SORM
State Office of Risk Management

State Office of Risk Management

Internal Audit Services

FY 2021 Annual Internal Audit Report

Prepared by:

MJ McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Table of Contents

Section   Page Number

October 5, 2021

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 2021 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 2021 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 2021 is due November 1, 2021.

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

Darlene Brown, CIA, CFE
Partner

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 2021 INTERNAL AUDIT PLAN STATUS

The fiscal year 2021 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 2021 Annual Internal Audit Plan was completed as approved. The chart below reflects the approved audit plan status as of August 31, 2021

Fiscal Year 2021 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	RMIS Implementation Review and Evaluation	21-001	September 15, 2021	Information Technology Audit Origami Implementation	Completed
2	Follow-Up on Open Audit Findings	On-Going			
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 2021 Plan:

MJ completed the approved FY 2021 Annual Internal Audit Plan as approved with no deviations.

III. INFORMATION TECHNOLOGY AUDIT REPORT SUMMARY

Internal audit completed a review of the agency's Origami Risk Management Information System (RMIS) implementation project and status. The RMIS is an enterprise resource planning (ERP) system which will address all agency business functions. This implementation is being conducted in six (6) phases. Phase 1 focuses on the Workers' Compensation system. The original go live date was scheduled for July 2021 however that date was moved to November 2021. Phase 1 is what was included in our review. Our audit is to be conducted in two (2) parts and we have completed Part 1.

Part 1: The focus is on the project management of the Phase 1 deployment. The focus included:

1. Controls in place and
2. Areas for improvement

Part 2: The focus is on the outcome of the deployment to identify lessons learned. This audit will be scheduled once the go-live date is set.

We concluded that SORM's management control structure in place over the project management of the Origami implementation and deployment are generally effective and provide reasonable assurance that the risks are being managed and the objectives should be met.

No control deficiencies were identified during the audit. We did identify opportunities for improvement which are intended to provide guidance in future phases. These opportunities were in the areas of:

- Project management / governance,
- Data conversion and data processing, and
- Data cleanup and training.

There is no requirement to implement or respond to these suggestions.

We made the following recommendations for management to consider:
Project Management / Governance

- SORM should work with Executive Management and OAG to develop concrete plans, based on a risk assessment, for sustainment or retirement of the legacy CMS. This includes deciding whether parallel processing will occur.
- Work with Origami to:
  - provide an outline of training topics and schedule for SORM staff that meets the needs of the agency,
  - provide testing scripts/scenarios and timetable for user acceptance testing (UAT) in a reasonable time frame so subject matter experts can review and update where needed to assure UAT identifies potential issues within the key workers' compensation processes.

- o implement data security that meets SORM's requirements, and
- o develop a backup plan as a safety precaution in case something goes awry during the data conversion /system implementation.

Data Conversion and Data Processing

- SORM should continue to communicate status of the Origami implementation. Additional email reminders should be sent to agencies, indicating the forthcoming switchover.
- SORM IT should be made aware of the contracted Service Level Agreements (SLA) and prepare to monitor the performance of the Origami implementation during testing and after Go-Live.
- Establish Go / No Go Criteria for moving forward with Go-Live date.
  - o Determine in advance the criteria that would stop the deployment if met.
  - o Identify a back-up weekend that would be utilized if No / Go decision is met.

Data Cleanup and Training

- Conduct preliminary discussions with stakeholders (internal, OAG, Comptroller, client agencies) to identify changes to procedures, creation of training materials and the creation of the issue/improvement escalation process. These discussions can be leveraged to ensure that the project implementation schedule is not impacted by delays. These discussions should include:
  - o Origami trainers and SORM management working with subject matter experts (SME's) to identify changes to procedures that will be needed. Having this discussion earlier will allow time to provide training and updating of procedures.
  - o The number of hours of training needed by department and/or job responsibilities. (Origami should have a list of all of the training modules and who is recommended to attend.)
  - o The potential impact training will have on worker performance. SORM management may need to consider hiring temporary staff, if needed, to maintain the processing of data and offset any delays with workers using the new system.
  - o User training is required for all users.
  - o A plan for additional training 4 to 6 months after deployment to go over the bells and whistles of the system as during the first months, people will focus on what they need to get done to meet the basic requirements.

IV.   CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit provided no consulting and advisory services during FY 2021.

V.   EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

MJ has been a member of the AICPA since 1987 and is subject to the AICPA's peer review process every three years. Our commitment to quality is underscored by the fact that, in our four most recent peer reviews, we have consistently received an unqualified opinion in external peer review reports on the quality of our accounting and auditing practice by the AICPA. After a thorough review of our procedures and work practices, which include reviews of our nonprofit, governmental, and commercial

engagements, the reviewers concluded that MJ complies with the stringent quality control standards established by the American Institute of Certified Public Accountants. We provide a copy of our most recent peer review letter below.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of McConnell & Jones, LLP, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017, 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, LLP

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

Your Vision Our Focus

Report on the Firm's System of Quality Control

January 31, 2018

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, 2017. 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; audits of employee benefit plans and an audit of a non-carrying broker-dealer.

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.

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

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INAA GROUP
INTERNATIONAL ASSOCIATION OF ACCOUNTANTS AND AUDITORS

VII. INTERNAL AUDIT PLAN FISCAL YEAR 2022

MJ developed the fiscal year 2022 Annual Internal Audit Plan based on results of a risk assessment. The risk assessment included reviewing the agency's strategic plan, the Legislative Appropriations Request, and policies and procedures; 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 also considered the short-term and long-term impacts of the pandemic on operations and 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.

MJ will conduct one scheduled audit, continue providing advisory services for the Origami implementation project, perform a risk assessment, conduct prior audit finding follow-up activities, prepare the fiscal year 2023 Annual Internal Audit Plan and prepare the fiscal year 2022 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **255 hours**. The planned audits, timing and estimated hours are summarized in the table below.

Contract management is not included in the FY 2022 Annual Internal Audit Plan as this was one component of the Legal Services Compliance Management audit we performed in FY 2020.

Fiscal Year 2022 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Origami (RMIS) Implementation Review and Evaluation *Scope:* ✓ Project Management Activities and Tools ✓ System Design Input and Sign-off Process for Each Phase ✓ User Acceptance Testing, Resolution and Acceptance Process for Each Phase	High	On-going Until Go-Live	101
	Risk Management ✓ Adopted Risk Management Guidelines Roll-out ✓ Revised Risk Management Inspection and Assistance Processes ✓ Performance Measures	High	January 2022-February 2022	111
2	Follow-Up on Prior Audit Findings	Compliance	On-Going	21
3	Risk Assessment	Compliance	March 2022	10
	Initial draft - Annual Internal Audit Report (FY 2022)	Compliance	September 2022	3
4	Initial draft – Annual Internal Audit Plan (FY 2023)	Compliance	September 2022	3

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
5	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	6
	Total			**255**

VIII. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2021

External audit services procured in fiscal year 2021 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.