



State Office of Risk Management

Internal Audit Services

FY 2023 Annual Internal Audit Report

Prepared by:



McConnell Jones

Table of Contents

Section	Page Number
I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET	4
II. FISCAL YEAR 2023 INTERNAL AUDIT PLAN STATUS	4
III. AGENCY RELATIONS AUDIT REPORT SUMMARY	5
IV. PRIOR CYBER AUDIT FINDINGS FOOLW-UP AUDIT REPORT SUMMARY	7
V. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED	8
VI. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)	8
VII. INTERNAL AUDIT PLAN FISCAL YEAR 2024.....	10
VIII. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2023	10
IX. REPORTING SUSPECTED FRAUD AND ABUSE.....	11
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

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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 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	Agency Relations	23-001	June 5, 2023	Agency Relations	Completed
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	23-003	June 2023	Follow-Up on Open Audit Findings	Completed
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**

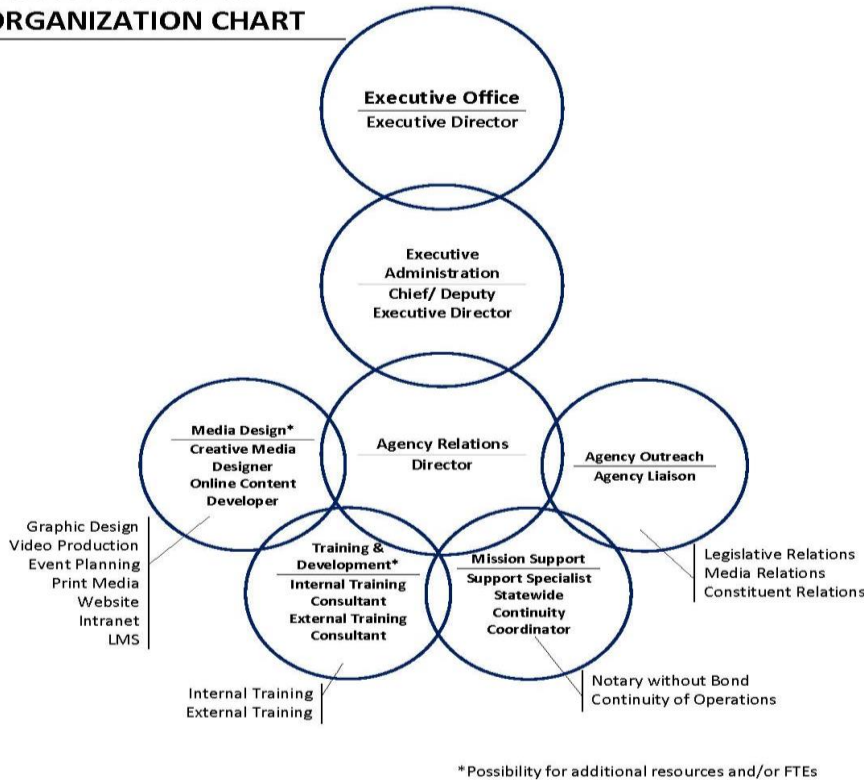


Exhibit 1: *SORM Agency Relations Department Organization Structure.*

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. 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.

Your Vision Our Focus



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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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 <i>Scope:</i> <ul style="list-style-type: none"> ✓ 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.