



State Office of Risk Management

Internal Audit Services

FY 2025 Annual Internal Audit Report

Prepared by:



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McConnell Jones

October 19, 2025

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 2025 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 2025 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 2025 is due November 1, 2025.

Please contact Darlene Brown at 713.968.1600 or Todd Holt 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 2025 INTERNAL AUDIT PLAN STATUS

The fiscal year 2025 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 2025 Annual Internal Audit Plan was completed as approved. The chart below reflects the approved audit plan status as of August 31, 2025.

Fiscal Year 2025 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Medical Management & Data Protection	25-001	May 20, 2025	Medical Management	Completed
2	Follow-Up on Open Audit Findings	25-002	August 29, 2025	Report on Prior Audit Findings Follow-up	Completed
3	Update Annual Risk Assessment & Audit Plan	N/A	N/A	N/A	Completed
4	Annual Audit Report	N/A	N/A	N/A	Completed
5	Audit Communications, Project Management	N/A	N/A	N/A	On-going

Deviation from 2025 Plan:

There were no deviations from the FY2025 Annual Internal Audit Plan.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit did not perform consulting or advisory services in FY 2025.

IV. MEDICAL MANAGEMENT AUDIT REPORT SUMMARY

The business objective for SORM's Medical Management (MM) function is to ensure medical bills submitted for workers' compensation claims are processed in an efficient, timely, and accurate manner in accordance with current statutes and contractual agreements. As such, the audit objective was to determine if appropriate internal controls are in place to meet the business objectives and that processes are efficient. As such, this audit focused on the following processes:

- Risk Assessment, and
- Quality Assurance and Performance Monitoring.

Audit Conclusions

MM reviews all medical bills following the cost containment vendor's assessment within the vendor's system. While this helps ensure the accuracy of individual medical bills, a more effective use of resources would be to focus on higher-risk medical bills and perform random audits on lower risk medical bills.

Additionally, due to the lack of documentation supporting the MM Director's activities, the agency is at risk of losing knowledge along with the ability to continue operations without disruption. Additionally, a lack of alternates trained to perform / understand the Director's activities also increases the risk of a difficult transition in the event of staff turnover.

Internal Control Rating

Some Improvement needed.

Number of Findings by Residual Risk Rating

Category	High	Medium	Low	Total
Findings	1	3	1	5
Improvement Opportunities	0			

Recommendations

1. Revise MM policies and procedures to outline the MM Director's role in monitoring high-risk medical bills and applying Official Disability Guidelines (ODG).
2. Reduce reliance on the MM Director for performing medical bill reviews to provide more time for strategic responsibilities.
3. Establish clear responsibilities and objectives for the MM Director/Team's role in monitoring the cost containment vendor and escalating issues to appropriate leadership.
4. Enhance cost containment error correction monitoring with identification and categorization of correction reasons and implement steps for analyzing, reporting, and remediating root causes of error corrections.
5. Work with the cost containment vendor to ensure mutual understanding and alignment on quality metrics and request that the vendor provide supporting data for quarterly self-audits.

Discussion

Medical Management's goal is to ensure each employee for the State of Texas:

- Is treated with dignity and respect when injured on the job.
- Has access to fair and accessible dispute resolution process.
- Has access to prompt, high-quality medical care within the framework established by the Texas Worker's Compensation Act.

In order to meet this goal, SORM's Medical Management team:

- Monitors, investigates, analyzes, and reports on the services provided by contracted medical cost containment vendors to ensure cost savings, efficiency, effectiveness; and contractual compliance.
- Identifies medical benefit underpayments and overpayments; takes appropriate steps to prevent and/or recoup underpayments and overpayments; maintains effective accounting control over expenditures.
- Examines, investigates, analyzes, and reports on all aspects of the medical benefits provided to injured workers to ensure the medical benefits provided are appropriate, timely, cost-effective, and in compliance with state statutes and regulations.
- Identifies performance and compliance issues; develops recommendations designed to enhance external and internal compliance, efficiency, and effectiveness; and provides advice on implementation.

The Medical Management Director is responsible for managing and directing the activities of the five (5) auditors and one (1) nurse that work within this function. **Exhibit 1** provides an overview of the organization structure.

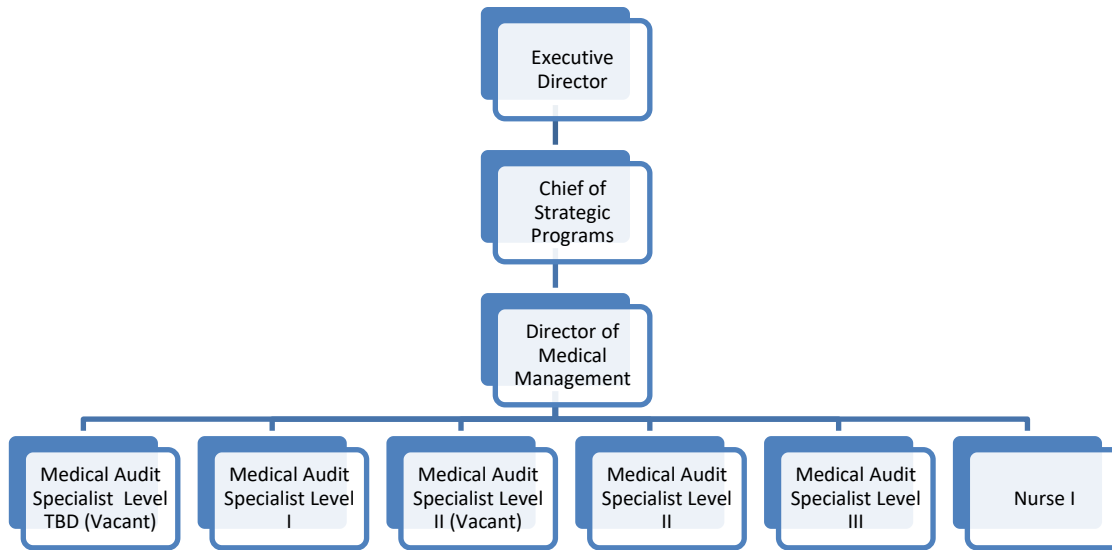


Exhibit 1: SORM Medical Management Organization Structure.

SORM received over 17,000 medical bills totaling \$26.3 million in billings during the first three (3) months of 2025. The billings are classified into 18 service categories, nine (9) of which are greater than one percent of the total billings. **Exhibit 2** compares volume of claims received and the amount billed by service category that represent 1% or greater of medical bills received between January – March 2025. Office visit claims represent the highest volume received (49.2%) yet constitute only 13.5% of the dollars billed. Conversely, APC Outpatient represents only 10.6% of the claims volume yet 46.9% of the dollars billed.

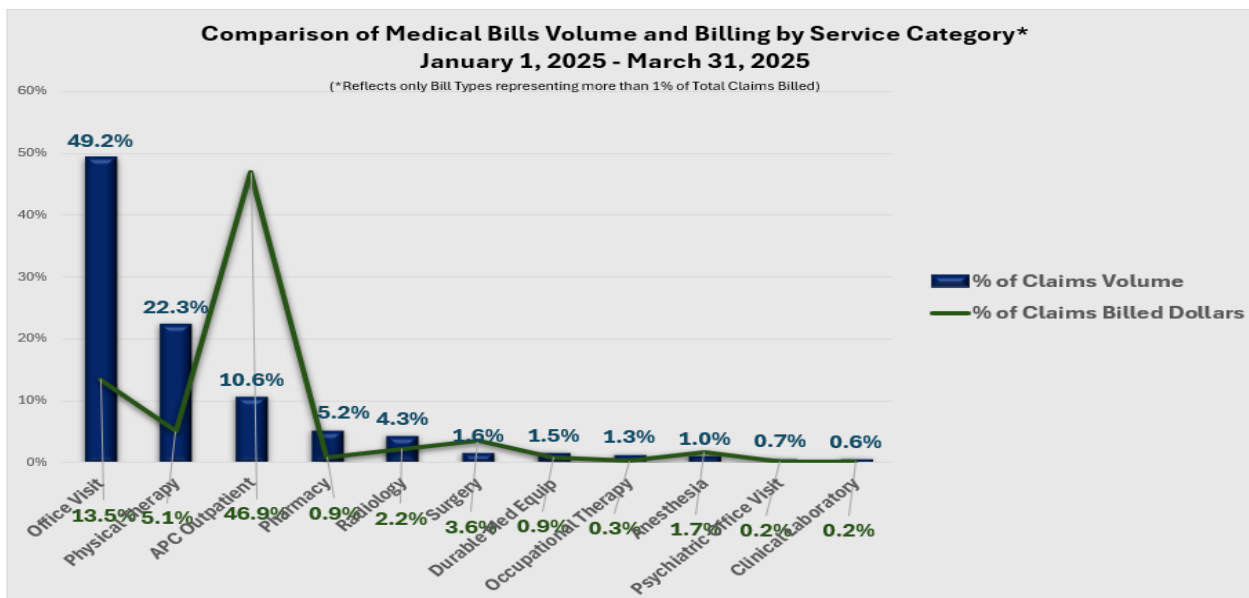


Exhibit 2: Comparison of medical bill volume received, and amount billed dollars between January 1, 2025 and March 31, 2025.

SORM works with a vendor to process workers' compensation medical claims received to ensure eligibility, validity, reasonableness, and cost containment. We analyzed data of the claims received between January and March 2025. During this period, SORM received 17,271 medical bills (claims) for a total amount of \$26.3 million. Of these claims, 6,610, or 38%, were fully denied. Denial reason categories are not established to effectively analyze causes. Additionally, claims approved were reduced from \$26.3 million to \$22.3 million, a \$4 million (38%) savings to the state. **Exhibit 3** provides a snapshot of claims and cost containment activity January through March by service category. Note, the exhibit is shown in descending order by initial claims dollars billed.

Bill Type	Claims Dollars Billed	% of Total Dollars Billed	# of Claims Received	% of Total Claims Received	Billed Cost Reductions	Reductions as a % of Original Charges in the Category	# Claims Fully Denied	% Claims Denied in the Category	% of Fully Denied Claims to Total Claims Denied
APC Outpatient	\$ 12,330,282	46.88%	1,827	10.58%	\$ 997,571	8.09%	819	44.83%	12.39%
Inpatient	\$ 4,487,996	17.06%	48	0.28%	\$ 500,117	11.14%	39	81.25%	0.59%
Office Visit	\$ 3,549,091	13.49%	8,496	49.19%	\$ 1,317,301	37.12%	3118	36.70%	47.17%
APC ASC	\$ 1,520,136	5.78%	48	0.28%	\$ 82,583	5.43%	30	62.50%	0.45%
Physical Therapy	\$ 1,330,817	5.06%	3,856	22.33%	\$ 506,869	38.09%	1348	34.96%	20.39%
Surgery	\$ 942,887	3.59%	272	1.57%	\$ 167,700	17.79%	135	49.63%	2.04%
Radiology	\$ 577,784	2.20%	747	4.33%	\$ 88,676	15.35%	234	31.33%	3.54%
Anesthesia	\$ 458,414	1.74%	177	1.02%	\$ 34,400	7.50%	113	63.84%	1.71%
Ambulance	\$ 288,125	1.10%	74	0.43%	\$ 31,671	10.99%	43	58.11%	0.65%
Durable Medical Equipment	\$ 237,517	0.90%	262	1.52%	\$ 44,271	18.64%	170	64.89%	2.57%
Pharmacy	\$ 227,931	0.87%	906	5.25%	\$ 87,119	38.22%	275	30.35%	4.16%
Occupational Therapy	\$ 70,795	0.27%	231	1.34%	\$ 19,042	26.90%	128	55.41%	1.94%
Chiropractic	\$ 67,081	0.26%	85	0.49%	\$ 46,358	69.11%	24	28.24%	0.36%
Clinical Laboratory	\$ 58,097	0.22%	104	0.60%	\$ 5,332	9.18%	81	77.88%	1.23%
Psychiatric Office Visit	\$ 45,247	0.17%	113	0.65%	\$ 25,416	56.17%	44	38.94%	0.67%
Dental	\$ 40,483	0.15%	14	0.08%	\$ 15,722	38.84%	6	42.86%	0.09%
Home Health	\$ 34,290	0.13%	6	0.03%	\$ 19,230	56.08%	2	33.33%	0.03%
Diagnostic Treatment Center	\$ 31,982	0.12%	4	0.02%	\$ 19,475	60.89%	0	0.00%	0.00%
Outpatient	\$ 1,690	0.01%	1	0.01%	\$ 0	0.00%	1	100.00%	0%
Grand Total	\$ 26,300,646	100.00%	17,271	100.00%	\$ 4,008,853		6,610		100.00%
Net Claims Approved	\$ 22,291,793								
Percentage of Claims Dollars Reduced	15%								
Percentage of Total Claims Volume that Were Denied	38%								

Exhibit 3: January – March 2025 Claims Analysis.

Unfortunately, no data is available to distinguish the number of billings denied or adjustments to billings initiated by the cost containment vendor versus the MM team. This would be helpful to determine what billings warrant additional review by the MM team after the cost containment vendor's assessment.

A review of MM comments for adjustments identified approximately 9% of the medical bills reviewed were identified as duplicate bills for the months of February and March 2025 (data for January was not provided).

Claims received are assigned to MM staff for review. Assignments are made based upon the respective claim's complexity and the staff experience. **Exhibit 4** shows the allocation of medical bill reviews across the SORM MM auditor level in January 2025.

MM Auditor Level	MM Auditor Years with SORM MM	% of Medical Bills Reviewed	% of Dollars Reviewed
Director	22	19%	26%
LEVEL III	21	21%	28%
LEVEL II	3	26%	16%
LEVEL II	3	20%	21%
LEVEL I	<1	13%	9%
Totals	>49	100%	100%

Exhibit 4: Allocation of medical bill reviews by MM auditor level.

Lower-level auditors are assigned lower-cost medical bills associated with newer claims and basic services (e.g., office visits) to review, while the MM Director reviews the most complex and highest-cost bills. Complex medical bills are identified based on visual inspection of SORM’s risk management system (RMIS) and the cost containment vendor’s system.

V. FOLLOW-UP ON PRIOR AUDIT FINDINGS

Internal audit conducted a follow-up review on prior audit findings issued to determine management’s implementation progress towards remediating the respective issue or internal control weakness. This follow-up audit was included in the Annual Internal Audit Plan. The table below reflects the findings remediation status for the 12 open audit recommendations as of August 29, 2025.

Finding Status	Number	Percentage of Total Findings Assessed	Comments
Fully Addressed	17	59%	
Partially Addressed/In Progress	3	10%	
On Hold	5	17%	Items are considered “On Hold” if they have been given a lower priority or being researched for other concerns.

Finding Status	Number	Percentage of Total Findings Assessed	Comments
Management Chose to Accept the Risk and Not Address	4	14%	These findings relate to: • Various forms of media are lacking proper oversight and accountability. • Office of the Attorney General’s contractual deliverables.
Total	29	100%	

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. Issues noted by the peer reviewer were related to another practice line in the firm and not the risk advisory services practice. MJ developed an action plan to remediate the deficiencies noted. We provide a copy of our most recent peer review letter below.



Report on the Firm's System of Quality Control

July 19, 2024

To the Partners
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** applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended June 30, 2023. 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 and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of 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 on in conformity with the requirements of applicable 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 and compliance with the firm's system of quality control based on our review.

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under Government Auditing
and audits of employee benefit

as communicated by the firm,

at performance – supervision
the engagements in order for
sion and review on employee
as not adequate causing these
s. As a result, the following

ument their understanding of
they document the linkage
In the audit of a 403(b) plan,
ar audit but did not carry the
review. This caused the firm
to include observation and
service organization. In the
ing Standards, the firm failed
and population, and rational
this resulted in two employee
fessional standards.

ment Auditing Standards and
than 60 days after the report

as not been suitably compiled
re consistently performed in
involved discussing areas for
employee benefit plans. In
y, but those reviews were not

completed timely. As a result, the items noted in 1a and 1b caused two employee benefit plan audits and one single audit that did not conform to professional standards.

Opinion

In our opinion, except for the deficiencies previously described, 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, 2023, 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 with deficiencies*.

ADKF, PC
ADKF, P.C.

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Internal Use

VII. INTERNAL AUDIT PLAN FISCAL YEAR 2026

Based on this year's risk assessment and discussion with leadership, we recommend that Internal Audit conduct an audit of the Claims Processing and Payments function. This is in addition to performing a risk assessment for the FY2027 audit plan, conduct prior audit finding follow-up activities, prepare the fiscal year 2027 Annual Internal Audit Plan and prepare the fiscal year 2026 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. The proposed audit activities are reflected below.

Fiscal Year 2026 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating
1	Claims Processes and Payments ✓ Intake processes ✓ Alignment with policies and statutory requirements ✓ Claim File Documentation Payment Timeliness and Analysis of Late Payment Factors	High
3	Follow-Up on Prior Audit Findings	Compliance
4	Risk Assessment and Annual Internal Audit Plan	Compliance
5	Annual Internal Audit Report (FY 2024)	Compliance
6	Audit Communications, Committee Meetings, Project Management	N/A

VIII. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2024

External audit services procured in fiscal year 2025 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.