1	0	0
	Q4	7	17	1	0	1	1	1
FY21	Q1	21	9	9	1	2	0	1
	Q2	9	7	0	1	0	2	1
	Q3	9	8	0	1	1	0	0
	Q4	13	10	1	0	0	0	0
FY22	Q1	4	5	0	0	1	0	1
	Q2	6	2	0	1	2	0	0
	Q3	8	14	0	2	0	0	0
	Q4	13	7	0	11	0	0	0
FY23	Q1	2	9	0	0	0	0	1
	Q2	3	1	0	1	0	1	0
	Q3	4	3	0	3	0	0	0
	Q4	4	3	0	4	0	0	0
	TOTAL	206	139	22	28	17	5	6

Quarterly Statistics by Category

		External Audit Finding	Legislative Requirement	New RMIS	SORM Must Have	Other
FY19	Prior to FY20Q1	2	1	1	2	1
FY20	Q1	3	12	9	13	19
	Q2	0	2	0	12	9
	Q3	1	1	14	3	2
	Q4	0	0	3	1	3
FY21	Q1	0	1	6	5	9
	Q2	0	1	3	4	1
	Q3	0	0	5	3	1
	Q4	0	1	10	2	0
FY22	Q1	0	0	3	1	0
	Q2	0	0	3	0	3
	Q3	0	1	6	1	0
	Q4	0	1	5	3	4
FY23	Q1	0	1	1	0	0
	Q2	0	0	0	3	0
	Q3	0	0	4	4	2
	Q4	0	0	5	3	3
	TOTAL	6	22	74	56	55

AGENCY RELATIONS

I. TRAINING

During FY23Q4, Agency Relations welcomed six new employees to the Office. McConnell Jones completed the internal audit for the department to help further develop the training and communications plans and strategies for the Office. Based on their recommendations, Agency Relations staff began initial discussions and are currently building frameworks for internal and external training and internal and external communications.

Training participation increased for both instructor led and self-paced training. Texas Parks and Wildlife Department held summer training for their employees which impacted instructor led training. Many agencies are finding it easier to complete the self-paced driving safety training. In addition, Agency Relations worked with Project Management to create self-paced training prior to the launch of the new RMIS for agency claims coordinators. Training for the new RMIS will continue to be available for new users on the LMS.

Instructor Led Agency Training for FY23Q4

Course Name	Classes Taught	Students
15 Passenger Van Safety	1	12
Driving Safety	4	19
Additional Duty Safety Officer	4	397
Office Safety	1	10
Slips, Trips, and Falls	2	55
Heat Safety	1	38
TOTAL	13	521

Self-Paced LMS Training FY23Q4

Virtual Course Name	Students
Driving Safety	459
Workers' Compensation Claims Coordinator Training	39
New RMIS: Part 1 – Getting Started	134
New RMIS: Part 2 – Claims and Incidents	111
New RMIS: Part 3 – Adding Documents to a Claim	99
New RMIS: Part 4 – Additional Training	62
TOTAL	904

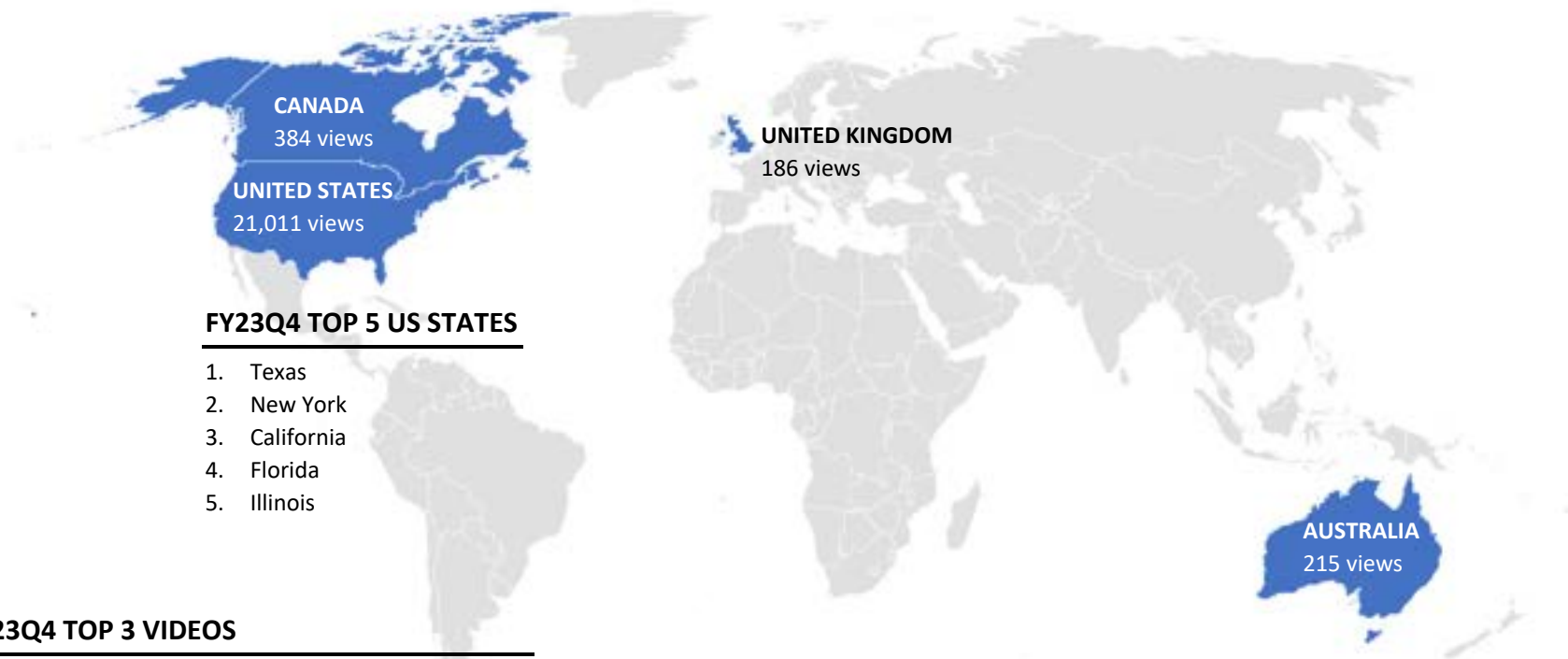
II. STATEWIDE CONTINUITY OF OPERATIONS (COOP) PROGRAM

In cooperation with the Continuity Council and Institute for Homeland Security at Sam Houston State University, SORM hosted the inaugural SORM Symposium, *Resilience in the Workplace*, in the Woodlands from August 2-4, 2023. The event consisted of presentations by agencies from several levels of government on topics including continuity, emergency management, and cybersecurity. Over 70 participants attended and networked during the event, further strengthening the continuity community. The Symposium was a success and SORM is exploring requests to expand this to an annual event.

FY23Q4 COOP Activity

Plans Evaluated	7
Exercises Evaluated	3
Outreach/Presentations	10
Individual Consultations	6
Continuity Council and Committee Meetings	18

YOUTUBE ANALYTICS



FY23Q4 TOP 5 US STATES

1. Texas
2. New York
3. California
4. Florida
5. Illinois

FY23Q4 TOP 3 VIDEOS

How to Survive an Active Shooter	12,936 views
How to Prevent Heat-Related Illness	6,774 views
Same Level Slips, Trips, and Falls	2,253 views

FY23Q4 TOTAL

Total views	27,049
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INTERNAL OPERATIONS

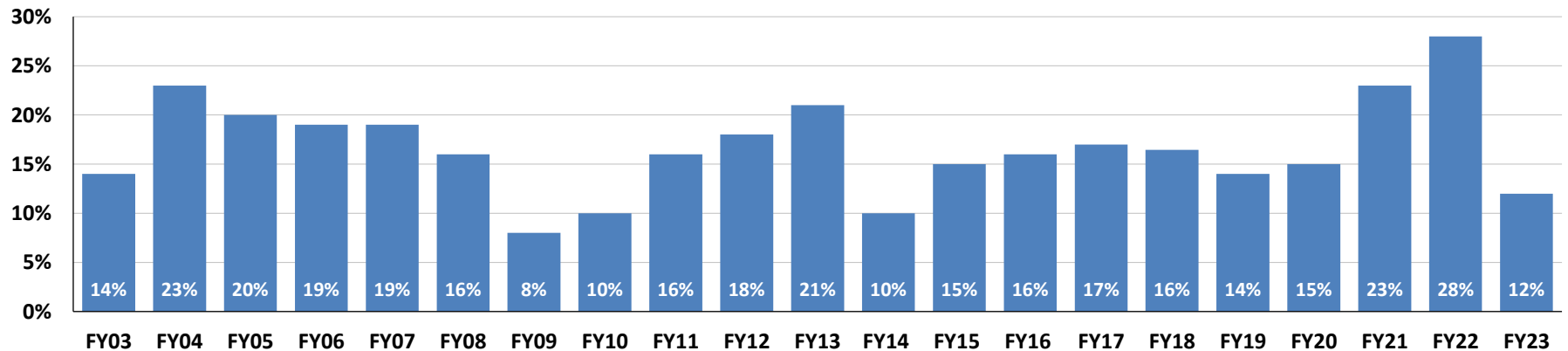
TALENT MANAGEMENT

New Hires	Vacancies
Theresa Birdwell, Receptionist	Senior Claims Adjuster (3)
Katy Eliassen, Claims Adjuster	Contract Manager
Anthony Valva, Online Content Developer	Compliance Specialist
	Legal Assistant
	Claims Adjuster

Recruitment Efforts

	July	August	September
Agency Web Site - Internet	67	86	38
College/University Career Day	3	1	0
Human Resource/Personnel Office	2	2	4
Job Board	46	72	33
Job Fair	5	2	1
Other	31	8	2
Other State Employees	7	13	9
Professional Publication	0	0	0
Recruitment Poster	0	0	0
Social Media	2	5	0
TOTAL	163	189	87

Annual Turnover Rates



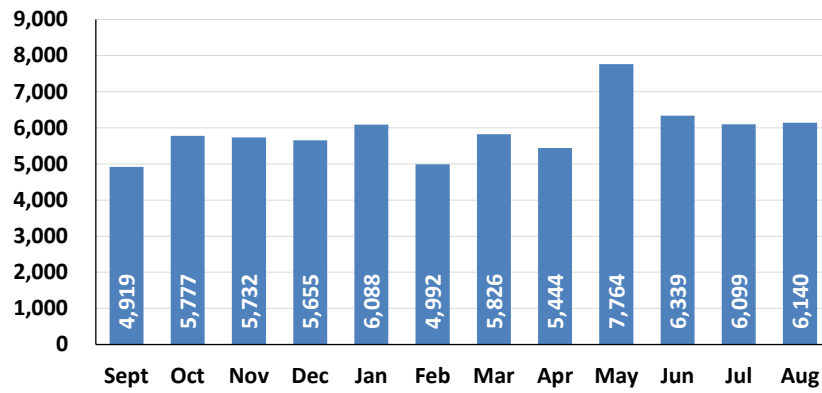
FINANCIAL MANAGEMENT

FY23 AGENCY (CONSOLIDATED) BUDGET AUGUST 31, 2023

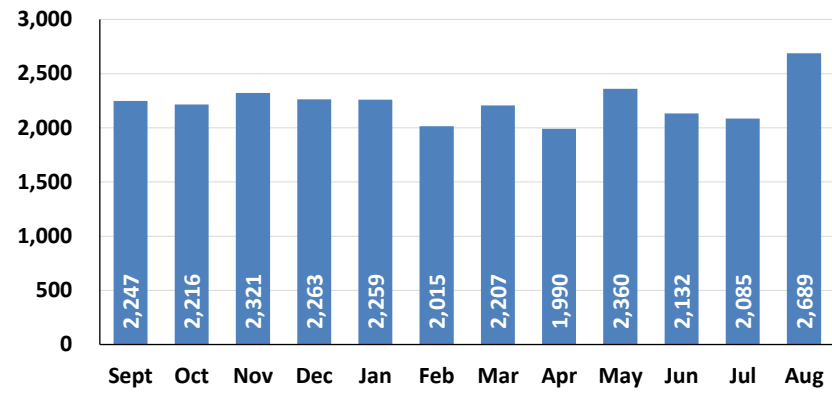
Objects of Expense	Initial Budget:	Adjustments Transfers (+ In, - Out)	Revised Budget:	Expenditures Year to Date @ 8/31/23	Encumbrances @ 8/31/23	Remaining Budget @ 8/31/23	Unpaid Expenses Incurred	Percent of Budget Expended/Incurred	Percent of Fiscal Year Elapsed
Salaries & Wages	7,557,391	1,000,000	8,557,391	6,724,224	0	1,833,167	675,229	86.5%	100.0%
Other Personnel Costs	250,000	545,021	795,021	207,054	0	587,967	0	26.0%	100.0%
Professional Services	1,650,000	0	1,650,000	1,149,280	88,806	411,914	0	69.7%	100.0%
Consumable Supplies	35,547	0	35,547	25,325	25	10,197	0	71.2%	100.0%
Utilities	5,637	0	5,637	6,632	5,743	(6,738)	0	117.7%	100.0%
Travel	135,000	0	135,000	54,616	30	80,354	0	40.5%	100.0%
Rental of Space	720	0	720	720	0	0	0	100.0%	100.0%
Rental of Equipment	24,000	0	24,000	17,799	6,194	7	0	74.2%	100.0%
Operating Costs	1,796,450	57,991	1,854,441	1,587,205	844,129	(576,893)	0	85.6%	100.0%
Capital Expenditures	0	0	0	0	0	0	0	0.0%	100.0%
TOTAL	11,454,745	1,603,012	13,057,757	9,772,855	944,927	2,339,975	675,229	80.0%	100.0%

Objects of Expense	Initial Budget:	Adjustments Transfers (+ In, - Out)	Revised Budget:	Expenditures Year to Date @ 8/31/23		Remaining Budget @ 8/31/23		Percent of Budget Expended/Incurred	Percent of Fiscal Year Elapsed
Indemnity	19,390,817	0	19,390,817	17,788,007		1,602,810		91.7%	100.0%
Medical	21,176,933	0	21,176,933	17,258,916		3,918,017		81.5%	100.0%
Total Exps.	40,567,750	0	40,567,750	35,046,923		5,520,827		86.4%	100.0%
Subrogation and Restitution	(567,750)	0	(567,750)	(766,171)		198,420		134.9%	100.0%
NET TOTAL	40,000,000	0	40,000,000	34,280,753		5,719,247		85.7%	100.0%

Medical Bills Processed FY23
Total 70,775



Indemnity Bills Processed FY23
Total 26,784



INFORMATION TECHNOLOGY

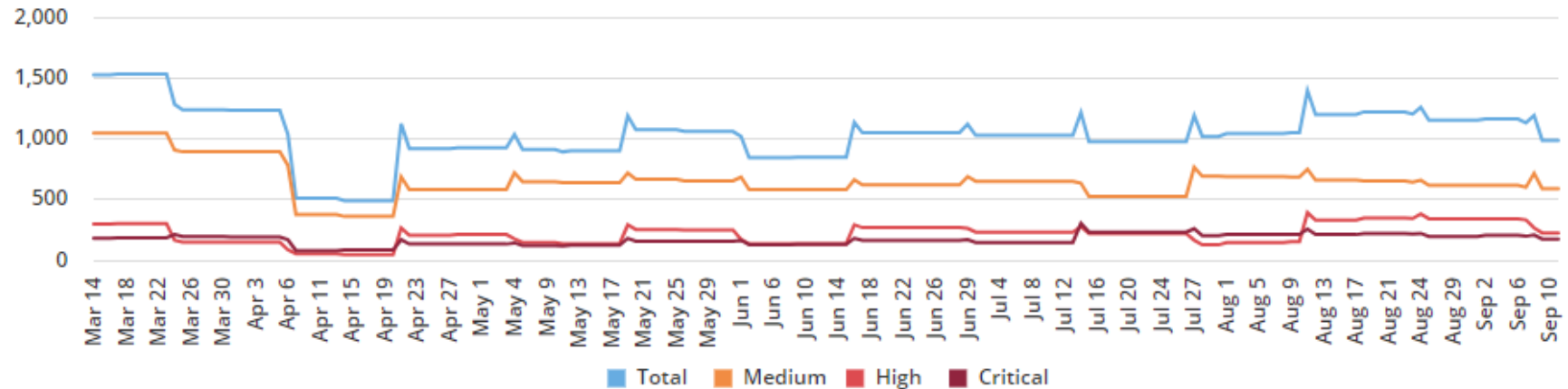
I. ONGOING AGENCY SUPPORT

Information Technology (IT) continues to support agency operations through infrastructure support, processing, and reporting. Significant areas of activity in FY23Q4 include:

Area	Task
Team Changes	<ul style="list-style-type: none">• Stable
Equipment – Servers, desktops, laptops, and peripherals	<ul style="list-style-type: none">• Replaced malfunctioned parts for servers and workstations.• Manage and support servers and PC infrastructure.• Continuous troubleshooting of reported user issues with all SORM equipment.• Secured and began deployment of new laptops for our FY23 budgeted PC refresh for SORM employees.
Software changes (mainframe, web, client/server, and PC applications)	<ul style="list-style-type: none">• Continued adapting and integrating our applications with Origami and the new CAPPS Financial system.• Continued software changes and process improvements for SORM internal applications supporting business process changes.• Origami Production Support.<ul style="list-style-type: none">○ Created and deployed applications to facilitate the Finance team’s bi-annual assessment process and monthly Health Care Network invoice process.○ Created and deployed data repository to support our Cost Containment team in researching historical medical bill data.○ Created and deployed an application to increase efficiency in exporting data from SORM to the Comptroller for the payments of our claims and medical bills.○ Continue daily monitoring of our production environment and address issues that materialize.○ Providing IT support to SORM business units.○ Providing customer service to our State Agencies creating, and distributing ad hoc, weekly, monthly, and quarterly reports.○ Supported the Project Management Team in successfully implementing the New RMIS system to our State Agencies.○ Expanded the role of our Service Desk support to manage issues identified by our new State Agency users.
Cybersecurity	<ul style="list-style-type: none">• Continuous monitoring for vulnerabilities within SORM computers and servers.<ul style="list-style-type: none">○ Installing updates on computers and servers to address vulnerabilities and comply with cybersecurity standards.○ Completed the annual Cyber Security Training requirements for the State of Texas.○ Submitted the annual Cyber Security Training Certification to the Department of Information Resources as required under Texas Government Code Sections 2054.5191 and 2054.5192.

The graphs below show a historical view of vulnerabilities. The graphs analyze data over the past six months taking data points every 15 or 30 days. This method will show peaks in vulnerabilities as new events occur and when new scans are completed in the Security Center.

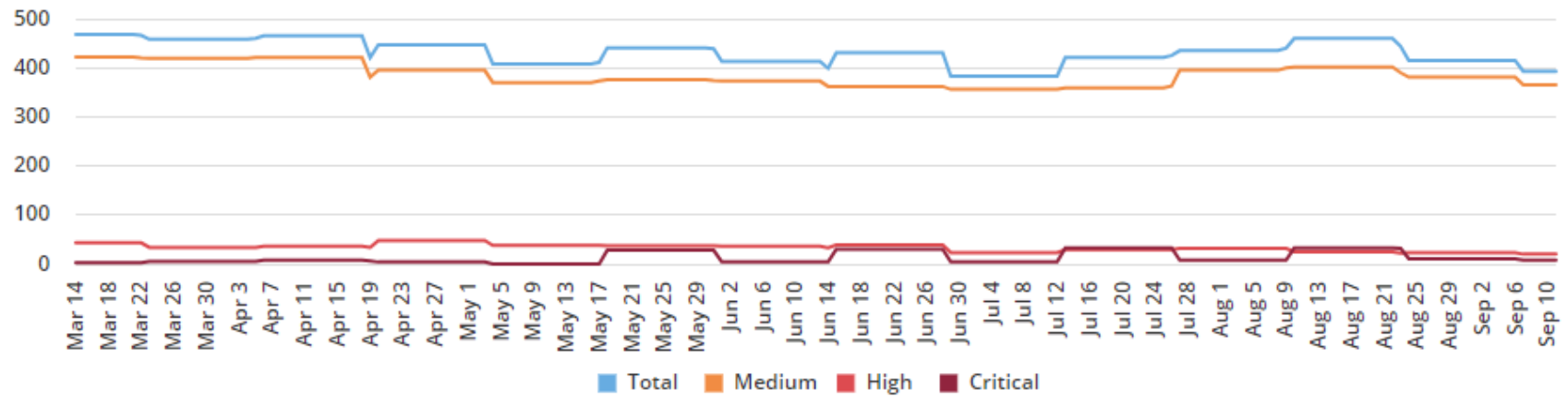
SORM Workstation Executive Summary, Vulnerability Trend (6 Months)



SORM Workstation Remediations for same period:

	Mitigated 0-15d	Mitigated 15-30d	Mitigated 30-60d	Mitigated 60-90d	Mitigated >90d
Total Vulnerabilities	49%	39%	5%	3%	3%
Exploitable Vulnerabilities	52%	44%	3%	0%	1%
Unsupported Product	87%	9%	3%	1%	1%
Critical	56%	39%	4%	1%	0%
High	45%	41%	5%	5%	3%
Medium	33%	18%	16%	6%	27%
Low	47%	40%	0%	0%	13%

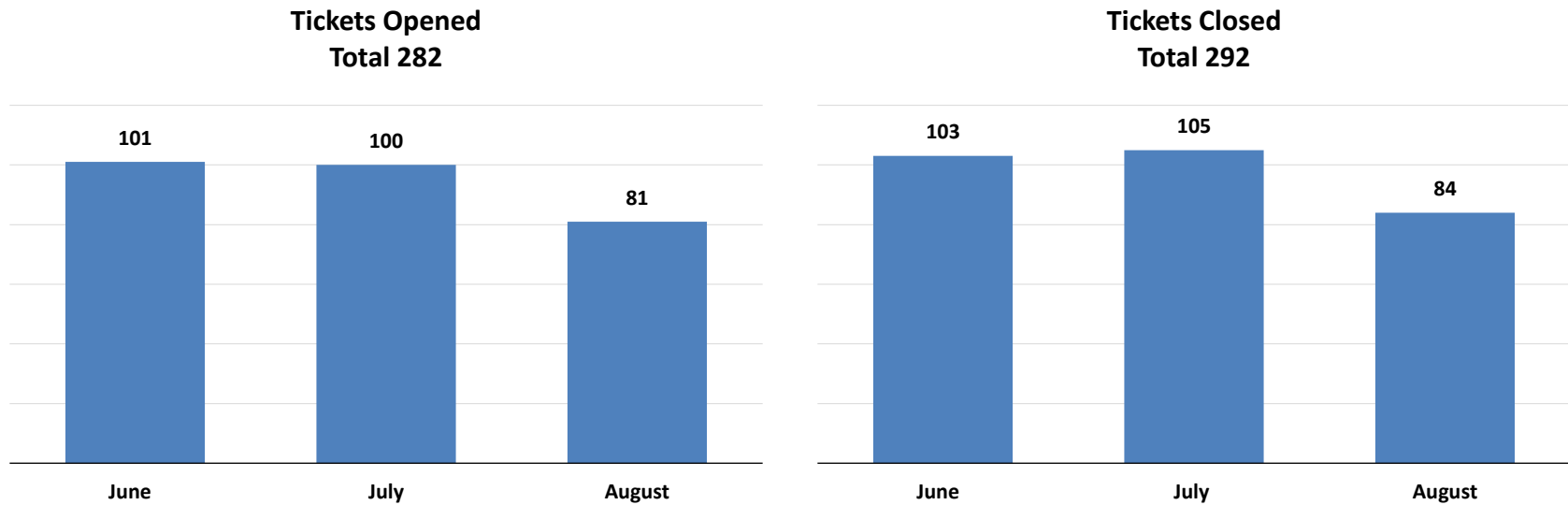
SORM Server Executive Summary, Vulnerability Trend (6 Months)



SORM Server Remediations for same period:

	Mitigated 0-15d	Mitigated 15-30d	Mitigated 30-60d	Mitigated 60-90d	Mitigated >90d
Total Vulnerabilities	59%	10%	7%	5%	19%
Exploitable Vulnerabilities	81%	5%	2%	0%	12%
Unsupported Product	28%	50%	7%	3%	13%
Critical	95%	5%	0%	0%	0%
High	62%	8%	10%	11%	10%
Medium	30%	25%	17%	7%	22%
Low	3%	0%	0%	7%	90%

FY23Q4 Service Desk Metrics



II. ANTICIPATED FY24Q1 ACTIVITY

In addition to routine support functions congruent with operations for the Office, we anticipate the following activities during FY24Q1 and beyond:

- A. Continue to expand the knowledge asset of our existing IT staff.
- B. Continue support our State Agency users in the New RMIS system.
- C. Support SORM business units in providing IT solutions to support their goals and objectives.
- D. Continue effort to create policies and procedures for the IT department.
- E. Identify FY24 annual Cyber Security Training agenda.
- F. Procure and deploy our FY24 budgeted PC replacement initiative.



STRATEGIC PROGRAMS

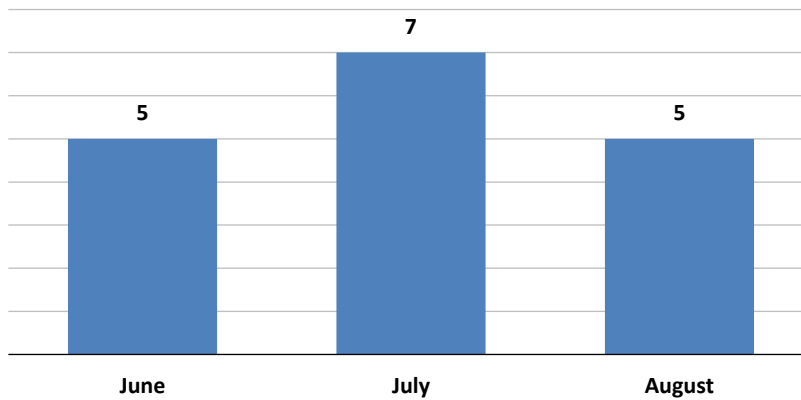
ENTERPRISE RISK

I. STATEWIDE RISK MANAGEMENT PROGRAM

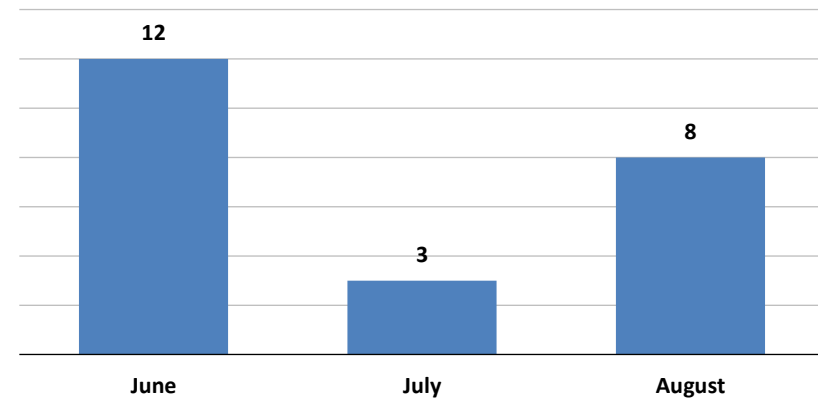
On-Site Consultations (OSCs) and Risk Management Program Reviews (RMPRs)

	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	
OSCs	33	31	21	15	22	33	34	18	19	9	3	1	104% of a goal of 229
RMPRs	0	0	1	1	0	3	3	3	1	3	3	7	100% of a goal of 25

Recommendations Given FY23Q4



Closed Recommendations FY23Q4

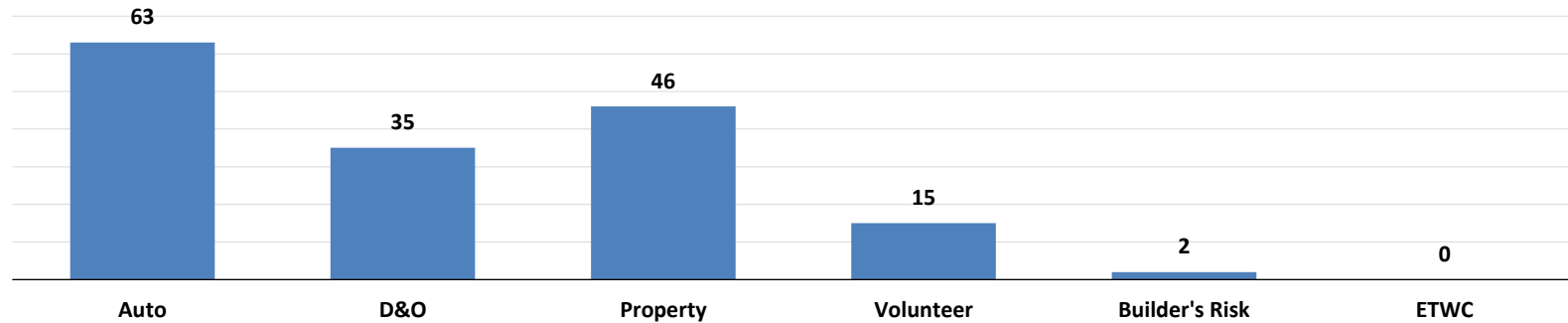


Category of Recommendations FY23Q4

COOP	1
Environmental	1
Insurance	3
Risk Management	6
Safety	2
Policy/Procedure/Training	4

II. STATEWIDE INSURANCE PROGRAM

A. PARTICIPANTS IN STATEWIDE INSURANCE LINES FY23Q4



B. MONITORING

- 462 notary applications were processed during FY23Q4

C. INSURANCE PURCHASES

- SORM 201s processed: 4
- SORM 201s approved, and premiums paid: \$122,869

SORM 201s FY23Q4

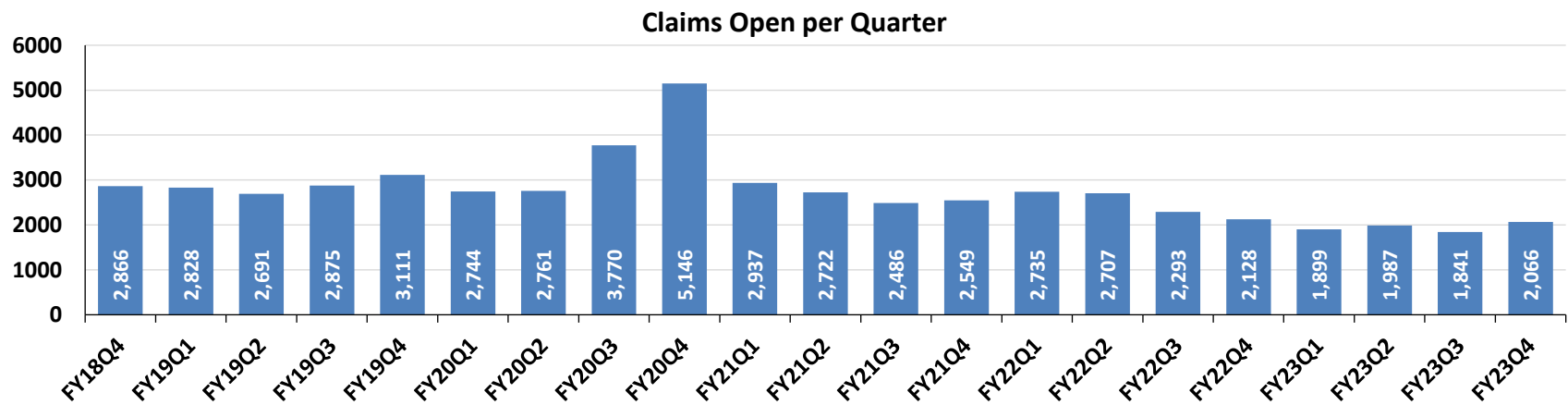
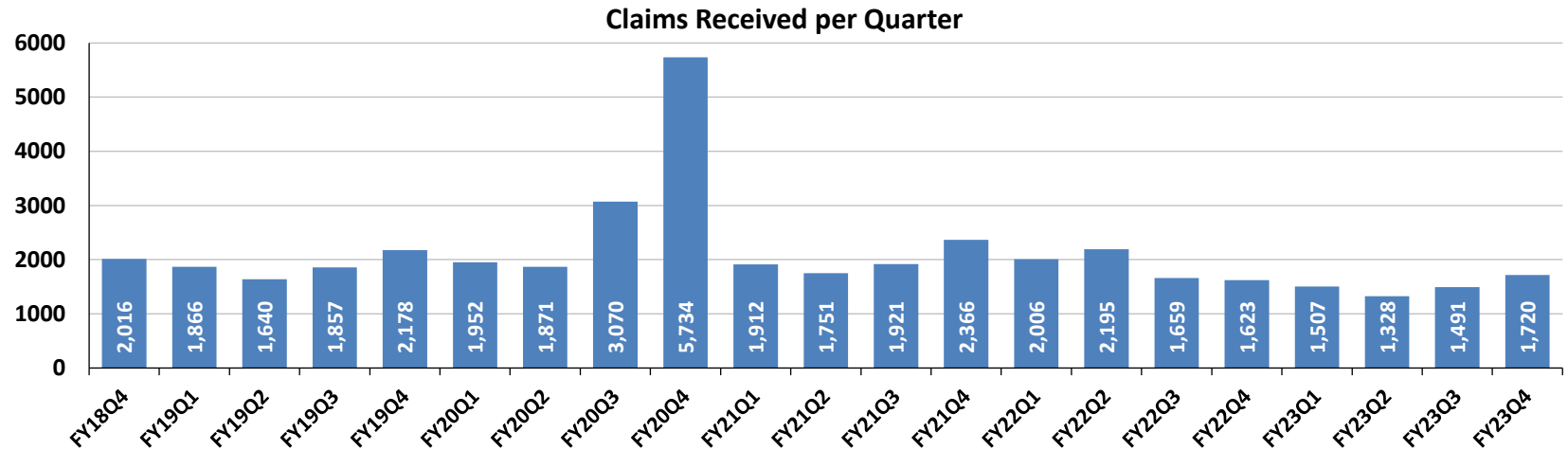
Line	Approved	Comments	Premium
Athletic Medical	Yes	This policy provides excess accident medical benefits for student-athletes who participate as a member of an intercollegiate athletic team in a scheduled game, official tournament, or practice session; or while traveling directly to or from such game, tournament, or practice session. The policy pays benefits for two years from the date of injury that occurs within the policy period.	\$67,000
Crime	Yes	This insurance protects the interest of the entity, in the event a financial loss is sustained due to employee theft, dishonesty, misappropriation of funds, embezzlement or computer fraud.	\$2,326
Medical Liability (students)	Yes	The purpose of liability insurance is to protect students from claims arising out of real or alleged malpractice when the injury claimed is the result of professional error, accident, or omission while participating in activities that are a part of and a requirement of the student's curriculum.	\$38,193
Hull P&I	Yes	Commercial Hull, Protection, and Indemnity (P&I) coverage protects the vessel owner against legal liabilities arising out of negligence in the operation of a vessel.	\$15,350
TOTAL			\$122,869

CLAIMS OPERATIONS

I. CLAIMS OPERATIONS ACTIVE WORKLOAD FY23Q4

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

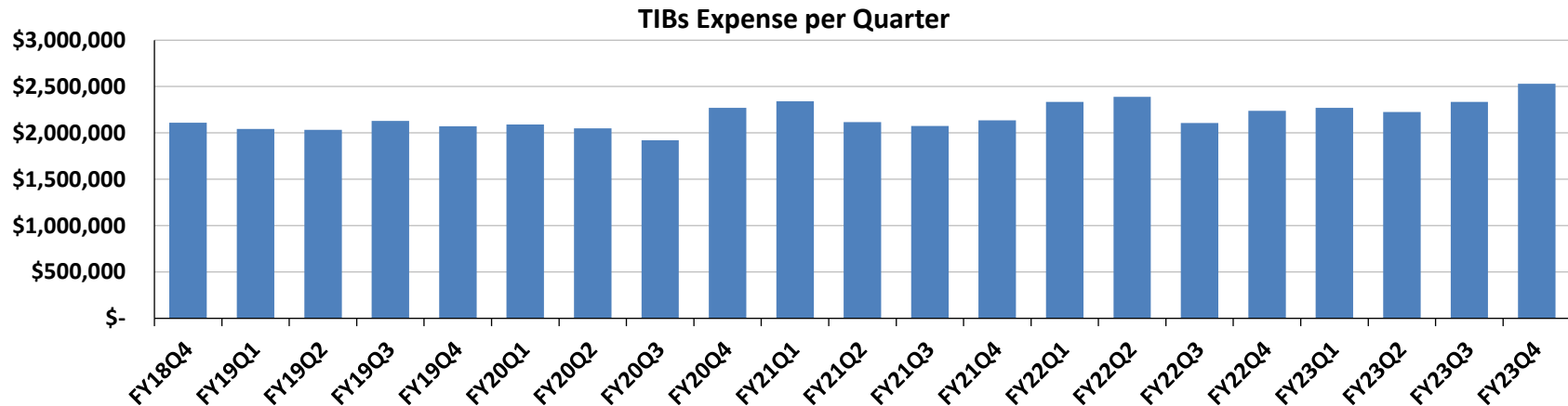
- A. SORM received 1,720 injury reports (claims) in FY23Q4, which is an increase from the number of injury reports received in FY23Q3 (1,491)
- B. 1,183 claims were accepted
- C. 2,325 claims were inactivated
- D. SORM had 2,066 open claims at the end of FY23Q4



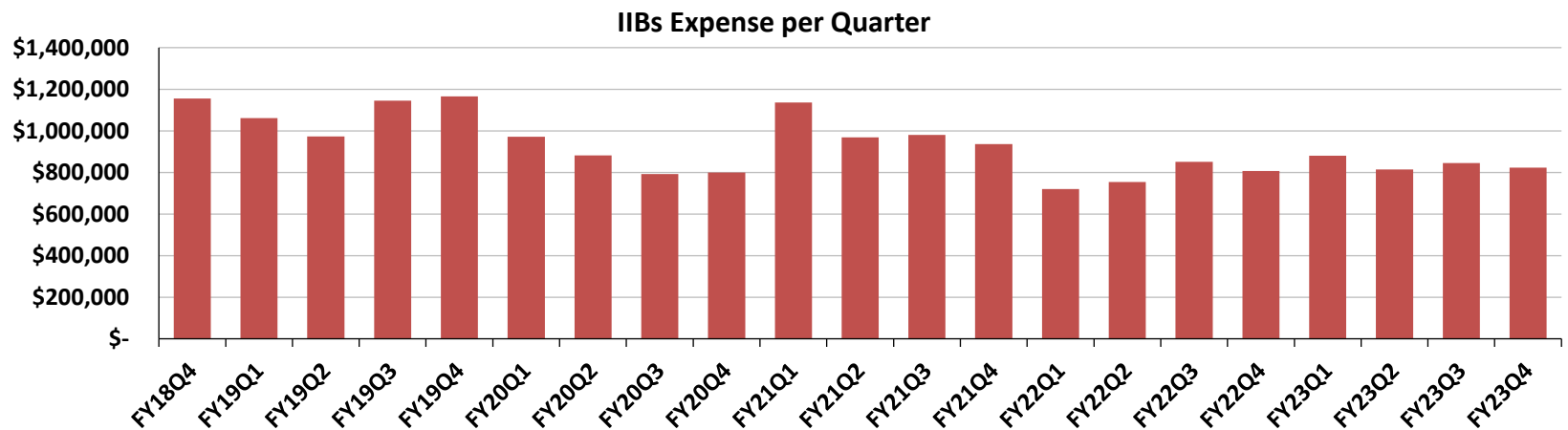
II. ANALYSIS OF INCOME BENEFITS EXPENSES FOR FY23Q4

- A. FY23Q4 reflects an increase in TIBs and a decrease in IIBs indemnity costs from FY23Q3
- B. TIBs payments were \$2,530,045 and IIBs payments were \$823,021 in FY23Q4
- C. At the end of FY23Q4, there were 484 TIBs, 141 IIBs, 25 SIBs with payment, 12 LIBs, and 107 DIBs claims open

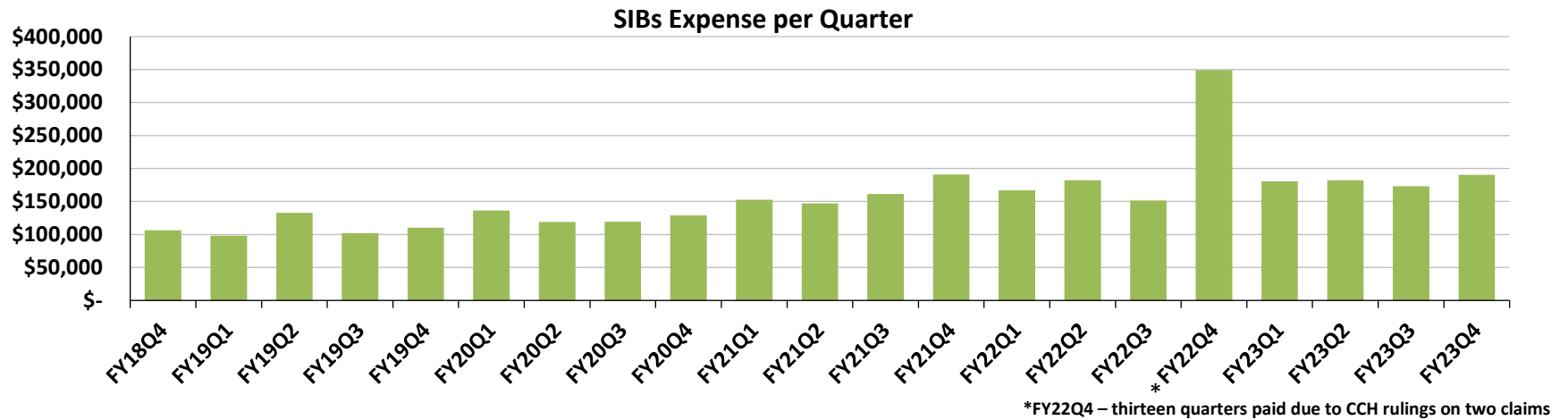
Temporary Income Benefits (TIBs) expenditures for FY23Q4 totaled \$2,530,045 on 484 claims



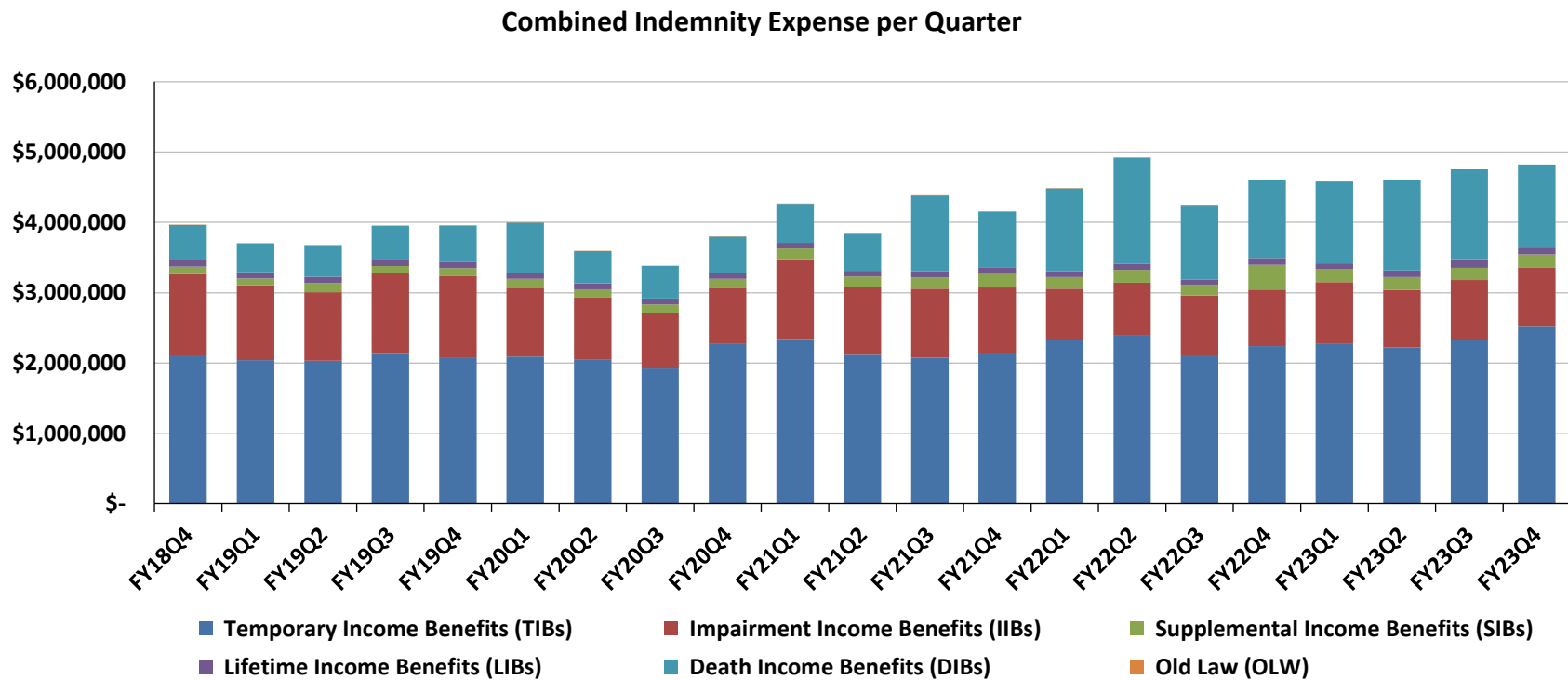
Impairment Income Benefits (IIBs) expenditures for FY23Q4 totaled \$823,021 on 141 claims



Supplemental Income Benefits (SIBs) expenditures for FY23Q4 totaled \$190,376 on 25 claims



Combined indemnity expenditures for FY23Q4 totaled \$4,831,251 on 769 claims





LEGAL MANAGEMENT

I. BENEFIT DISPUTE RESOLUTION FY23Q4

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

BRC Held/Reset	Proceeding to CCH	BRC Resolved by Agreement	3 Most Common BRC Issues
22	10	3	IR, MMI, EOI
CCH Held	Appealed to Appeals Panel	CCH Resolved by Agreement	3 Most Common CCH Issues
14	11	1	MMI, EOI, Compensability

II. SPECIAL INVESTIGATIONS

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

FY23Q4	Pending	Opened	Closed	Criminal/Administrative Referrals
Fraud Investigations	11	7	3	1 Report Only

III. RECOVERY SERVICES

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. If a TDI-DWC interlocutory order or decision is reversed or modified in SORM's favor, SORM can request reimbursement from the Subsequent Injury Fund for the overpayment of benefits.

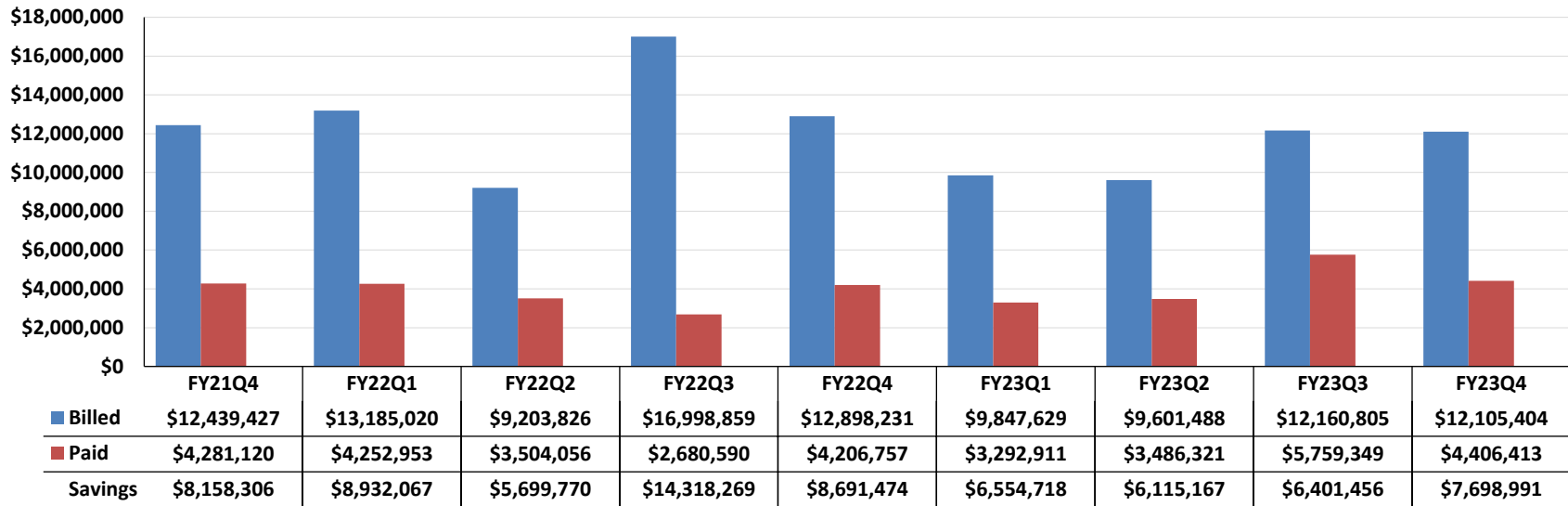
	FY23Q1	FY23Q2	FY23Q3	FY23Q4	Recovery Total to Date
Restitution	\$53	\$63	\$702	\$131	\$949
SIF	\$0	\$309,413	\$108,096	\$0	\$417,510
Subrogation	\$94,559	\$79,266	\$94,958	\$78,928	\$347,711
TOTAL	\$94,612	\$388,742	\$203,757	\$79,060	\$766,171

COST CONTAINMENT

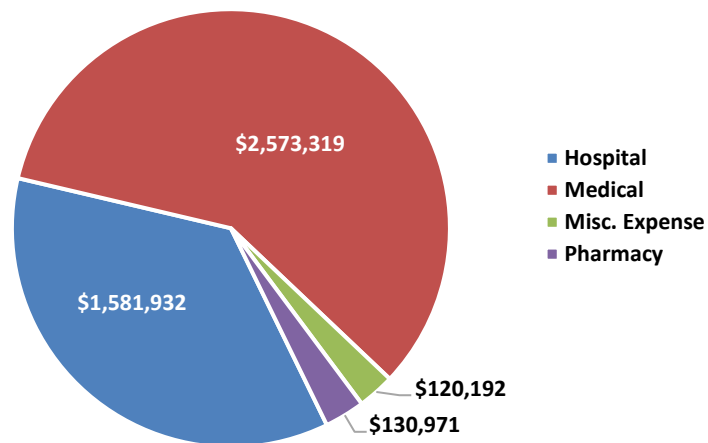
I. MEDICAL COSTS

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

Medical Cost Savings FY21Q4 - FY23Q4

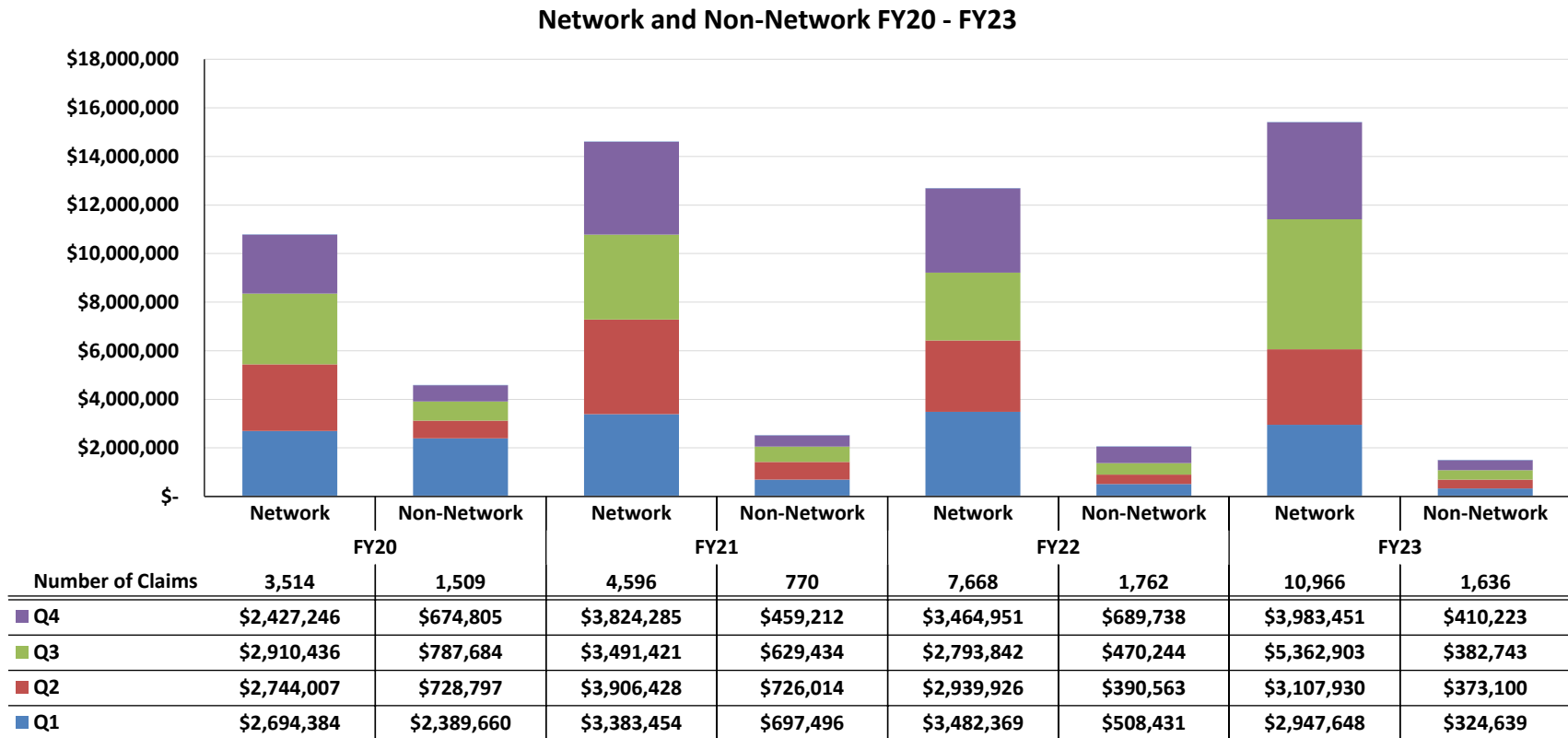


Medical Payments FY23Q4



II. NETWORK AND NON-NETWORK DATA

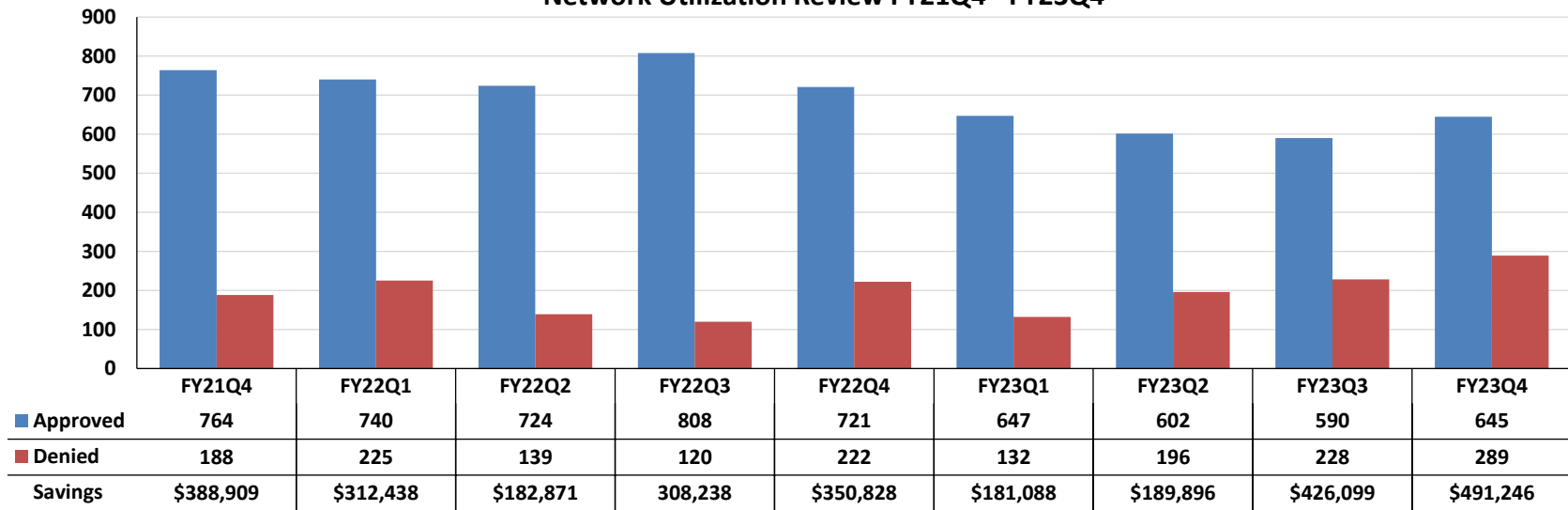
The following chart shows the number of network and non-network claims.



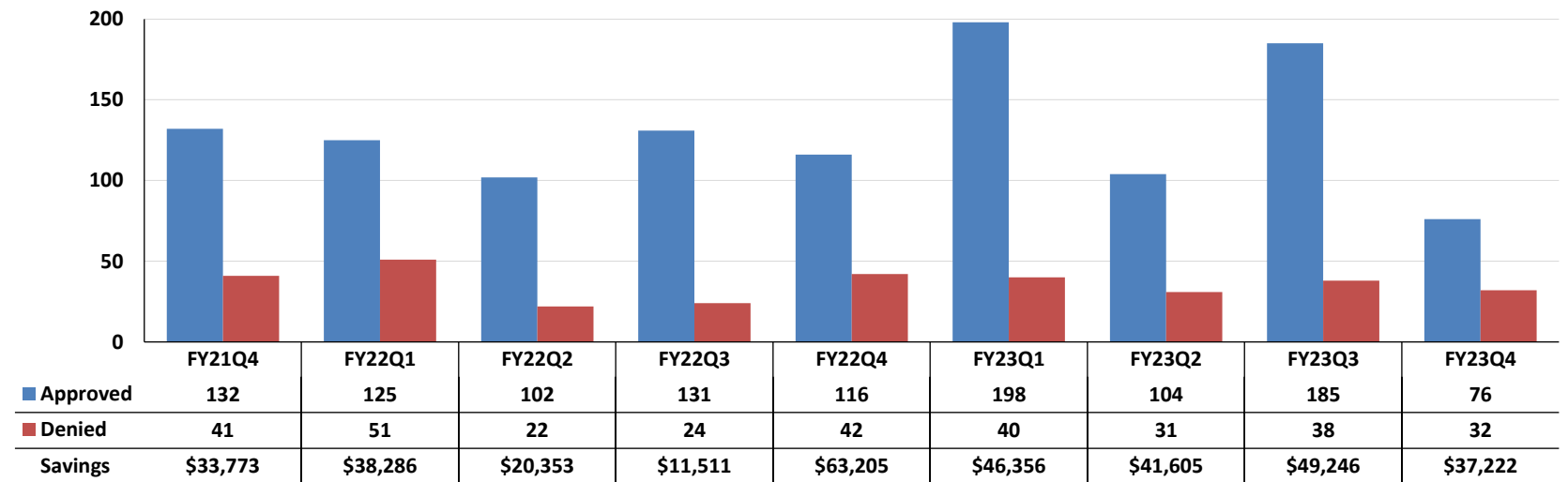
III. PREAUTHORIZATION

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

Network Utilization Review FY21Q4 - FY23Q4



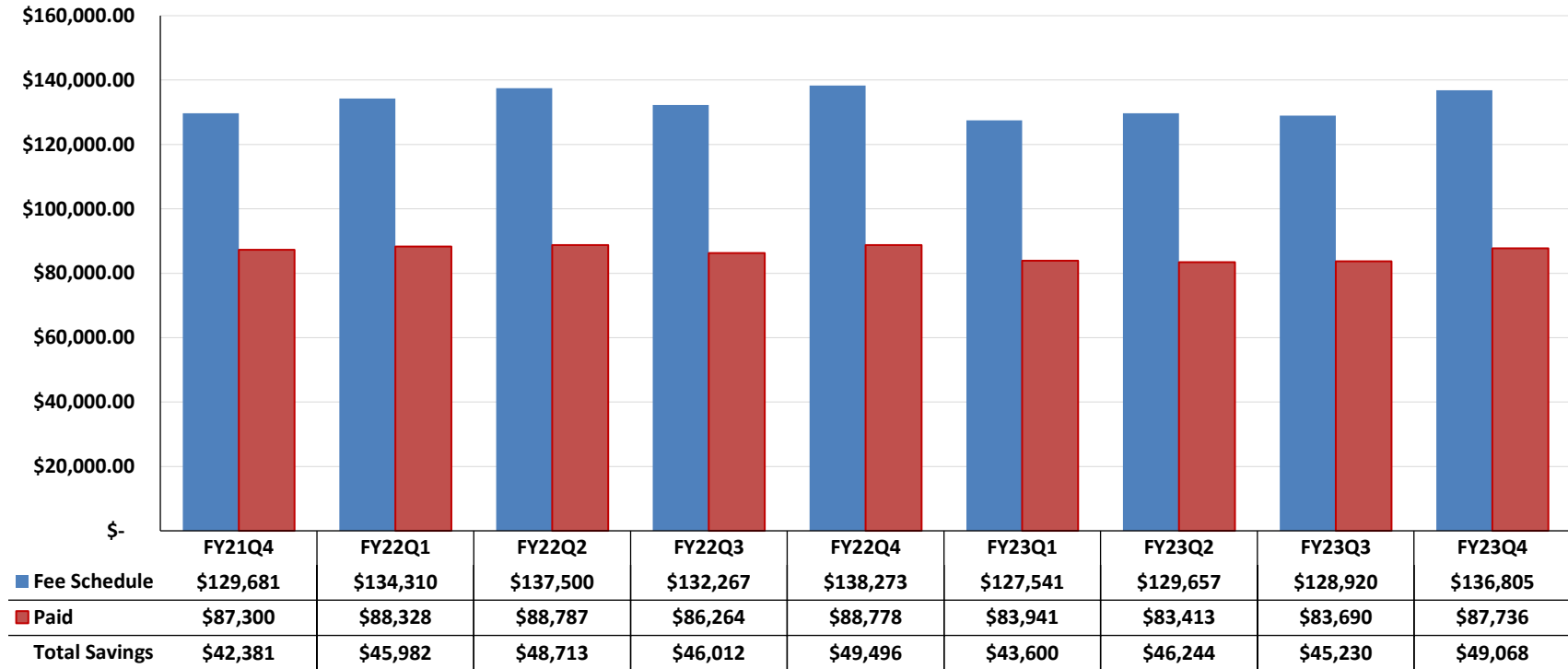
Non-Network Utilization Review FY21Q4 - FY23Q4



IV. PHARMACY BENEFIT MANAGEMENT

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

PBM Cost Savings FY21Q4 - FY23Q4



V. MEDICAL DISPUTE RESOLUTION FY23Q4

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	15 Non-Network MFDR Received
Medical Necessity Disputes	2 Non-Network IRO Received

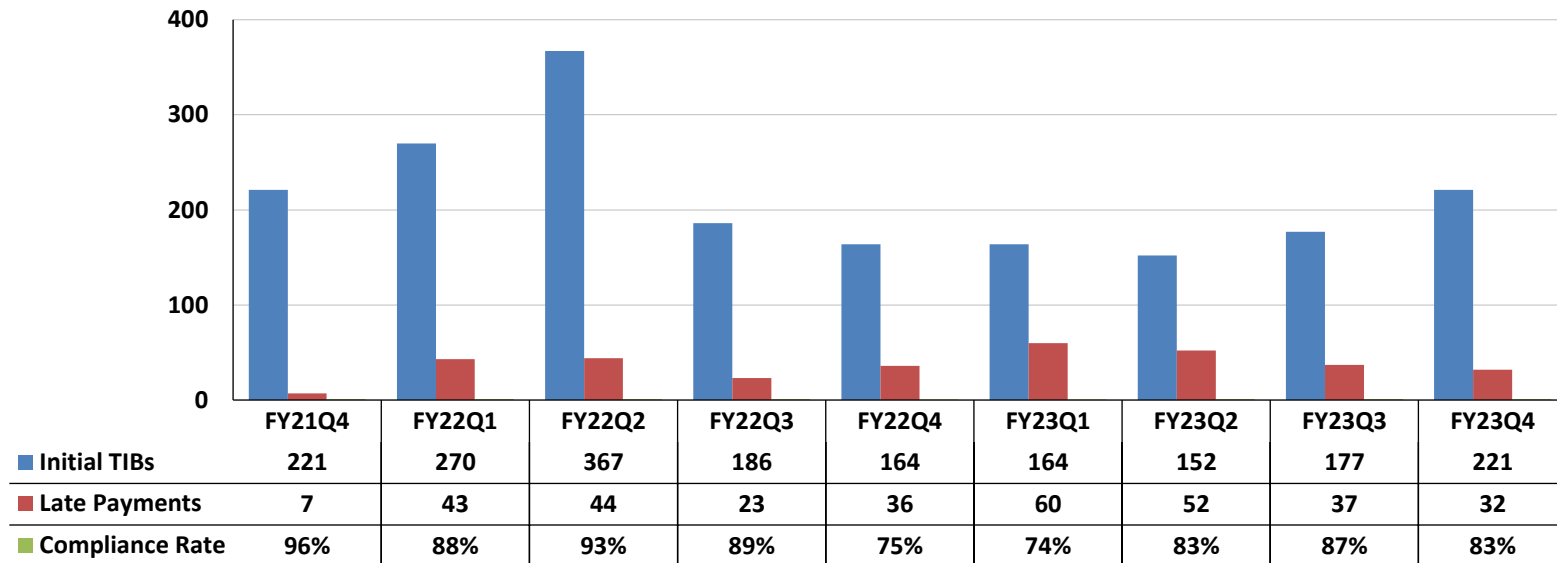
COMPLIANCE MANAGEMENT

I. REGULATORY COMPLIANCE

A. TEMPORARY INCOME BENEFIT AUDITS

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

Initial TIBs Compliance Rate & Late Payments



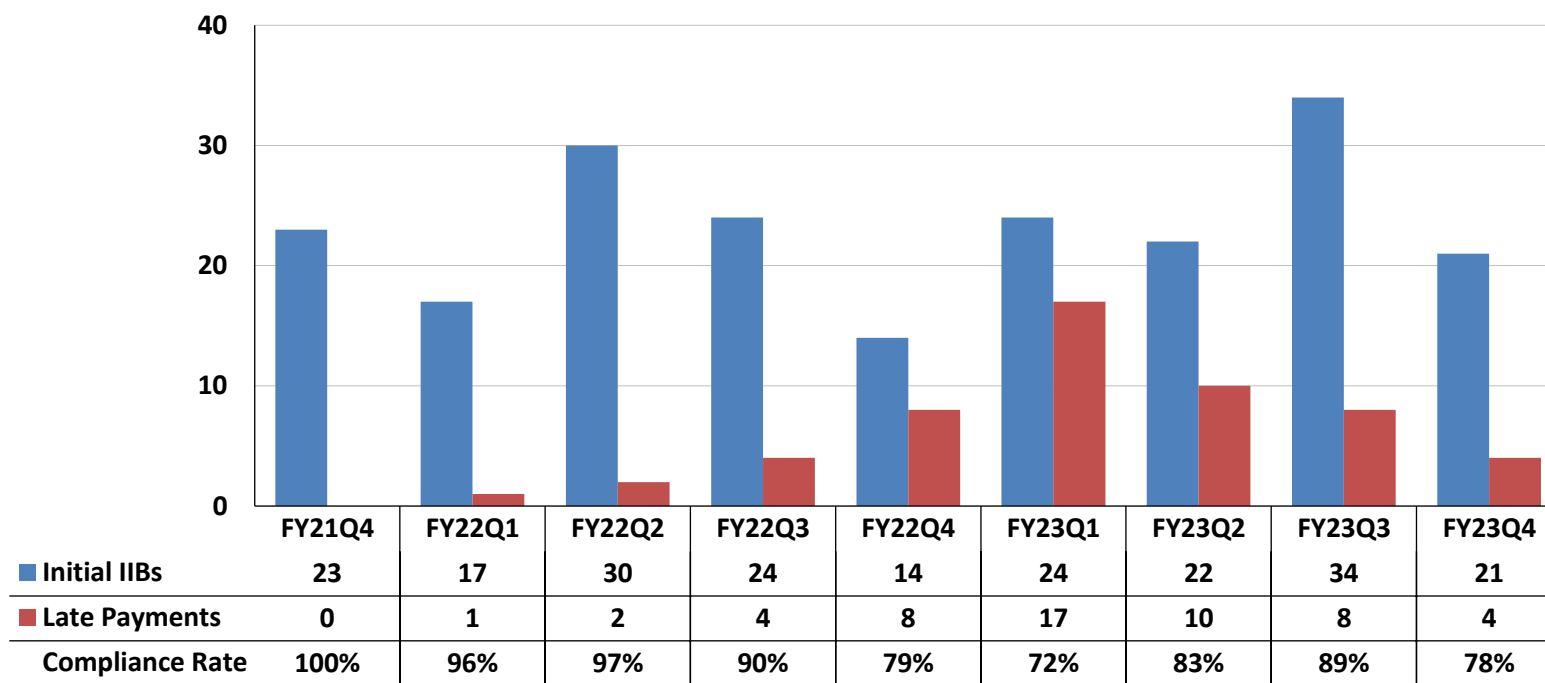
TIBs Late Payments FY23Q4

Carrier	21
Employer	10
Physician	1
No Fault/Misc.	0
System	0

B. IMPAIRMENT INCOME BENEFIT AUDITS

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

Initial IIBs Compliance Rate and Late Payments



IIBs Late Payments FY23Q4

Carrier	4
System	0
No Fault/Misc.	0

II. CONTRACT ADMINISTRATION

Area	Task
Policies & Procedures	<ul style="list-style-type: none">• Review• Stakeholder Meetings• Process Mapping• Update Policies & Procedures
Contract Oversight & Monitoring	<ul style="list-style-type: none">• Expenditure Request Tracking• Invoice Quality Assurance Review• Payment Approval Assistance
Vendor Performance Monitoring	<ul style="list-style-type: none">• Contact Verification• Certificates of Insurance• Cybersecurity Training• Business Owner Feedback
Vendor Performance Reporting	<ul style="list-style-type: none">• Annually• Renewal• Expiration

III. POLICY MANAGEMENT

Objectives	Status
Software	<ul style="list-style-type: none">• Complete
Structure	<ul style="list-style-type: none">• Complete
Content Analysis	<ul style="list-style-type: none">• Complete
One-on-Ones with Subject Matter Experts	<ul style="list-style-type: none">• On Task
Content Development	<ul style="list-style-type: none">• On Task
Content Review	<ul style="list-style-type: none">• On Task
Content Approval	<ul style="list-style-type: none">• On Task
Publish Content	<ul style="list-style-type: none">• Pending
Content Acknowledgement	<ul style="list-style-type: none">• Pending
Form Development	<ul style="list-style-type: none">• Pending
Update Process	<ul style="list-style-type: none">• Pending
Review Process	<ul style="list-style-type: none">• Pending



State Office of Risk Management

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(512) 475-1440, FAX (512) 370-9025 / WWW.SORM.TEXAS.GOV

7. New business

7.1 Presentation, discussion, and action on the Fiscal Year 2023 Internal Audit Report

Information

Board Member Ladner, and/or representatives of the agency's audit contractor, will present the final report for Fiscal Year 2023.

Action Required

The Chair may entertain motions for consideration and acceptance.



State Office of Risk Management

Internal Audit Services

FY 2023 Annual Internal Audit Report

Prepared by:



McConnell Jones

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X. SIGNIFICANT INTERIM CHANGES	11



McConnell Jones

October 17, 2023

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 2023 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 2023 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 2023 is due November 1, 2023.

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

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 2023 INTERNAL AUDIT PLAN STATUS

The fiscal year 2023 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 2023 Annual Internal Audit Plan was completed as approved. The chart below reflects the approved audit plan status as of August 31, 2023.

Fiscal Year 2022 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1					
2	Prior Cyber Findings Follow-Up	23-002	June 29, 2023	Report on Prior Cyber Findings Follow-Up	Completed
3	Follow-Up on Open Audit Findings				
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 2023 Plan:

There were no deviations from the FY2023 Annual Internal Audit Plan.

III. AGENCY RELATIONS AUDIT REPORT SUMMARY

The objective of this audit was to determine the efficiency and effectiveness of SORM's Agency Relations Department. The audit focused on the following areas:

- Internal Professional Development and Training.
- External Communications.
- Internal Communications.

Continuity of Operations (COOP) will be addressed in a separate audit and consequently was not a part of this audit. Additionally, Board Member training was not included in the scope of this audit.

SORM's Agency Relations Department protects, enhances, and builds SORM's reputation through media, social media, or self-produced communications. The Agency Relations Department's mission is to build credibility and trust, both internally and externally, by sharing expertise in the four key areas of SORM:

1. risk management,
2. continuity of operations,
3. insurance services, and
4. workers' compensation.

Organization and Staffing

The Agency Relations Department grew from a one-person department responsible for training to an eight-person department responsible for internal and external training programs and workshops, writing news events and reports, and preparing supplemental communications. The department's structure was revised to the current model in 2015. **Exhibit 1** provides the organizational structure of SORM's Agency Relations Department.

AGENCY RELATIONS ORGANIZATION CHART

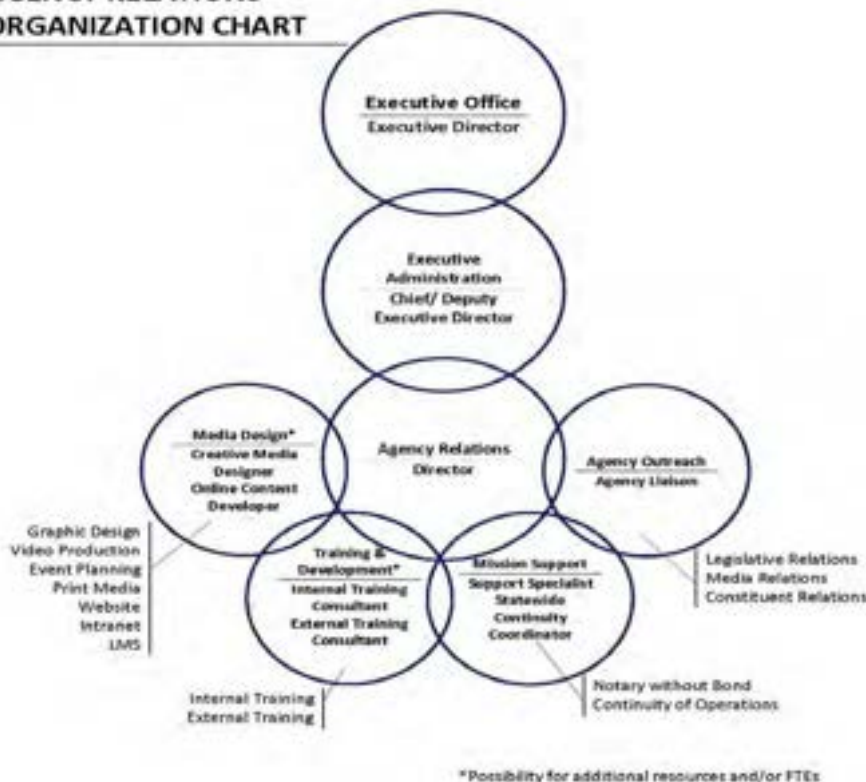


Exhibit 1: *SORM Agency Relations Department Organization Structure.*

The Agency Relations Department is led by a director who reports to the Deputy Executive Director of SORM. The Agency Relations Department does not have a second person in command. The department's oversight and direction are solely the responsibility of the Director. Consequently, this vital function is vulnerable if the Director, for some reason, is not available. Additionally, the absence of a second in command compromises the span of control due to the complexity of the deliverables. If all staff members were consistently performing the same job, then it would be easier for one leader to manage all employees at the same time. However, in the case of Agency Relations activities, staff members perform various functions that require more internal controls and oversight. Furthermore, a second person in command may assist in ensuring activities are occurring as expected.

Examples discovered during the audit of missing checks and balances that may be due to a compromised span of control include:

- SORM's website features Agency News and three prominent icons: Sunset Status, Training Videos and Recent Awards.
- The Training Videos icon takes the viewer to a YouTube page that has not been updated in three years. The playlist for board meetings is outdated and consists of only six videos dated January 2021 and older. The live sessions are eight years and older. Interviews

- revealed that new employees are referred to this YouTube channel and a link to this channel is included in SORM's email signatures.
- When viewing Agency News, the SORM Holiday Schedule has not been updated for upcoming holidays. Also, when the viewer clicks New Place for Training, the viewer is taken to a page where the new STAR Learning Management System (LMS) is referred to by two different names. The initial reference for STAR is SORM Training and Additional Resources. However, the form refers to STAR as SORM Training Administration and Resources.
- The website address that is on trifold and business cards. This address was not working at the time of the audit.

These examples of missed checks and balances may be resolved with an adjustment in span of control so that proper attention and accountability for deliverables is attained.

Conclusion

This review revealed that although certain necessary tools are present to support the department's mission, key components are missing that hinders Agency Relations' effectiveness and efficiency in ensuring that deliverables and activities are aligned with the SORM's overall goals and objectives.

We concluded that SORM's management control structure in place for the Agency Relations function requires some improvement. We made the following recommendations.

1. Align activities with SORM executives' and Agency objectives by:
 - a. Developing an overall training strategy.
 - b. Develop a detailed training plan.
 - c. Present the training strategy and detailed training plan to executive leadership for modifications and approval.
2. Provide a subject matter expert (SME) to evaluate and, if necessary, configure the Learning Management System (LMS) according to the Agency's needs.
3. Reconsider the training approach relating to Texas Department of Insurance (TDI) certified courses to ensure that it is in alignment with the overall executive approved training strategy.
4. Develop and document a formal process for a periodic review of current external course offerings and development of a curriculum for new topics to meet the needs of the client agencies. This should also align with the overall executive approved training strategy.
5. Align with SORM executive and Agency objectives by:
 - a. Developing an overall communication strategy with objectives and supporting communication strategic plans, where applicable.
 - b. Presenting the communication strategy and detailed communication plan to executive leadership for modifications and approval.
6. Address span of control issue by adding a manager within Agency Relations.
7. Perform a review of SORM's website and document compliance with the American Disability Act (ADA) guidelines.

IV. PRIOR CYBER AUDIT FINDINGS FOLLOW-UP AUDIT REPORT SUMMARY

Internal audit conducted a follow-up review on the prior audit findings issued related to the agency's Cyber Security Audit performed by AT&T. The purpose of this audit was to determine management's

implementation progress towards remediating the 37 recommendations made to address 29 controls noted in the report.

Due to the sensitivity and nature of cybersecurity, we do not include the details in this report. However, SORM had fully implemented two of the recommendations as of June 2023, 12 additional recommendations were in-progress, and 23 had not been started.

Finding Status	Number	Percentage of Total Findings Assessed
Fully Addressed	2	5.41%
Partially Addressed / Ongoing	12	32.43%
Outstanding	23	62.16%
Total	37	-

V. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit provided no consulting and advisory services during FY 2023.

VI. 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. *Firm not subject to rating of pass, pass with deficiencies, or fail.* McConnell & Jones, LLP has received a peer review rating of pass.

Thomas Stone & Company, L.L.P.

Thomas Stone & Company, L.L.P.

Dear Valued Client:



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/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 remedial actions 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.

Thomas Stone & Company, L.L.P.
Accountants and Consultants

11700 Park Central Drive, Suite 1000

Dallas, Texas 75248

Telephone: 214-432-0555 / Facsimile: 214-432-0555

Toll Free: 1-877-411-4211

Web site: www.tsandc.com



INTERNATIONAL ASSOCIATION OF ACCOUNTANTS

VII. INTERNAL AUDIT PLAN FISCAL YEAR 2024

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, perform a risk assessment, conduct prior audit finding follow-up activities, prepare the fiscal year 2025 Annual Internal Audit Plan and prepare the fiscal year 2024 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require 273 hours. The planned audits, timing and estimated hours are summarized in the table below.

Fiscal Year 2024 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Financial Operations <u>Scope:</u> ✓ Budgeting ✓ Forecasting ✓ Reconciliations ✓ Annual and Bi-Annual Reporting ✓ Non-workers compensation payables ✓ Activities performed by the OAG on SORM's behalf and/or for SORM's benefit for key financial activities	High	Nov. 2023 – February 2024	216
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	31
4	Risk Assessment and Annual Internal Audit Plan	Compliance	February 2024	10
5	Annual Internal Audit Report (FY 2024)	Compliance	September 2024	8
6	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	8
	Total			273
	Estimated Fees			\$39,700

VIII. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2023

External audit services procured in fiscal year 2023 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. 15TH, AUSTIN, TEXAS 78701 / P.O. BOX 13777, AUSTIN, TEXAS 78711-3777
(512) 475-1440, FAX (512) 370-9025 / WWW.SORM.TEXAS.GOV

7. New business (continued)

7.2 Presentation, discussion, and action on the Fiscal Year 2024 Internal Audit Plan

Information

Board Member Ladner, and/or representatives of the agency's audit contractor, will present the plan for the Fiscal Year 2024.

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 2024 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.



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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McConnell Jones

October 17, 2023

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 2024 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,

Darlene Brown, CIA, CFE
Partner

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Suite 320
Austin, TX 78759
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Diverse Thinking | Unique Perspectives

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.

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 and key processes.

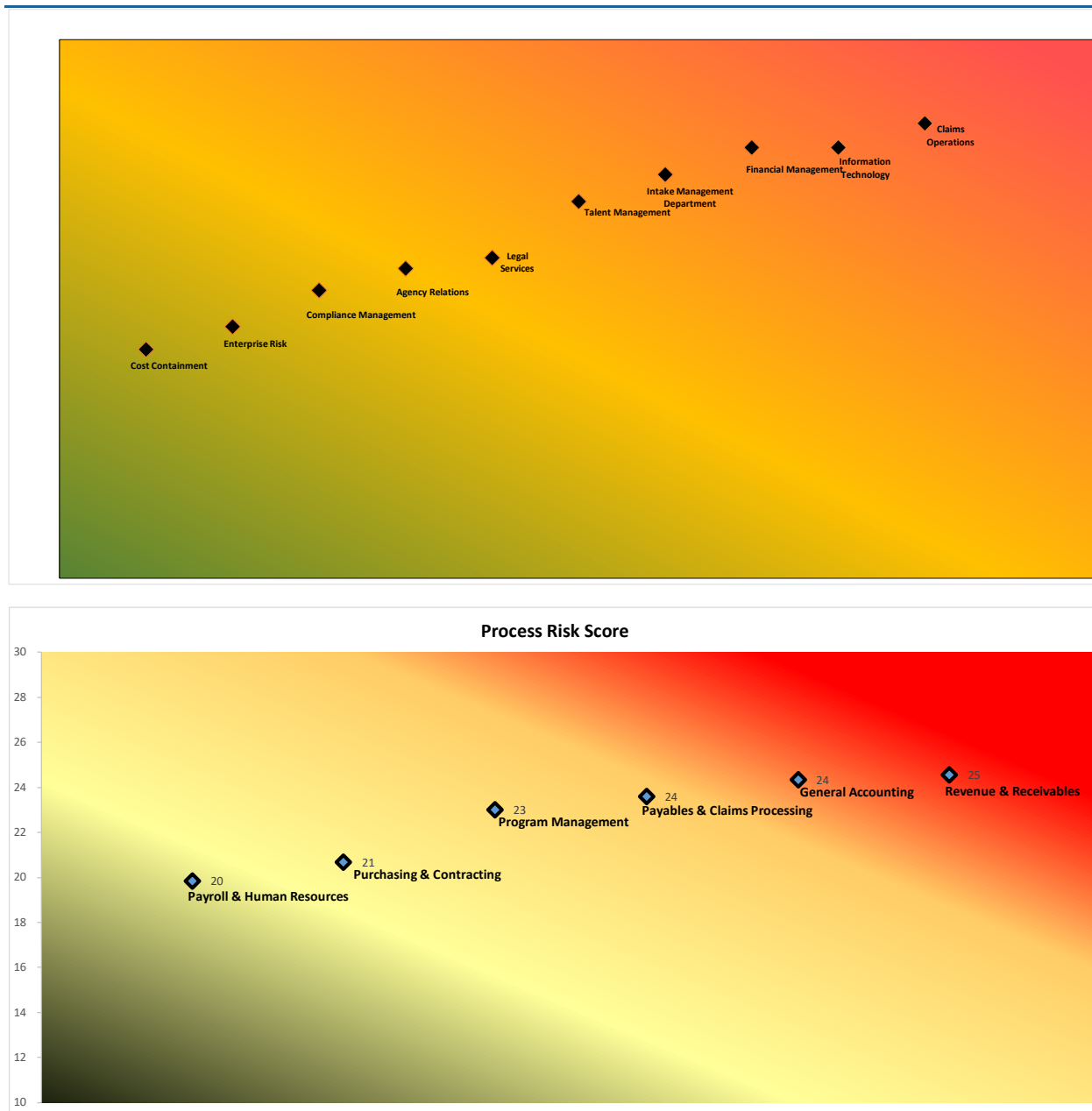


Figure 1 State Office of Risk Management Organizational Risk Summary 2024

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, and intake management rated high risk, we do not have these included in the proposed FY2024 audit plan because these areas will be in significant transition during FY2024 because of implementing new information systems and regulatory requirements.

4.0 FY 2024 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 2025 Annual Internal Audit Plan and prepare the fiscal year 2024

Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **273 hours**. The planned audits, timing and estimated hours are summarized in the table below.

Fiscal Year 2024 Annual Internal Audit Plan

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Financial Operations <u>Scope:</u> ✓ Budgeting ✓ Forecasting ✓ Reconciliations ✓ Annual and Bi-Annual Reporting ✓ Non-workers compensation payables ✓ Activities performed by the OAG on SORM's behalf and/or for SORM's benefit for key financial activities	High	Nov. 2023 – February 2024	216
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	31
4	Risk Assessment and Annual Internal Audit Plan	Compliance	February 2024	10
5	Annual Internal Audit Report (FY 2024)	Compliance	September 2024	8
6	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	8
	Total			273
	Estimated Fees			\$39,700

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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8. 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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9. 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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10. 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
FY24Q1**

Month	Day of Week	Date	Notes
January	Tuesday	2	Office closed for New Year's 1/1/24
		9	
		16	Office closed for MLK Day 1/15/24
		23	
		30	

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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11. Adjourn meeting

The Chair:

1. Calls the meeting adjourned and announces time