

STATE OFFICE OF RISK MANAGEMENT

Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2014



Garza/Gonzalez & Associates
CERTIFIED PUBLIC ACCOUNTANTS

STATE OFFICE OF RISK MANAGEMENT
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2014

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CERTIFIED PUBLIC ACCOUNTANTS

Audit Committee and Board Members
State Office of Risk Management
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the internal control structure over the Accounting and Financial Reporting and Procurement/HUB Compliance/Travel Area of the State Office of Risk Management (SORM) and its compliance with applicable state requirements and SORM's established policies and procedures for the year ended August 31, 2014.

The results of our tests disclosed that such controls were adequate and no material instances of noncompliance were noted; however, we noted certain matters, which are included in this report, that are an opportunity for strengthening internal controls and operating efficiency; and, ensuring compliance with state requirements and SORM's established policies and procedures. We also performed a follow-up of the findings that were presented in the prior year annual internal audit report and this report reflects the implementation status of those matters; and, includes all information required for the Annual Internal Audit Report.

We have discussed the comments and recommendations from the audits; and, the implementation status from the follow-up performed, with various SORM personnel; and, will be pleased to discuss them in further detail; to perform an additional study of these matters; or, to assist you in implementing the recommendations.



July 22, 2014

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INTRODUCTION

The State Office of Risk Management (SORM) was created by House Bill 2133, 75th Legislature and became a state agency effective September 1, 1997. SORM was created from the merger of the Workers' Compensation Division of the Office of the Attorney General (OAG) and the Risk Management Division of the Texas Workers' Compensation Commission (TWCC), now the Division of Workers' Compensation at the Texas Department of Insurance (TDI).

SORM is charged by Texas Labor Code §412.011 to administer state risks and insurance services obtained by state agencies, including the government employees workers' compensation insurance program and the state risk management programs.

Some of SORM's statutory objectives and key functions are to:

- administer the workers' compensation insurance program for state employees established under Chapter 501;
- operate as a full-service risk manager and insurance manager for state agencies;
- maintain and review records of property, casualty, or liability insurance coverage purchased by or for state agencies;
- administer the program for the purchase of surety bonds for state officers and employees; and,
- review, verify, monitor, and approve risk management programs adopted by state agencies.

SORM's operations are governed by the Texas Labor Code, Chapters 412 and 501; and, by a five-member board, appointed by the Governor, that serves staggered terms.

2014 Internal Audit Plan

We have been engaged to perform internal audits of the following areas/divisions identified in SORM's Internal Audit Plan for fiscal year 2014:

- Accounting and Financial Reporting
- Procurement/HUB Compliance/Travel
- Follow-up of Prior Year Internal Audits
- Other Tasks as Assigned by the Board or Audit Committee

This report contains the results of our audit of the Accounting and Financial Reporting and Procurement/HUB Compliance/Travel area, reflects the follow-up performed in the current year, and meets the Annual Internal Audit Report requirements.

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INTERNAL AUDIT OBJECTIVES

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope encompassed the examination and evaluation of the adequacy and effectiveness of SORM's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope included the following objectives:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Policies, Procedures, Laws, Regulations, and Contracts** – Review the systems established to ensure compliance with those policies, procedures, laws, regulations, and contracts which could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

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EXECUTIVE SUMMARY

Accounting and Financial Reporting

Background

The Accounting Division (Division) is responsible for the Accounting and Financial Reporting Areas, which is managed by an Accounting and Finance Manager (Manager), who reports to the Chief of Internal Operations. This Division is comprised of a Manager, Chief Accountant, 2 Accountant III, 3 Accountants and a Purchasing and Travel Liaison.

As stated in the Texas Labor Code Section 412.0111, SORM is administratively attached to the Office of the Attorney General (OAG). In accordance with the Interagency Contract between SORM and the OAG, the OAG provides SORM with the necessary administrative support related to the following functions related to accounting and financial reporting:

- Processing and distributing payments to vendors for operational expenditures;
- Maintaining centralized financial accounting systems for recording and reporting of agency transactions;
- Processing revenues received by or on behalf of SORM;
- Preparing data for various financial reports and form, including those required by the Comptroller, or state or federal laws, rules and regulations;

General Ledger

The Division utilizes the Uniform Statewide Accounting System (USAS), which is the integrated financial system of record for the State of Texas financial records, for reporting financial information. The OAG is responsible for maintaining the USAS system for SORM. Transactions are recorded in USAS through journal entries prepared by the OAG and sent to SORM for review and release. The Manager determines which employees should have authorization to release entries and informs the OAG. The OAG is generally responsible for submitting financial information to the Comptroller of Public Accounts. The OAG also maintains an internal accounting system used to record revenue and expenditure data for SORM.

Annual Financial Reporting

Texas Government Code, Section 2101.011 requires state agencies to file annual financial reports no later than November 20th of each year with the Comptroller of Public Accounts. The OAG prepares and submits this report for SORM using the financial information maintained in USAS.

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Monthly Reconciliations

Expenditure Reconciliation

The Chief Accountant reconciles expenditures on a monthly basis. She obtains a report of all expenditures per month from the OAG Accounting System and compares them to a report of expenditures that is run from the USAS system. Any differences found between the two systems are investigated by the Chief Accountant and are explained in the spreadsheet.

Revenue Reconciliation

The Chief Accountant reconciles revenues on a monthly basis utilizing a report of revenues from the OAG Accounting System, excluding assessment payments, and reconciles them to a revenue report from the USAS System, also excluding assessment payments. All differences are noted and explained in the spreadsheet. A separate reconciliation of revenues for assessment payments is completed between OAG and USAS system. The OAG and the USAS revenue reports are also reconciled against SORM's Claims Management System (CMS). Differences are noted and explained in the spreadsheet.

Deposits Reconciliation

The Chief Accountant reconciles deposits on a monthly basis using a report of deposits from SORM's deposit Access database and reconciles it to deposits from the CMS. Differences are noted and explained in the spreadsheet.

Reporting

The Chief of Internal Operations is responsible for preparing reports to the Board. The OAG's Expenditure Forecast and Budget Variance Report is used to prepare the consolidated budget that is submitted to the Board.

Processing Cash Receipts

Cash receipts received at SORM primarily consist of payments from claimants, medical service providers, client agencies, and other vendors associated with the Claims Fund. Checks that are mailed to SORM are first received in the Document Processing Unit (mailroom). An employee from the mailroom will log all the checks received into a daily receipt log and document the check number, the check amount and payee. The log and the checks are then forwarded to the Accounting Division.

An accountant from the Accounting Division will sign the mailroom log verifying the checks were received and log the checks into the "Daily Check Log." A copy of each check is also made. The accountant will then research in the CMS system to determine which claim to apply the deposit to and where it should be coded. When the accountant locates the information in the CMS system, a print screen is generated and attached to the check stub.

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All checks are then stamped with the 'deposit only' stamp and logged into the deposit Access database by the accountant. The deposit Access database assigns the deposit a document number and creates a "Receipt Allocation Form" which will document the applicable account codes. The "Receipt Allocation Form" is printed.

A copy of the check is attached to the supporting documentation and is provided to one of the Accountant III's, along with the "Receipt Allocation Form" (form) for approval. Once they have signed the form denoting their approval, a copy is made and attached to the supporting documentation. The original forms and the checks are then taken to the OAG for data entry and preparation of the deposit.

Within 3 days the OAG will send a copy of the form along with a Deposit Document DAFR report which lists all the deposits entered for SORM. The form will have the receipt number for the deposit and the deposit date documented. This information is inputted in the Access database by the accountant. They then prepare a journal entry in the CMS system to record the entry.

Processing Disbursements

When an employee wants to purchase an item, they complete an Expenditure Request Report, which lists a description of the item they wish to purchase. The report is reviewed and approved by their Supervisor and then forwarded to the Purchasing and Travel Liaison who will complete a Purchase Requisition. The Purchase Requisitions are sent to the Chief of Internal Operations for review and approval.

The approved Purchase Requisitions are then sent to OAG for processing. The OAG is responsible for preparing the purchase order, performing procurement procedures, purchasing and receiving the item, and processing the invoices.

Warrant Cancellations

Warrant cancellations are usually performed at the request of the claims adjusters. The Accountants will receive notification in Outlook of the request. There is a 10 day waiting period before the cancellation can be done to ensure the warrant has not already been cashed. After the 10th day, the accountant will research the Comptroller's Treasury Operations' System Services (TOSS) website to ensure the warrant has been cashed. If the warrant has not been cashed, the accountant will then proceed to cancel the warrant in the OAG system by entering the warrant number, amount, and vendor name. The OAG system will assign the cancellation a document number and a cancellation number. This report is printed and attached to the supporting documentation.

The accountant will log back into TOSS and enter the warrant number they want to cancel and this will create an approval screen. Either the Accountant III, Chief Accountant, or Manager will log into TOSS and approve the cancellation. The TOSS system is integrated with USAS so the warrant will also be cancelled in USAS; therefore, an entry is not required to be made in USAS. The accountant will then make a journal entry in CMS to cancel the warrant. A print screen is made and attached to the supporting documentation and given to the Accountant III for approval in CMS.

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If the warrant was lost and needs to be reissued, the Accountant III will process the warrant by entering the information in USAS and issuing another warrant. He will then enter the information in the OAG system and the CMS system.

OAG Allocation Review

On a quarterly basis, the OAG charges SORM a portion of the expenses incurred on its behalf, such as freight, delivery, maintenance and postage expenses. The OAG prepares an entry to record the expenditure in USAS and SORM will review and release the entry.

The Chief Accountant prepares an allocation summary spreadsheet with the expenses obtained from the OAG system and determines the allocation amount based on the appropriate percentage to ensure the OAG has charged SORM the correct amount.

Audit Scope/Objective

The scope of our audit was the Accounting and Financial Reporting area of the State Office of Risk Management (SORM). The objective of our audit was to gain an understanding of the Accounting and Financial Reporting area to determine whether the applicable statutes, rules, policies, and procedures are consistently applied.

The procedures performed to achieve the objective of our audit were as follows:

1. Obtained an understanding of the financial reporting procedures and processes, the monthly reconciliation and general ledger process, and the accounting system (s) used for financial reporting.
2. Obtained an understanding of the financial reports submitted to the Board and selected the February 2014 report submitted to the Board and agreed amounts reported to the OAG systems.
3. Obtained an understanding of the cash receipts and disbursement process and the methods used to record such receipts in the accounting systems.
4. Selected a sample of 10 disbursements made from the Administrative Fund during the period of September 1, 2013 – June 30, 2014 and tested the disbursements for the following attributes:
 - a. Purchase supporting documents included all items required by the Texas Administrative Code §5.51;
 - b. Invoice amount agreed to the purchase voucher;
 - c. Purchase requisition was properly prepared and approved by the Chief of Internal Operations; and
 - d. Proper expenditure object code was used as set by the Comptroller's Office.

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5. Obtained an understanding of the warrant cancellation and reissue process. Selected 1 warrant that was cancelled and reissued during the period of September 1, 2013 – June 30, 2014 and ensured the warrant was properly cancelled and reissued in USAS.
6. Obtained the FY 2013 Annual Financial Report and agreed significant balances to the Detailed Accounting Financial Reports (DAFR) provided by the OAG. Reviewed actuarial study and agreed liability to Annual Financial Report.
7. Obtained and reviewed the 3rd quarter OAG Allocation Report and SORM's Allocation Summary prepared by the Chief Accountant and ensured amounts were proper.

Procurement/HUB Compliance/Travel

Background

The Accounting Division (Division) is responsible for procurement, HUB compliance, and travel, which are managed by the Accounting and Finance Manager, who reports to the Chief of Internal Operations. This Division is comprised of a manager, Chief Accountant, 2 Accountant III, 3 Accountants and a Purchasing and Travel Liaison. Executive, Board Member, and out of state travel is the responsibility of an office manager who functions outside the Division.

As stated in the Texas Labor Code Section 412.0111, SORM is administratively attached to the Office of the Attorney General (OAG). In accordance with the Interagency Contract between SORM and the OAG, the OAG provides SORM with the necessary administrative support related to the following functions related to procurement, HUB compliance, and travel:

- Coordinate travel reimbursements, travel advances, partial per-diem processing, and processing reimbursements to SORM employees for travel and other operational expenses;
- Develop agency specific procurement templates to be used on behalf of SORM (requisitions, purchase orders, invitations for bid and formal quotes).
- Prepare and file procurement- related documents and reports on behalf of SORM such as, the Annual Contracts over \$500,000 report, the Annual and Semi-Annual HUB Report, and the Annual Procurement Plan.

Procurement

The procurement process begins with SORM drafting a Request for Proposal (RFP) which is then sent to the Comptroller's office for review. The Comptroller ensures that all requirements and contract clauses are included. Once the report is reviewed by the Comptroller, the RFP, with recommended changes, is sent back to SORM who can either accept or decline the changes. SORM must notify the Comptroller's office of what changes they are accepting and which are being declined along with an explanation as to why declined changes are not being adopted.

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Once the RFP is complete, SORM will send it to the OAG Procurement Division where they are responsible for advertising bids and collecting any bids that are submitted. OAG will then sort out the bids and will remove any vendors who do not meet the minimum requirements. After this process has been completed, the bids are given to SORM who will form a committee and complete the bid evaluation. An evaluation committee is recommended by the Division Chief of the Department that is requesting the services.

The committee will score vendors based on several evaluation factors and the overall tabulation will be calculated by the appropriate Division Chief. The top vendor(s) will then be awarded the contract pending any required Board action.

HUB Compliance

In accordance with Texas Government Code Chapter 2161, the Office of the Comptroller of Public Accounts (Comptroller) is responsible for managing the Statewide Historically Underutilized Business (HUB) Program for minority and woman-owned businesses. The purposes of the statewide HUB Program activities are designed to promote full and equal business opportunities for all businesses in state contracting in accordance with the goals specified in the State of Texas Disparity Study dated 1994.

According to the Texas Government Code, Section 2161.181 and 2161.182, each state agency shall make a good faith effort to utilize HUBs in contracts for construction, services (including professional and consulting services) and commodities purchases. Each agency may achieve the annual procurement goals by contracting directly with HUBs or indirectly through subcontracting opportunities.

Texas Government Code §2161.121 requires the HUB program to submit annual and semi-annual basis HUB Reports, which summarize and analyze expenditures made to certified HUBs by state agencies. The OAG is responsible for submitting these reports for SORM and for ensuring that SORM complies with HUB requirements.

Travel

Expenditures for travel must comply with the Comptroller's rules and regulations regarding allowability and documentation. There are two employees within SORM who are responsible for creating travel vouchers. The Office Manager is responsible for processing out of state and out of the country travel as well as board members and executive staff. All other travel is processed scheduled by the Purchasing and Travel Liaison.

Travel Vouchers

A traveler will email the appropriate person, depending on their travel, with details of the trip. The information is then entered into the OAG FoxPro Travel database and a travel voucher is created which is then printed and given to the employee for approval and signature. Once the employee has signed the travel voucher, it is given to the division chief for review and approval. The travel request is forwarded to National Travel so that lodging and airfare can be booked, if needed. National Travel serves as the travel agent and secures pricing favorable to the state based on contracts for discounted pricing.

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Reimbursement

Employees are entitled to be reimbursed for lodging, meals and incidental expenses incurred while traveling. Employees are reimbursed for actual expenses in accordance with provisions and limitations set forth in the rules published by the State Comptroller's Office. The State Comptroller's does not require that receipts be submitted however a state agency may develop their own policies and procedures requiring receipts be submitted. It is SORM's practice that receipts be submitted for all expenses incurred during travel, although that practice is not currently formalized in procedure. The OAG receives a copy of meal receipts only on non-overnights trips which exceed 6 hours.

Audit Scope/Objective

The scope of our audit was the Procurement/HUB Compliance/Travel area of the State Office of Risk Management (SORM). The objective of our audit was to gain an understanding of the Procurement/HUB Compliance/Travel area to determine whether the applicable statutes, rules, policies, and procedures are consistently applied.

The procedures performed to achieve the objective of our audit were as follows:

1. Conducted interviews with key personnel involved in the procurement, hub compliance, and travel process to document formal/informal processes and controls.
2. Reviewed and obtained an understanding of the applicable State of Texas procurement, HUB compliance, and travel guidelines; and, SORM's established procurement and travel policies and procedures.
3. Reviewed contracts awarded during fiscal year 2014 and obtained an understanding of the rationale for making the award to the successful bidder.
4. Obtained a listing of all travel vouchers prepared during fiscal year 2014 and randomly selected a sample for testing various attributed; such as, the following:
 - a. Properly completed documentation and indication that travel was approved by the authorized individual.
 - b. Travel vouchers accompanied by receipts, as applicable.
 - c. Proper guidelines were met; such as, the state mileage rate, per diem, and the most economical means of transportation was used and documented.
 - d. Indication that the travel was for SORM business.
5. Reviewed procurement documentation for 2 contracts awarded during fiscal year 2014.
6. Reviewed documentation prepared by OAG which demonstrated SORM was compliant with HUB requirements.

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I. Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on SORM's Website

To comply with the provisions of House Bill 16, within 30 days of approval by SORM's Board, SORM will post the following information on its website:

- An approved fiscal year 2015 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2014 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The internal audit annual report includes any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor as well as the summary of the action taken by SORM to address such concerns.

II. Internal Audit Plan for Fiscal Year 2014

The Internal Audit Plan (Plan) included 2 audits to be performed during the 2014 fiscal year. The Plan also included a follow-up of the prior year audit recommendations, as applicable, other tasks as may be assigned by the Board or Audit Committee, and preparation of the Annual Internal Audit Report for fiscal year 2014.

Risk Assessment

Utilizing information obtained through the inquiries and background information reviewed, 16 audit areas were identified as potential audit topics. A risk analysis utilizing our 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

Following are the results of the risk assessment performed for the 16 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Accounting and Financial Reporting Information Resources	Procurement/HUB Compliance/Travel Payroll/Human Resources Call Center for Workers' Compensation Internal/External Training Medical Quality Assurance Compliance Management	Document Management/Records Retention Capital Assets Performance Measures Lost Time Teams Unit Risk Management (includes Business Continuity) Indemnity Quality Assurance Fraud and Recovery (includes Subrogation) Interagency Contract Assessments

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The area recommended for internal audit and other functions to be performed for fiscal year 2014 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Completion Date</u>
1.	Accounting and Financial Reporting	July 22, 2014
1.	Procurement/HUB Compliance/Travel	July 22, 2014
-	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	July 22, 2014
-	Other Tasks Assigned by the Board of Audit Committee	None

In the prior 3 years, the internal auditor performed the following audits and functions:

Fiscal Year 2013:

- Medical Cost Containment Unit

Fiscal Year 2012:

- Follow up of Prior Year Audit Recommendations
- Preparation of the Annual Internal Audit Report

Fiscal Year 2011:

- Subrogation Unit Audit

III. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Audit Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards, December 2011 Revision*, Sections 3.33-3.58.

IV. External Quality Assurance Review

The internal audit department's most recent *System Review Report*, dated October 26, 2012, indicates that its system of quality control has been suitably designed and conforms with applicable professional standards in all material respects.

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V. Observations/Findings and Recommendations

Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	7/22/14	Accounting and Financial Reporting	<p>1. Purchasing Policies and Procedures</p> <p>In accordance with the memorandum of understanding between SORM and OAG, SORM is responsible for preparing a purchasing requisition and obtaining necessary approvals. However, we noted SORM does not have any documented policies or procedures governing the purchasing process.</p> <p>Recommendation We recommend that SORM adopt written policies and procedures over the purchasing process.</p> <p>Management's Response The Office has a purchasing procedure in place but it dates from the previous organizational structure. Management agrees that the procedure should be updated.</p> <p>2. Accounting Policies and Procedures</p> <p>Based on our review of the Accounting policies and procedures, we noted some policies and procedures appeared to be outdated and do not reflect the current practice.</p> <p>Recommendation We recommend SORM review and revise the Accounting policies and procedures to properly reflect current practices.</p> <p>Management's Response Management agrees.</p>		<p>Ensure policies and procedures are adequately documented.</p> <p>Ensure policies and procedures are adequately documented.</p>

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Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	7/22/14	Procurement/ HUB Compliance/ Travel	<p>1. Travel Vouchers and Requests</p> <p>SORM's policies and procedures require that employees sign and date travel requests and forward the travel request to the Division Chief for approval. Based on our testing we noted that one (1) out of twenty-five (25) vouchers was not signed by the employee or the Division Chief.</p> <p>Recommendation We recommend that all travel requests be approved by both the employee and the Division Chief to ensure SORM is following their policies and procedures.</p> <p>Management's Response Management agrees. Review indicates the item in question was for emergency travel. Alternate signatures should be obtained in exigent circumstances.</p> <p>2. Travel Policies and Procedures</p> <p>Meal receipts are not required by state law, however state agencies may establish an internal policy that requires receipts for meals as a condition for reimbursement. Meal receipts are required by SORM in most cases, however, either itemized or credit card receipts are acceptable. In addition, the only meal receipts SORM must submit to the OAG for processing are for non-overnight trips exceeding 6 hours. There are no written policies and procedures which govern travel policies, including meal reimbursement.</p> <p>Recommendation We recommend SORM review their travel procedures and revise their policies accordingly.</p> <p>Management's Response Management agrees that the existing policies and procedures should be updated.</p>		<p>To ensure compliance with documented policies and procedures.</p> <p>Ensure policies and procedures are adequately documented.</p>

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Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	7/22/14	Procurement/ HUB Compliance/ Travel	<p>3. Bid Evaluations</p> <p>According to the Texas Government Code, Sections 2161.181 and 2161.182, each state agency shall make a good faith effort to utilize HUBs in contracts for construction, services (including professional and consulting services) and commodities purchases. Although SORM has met HUB compliance requirements in the past, we noted that HUB standing is not an evaluation factor for bids.</p> <p>Recommendation We recommend that SORM include HUB standing as an evaluation factor for bid evaluations using non-claim fund monies.</p> <p>Management's Response The Office considers and is compliant with HUB and legal neutrality requirements in all procurements. In conjunction with the OAG, all applicable recommendations of the State of Texas Procurement Manual, the Contract Management Guide, and the Disparity Study for functional evaluation and award considerations are fully implemented, including best value, preference, and tie bid provisions.</p> <p>4. Procurement Policies and Procedures</p> <p>Based on our review there are no written policies and procedures documenting SORM's procurement process.</p> <p>Recommendation We recommend SORM implement policies and procedures to document their process for procurement such as drafting proposals and obtaining and evaluating bids.</p> <p>Management's Response Management agrees.</p>		<p>Ensure policies and procedures are adequately documented.</p> <p>Ensure policies and procedures are adequately documented.</p>

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Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
		2014 Follow-Up	<p><u>Follow-Up of Prior Year Audits</u></p> <p>Following is the status of the recommendations made in previous fiscal years that had not been fully implemented.</p> <p><u>Medical Cost Containment Unit</u></p> <p>1. Managing Overpayments</p> <ul style="list-style-type: none"> • Cross-train MCCU personnel to audit a greater percentage of bills, which could result in additional cost savings. • Integrate a system into CMS that will track outstanding overpayment receivables, or utilize an alternate method to monitor the aging of outstanding overpayment receivables to increase the likelihood of recovery by the 45th day from the (SORM) refund request date. • File complaints more frequently with the TDI-DWC in an effort to receive refunds in a more timely manner. 	<p>Fully Implemented</p> <p>The Medical Cost Containment Unit has been disbanded as a result of the agency restructure implemented on 09/01/2013. Overpayments to providers will continue to be reviewed. Those that occur due to vendor error will trigger paragraph 6.3 of the contract with outside vendors which requires reimbursement from the vendor to SORM.</p> <p>Other provider overpayment errors will continue to be reviewed and recoupment sought via the Legal Services Division.</p>	Increase the amount of recoupment for overpayments.

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Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
		2014 Follow-Up	<p><u>Document Management/Records Retention</u></p> <p>2. Records Retention</p> <ul style="list-style-type: none"> Perform a comprehensive inventory of records generated and maintained, both onsite and offsite, and revise the Schedule accordingly. Develop a process, to include a disposition log/form, to ensure records maintained and stored, in any medium; such as, microfilmed and the Filenet data system, are disposed in accordance with the Schedule. <p><u>Information Resources (IR)</u></p> <p>1. Policies and Procedures</p> <p>Perform a comparison of the security policies recommended by the TAC to SORM's written policies and procedures to ensure that sufficient written policies and procedures are documented and implemented.</p>	<p>Incomplete/Ongoing</p> <p>Primary inventory and schedule revisions complete. Policies and procedures have been revised and are in implementation status.</p> <p>Substantially Implemented</p> <p>The IR department has reviewed and updated all IR policies and procedures and is in the process of comparing the security policies recommended by the TAC to the existing SORM policies.</p>	<p>Comprehensive Records Retention Schedule and compliance with Records Retention program requirements.</p> <p>Ensure policies and procedures are adequately documented.</p>

VI. Proposed Internal Audit Plan for Fiscal Year 2015

The risk assessment performed during the 2014 fiscal year was used to identify the following proposed area and functions that are recommended for inclusion in the internal audit plan for fiscal year 2015. The Internal Audit Plan for fiscal year 2015 will be developed and presented to the Audit Committee and Board at a meeting to be determined at a later date.

- Document Management/Records Retention
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Audit Committee or Board

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SORM procured the internal audit services documented in the Internal Audit Plan for fiscal year 2014.

SORM has provided information on its home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. SORM has also developed a Fraud Policy that provides information on how to report suspected fraud, waste, and abuse to the SAO.

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graph TD;
    Board[Board of Directors] --- ED[Executive Director];
    Board --- EA[Executive Assistant];
    ED --- DE[Deputy Executive Director];
    ED --- Legal[Legal Services];
    ED --- Internal[Internal Operations];
    ED --- Strategic[Strategic Programs];
    Legal --- Lit[Litigation];
    Legal --- Fraud[Fraud & Recovery];
    Legal --- LegalSupport[Legal Support Services];
    Legal --- Comm[Communications];
    Internal --- HR[Human Resources];
    Internal --- Info[Information Resources];
    Internal --- Accounting[Accounting & Finance];
    Internal --- Quality[Quality Assurance];
    Strategic --- Risk[Risk Management];
    Strategic --- Workers[Workers' Compensation];
    Strategic --- Document[Document Processing];
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