SORM
State Office of Risk Management

BOARD OF DIRECTORS'
MEETING AGENDA
October 18, 2022

SORM
State Office of Risk Management

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

Public Meeting

Board of Directors
October 18, 2022, 9:30 a.m.
William P. Clements Building, Room 103
Austin, Texas

1. Call to order, roll call, and recognition of a quorum

2. Consideration and possible action to excuse previous board member absences

3. Approval of the minutes from the July 19, 2022, meeting

4. Presentation and discussion of Agency Operations Report

5. New business

   5.1 Presentation, discussion, and action regarding the Fiscal Year 2022 Internal Audit Report

   5.2 Presentation, discussion, and action regarding the Fiscal Year 2023 Internal Audit Plan

6. Old business

7. Public comment*

8. Discussion and possible action on future meeting dates

9. Adjournment

Individuals who may require auxiliary aids or services for this meeting should contact Caroline Nauert at (512) 936-1564 or caroline.nauert@sorm.texas.gov at least two days prior to the meeting so that appropriate arrangements can be made.

*All public comments must be emailed to Ms. Nauert by noon the day prior to the meeting. In the subject line of your email, please include the meeting date and topic of your comment. All comments received by this deadline will be read or summarized at the meeting and included in full to the official record of the meeting.

BOARD MEMBERS	DATES OF TERM	HOMETOWN
Lloyd Garland, M.D., Chair	02/01/2025	Lubbock
Honorable Ricardo Galindo III	02/01/2025	San Antonio
William Brown	02/01/2027	San Antonio
Tomas Gonzalez	02/01/2023	El Paso
Gerald Ladner, Sr.	02/01/2027	Austin

1.   Call to order, roll call and recognition of a quorum.

Information

The Chair:

1. Calls the meeting to order;
2. Identifies the board members present.

Action Required

The Chair recognizes a quorum.

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2. **Consideration and possible action to excuse previous board member absences**

Information

Board member absences may be excused for good cause as determined by the Board.

Action Required

The Chair may entertain a motion for consideration and possible action to excuse previous absences, if any.

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3. **Approval of the minutes from the July 19, 2022, meeting**

Information

Attached are the minutes from the July 19, 2022, meeting.

Action Required

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

Minutes of the Public Meeting
on
July 19, 2022
https://youtu.be/-WK9k7AoCVE

The following Board of Directors' meeting was a hybrid meeting conducted via Zoom and in-person

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

Item 1.   Board Chair Garland called the public meeting to order at 10:05 a.m. on July 19, 2022. Board Chair Garland recognized Members present. A quorum was established.

Item 2.   The board acknowledged any absence of the Board from the April 2022; all were present. No action.

Item 3.   Board Chair Garland asked for any comments or changes to the Minutes of the April 19, 2022, meeting. Hearing no changes, Board Member Brown moved to accept. Board Member Ladner seconded the motion, which carried without objection (3-0 vote).

Item 4.   Agency Operations Report:

Stephen Vollbrecht (Executive Director and State Risk Manager) introduced the Agency Operations Report (AOR) highlighting status and upcoming reports on training opportunities and the creation of a CEU program through The Institute, recent legislative conversations pertaining to SB 22, recent leadership transitions, international insurance negotiations, LAR and RMIS implementation.

Todd Holt (Deputy Executive Director) and Tawn Ihnen (Interim Director, of Project Management) presented an update on current activities with Phase I of Origami has moved into production. Mr. Holt introduced Shelby Hyman (Director of Public Relations) to update the board on the role and responsibilities of the Public Relations department as they have evolved in training needs and the transition of all training to the Learning Management System (LMS), COOP update on the COOP Program Reset (CPR), and Public Relations outreach and YouTube analytics around active shooter.

Keith Despain (Interim Chief, of Internal Operations) and Linda Griffin (Director of Talent Management) introduced new employees, provided a list of current vacancies, provided updates to turnover and additional approaches to recruitment efforts. Mr. Despain introduced Darwin Hamilton (Interim Director, of Financial Management) to present the administrative and claim budgets with projected costs. Mr. Despain introduced Leo Ramirez (Director of Information Technology and Information Resource Manager) to give an update on department support with a focus on the RMIS implementation, operational support through all phases, CAPPS implementation and compatibility and current projects such as cybersecurity. DIR (Department of Information Resources) and OAG (Office of Attorney General)

are working closely with SORM on cybersecurity updates on the VPN and training for staff. Mr. Ramirez also updated the board on vulnerability awareness.

James Cox (Chief of Strategic Programs) presented Chris Martin, (Interim Director of Enterprise Risk). Mr. Martin presented an update on visit counts, internal audits, plus an update on the Statewide Insurance Program including participant lines, property renewals, notary applications, and insurance purchases. Mr. Cox introduced Lydia Scranton (Director of Claims Operations) to provide an update on current workers' compensation claims. Ms. Scranton detailed the COVID-19 legislation impact and expired exceptions with a claim overview.

Deea Western (Chief of Legal Services and General Counsel) presented information on Litigation Management, Benefit Review, Special Investigation and Recovery Services. Ms. Western introduced Janine Lyckman (Director of Medical Quality Assurance) to provide an update on cost savings, Network vs. Non-network counts and opportunities using the Origami program, and prescription savings. Ms. Western presented an update on indemnity files, compliance, and audits on behalf of Tshau Todman (Regulatory Liaison) who was not present. Ms. Western gave an update on Contract Administration and the summer legal interns and their assistance updating the contract management handbook under the supervision of Kathy Cordova (Director, Compliance Management). Continuing to look at VPET (Vendor Performance Evaluation Tool), and cybersecurity insurance.

Item 5   New Business:

5.1   Presentation, discussion, and action on remaining Fiscal Year 2023 assessment totals. Darwin Hamilton (Interim Director of Financial Management) replicate FY 2022 budget as it pertains to SB 22 reduces claims with Board approval. Ask the board to approve $40M and $12M for administrative budget. Board Member Ladner moved to accept proposal on remaining Fiscal Year 2023 assessment totals. Board Member Galindo seconded the motion, which carried without objection (4-0).

5.2   Presentation, discussion, and action on the upcoming Legislative Appropriations Request, Darwin Hamilton (Interim Director of Financial Management) and laptop refresh for 130 laptops; cost unknown. Board member Ladner moved to accept proposal. Board member Galindo seconded the motions, which carried without objection (4-0)

Item 6   Executive Session: Recess pursuant to Section 551.074, Government Code, to discuss the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.

Item 7   No Old Business

Item 8   No Public Comment

Item 9   Future Meeting Dates. Discussion on suggested dates for the next board meeting. Board Chair Garland set October 18, 2022, as the next tentative meeting date with a back-up of October 25, 2022.

Item 10   Board Chair Garland adjourned the meeting at 11:48 p.m.

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4. **Presentation and discussion of Agency Operations Report**

Presentation of division reports

Information

Management will be available to summarize agency and division activities and provide additional information requested by the Board.

Board identification of key metrics or other components for inclusion or removal in subsequent reports.

Action Required

No official action required.

AGENCY OPERATIONS REPORT FY22Q4
TO THE
SORM BOARD OF DIRECTORS

October 18, 2022

EXECUTIVE ADMINISTRATION

EXECUTIVE OFFICE

I. PEOPLE AND CULTURE INITIATIVE

Talent Management is working on a major initiative this fiscal year focusing on agency culture and development post-Covid. Multiple approaches are underway, beginning with the consensus adoption of a formal agency culture statement: "*The State Office of Risk Management will promote and preserve a culture of accountability, belonging, inclusion, diversity, and equity in all aspects of our organization.*" Further details will be provided today and in future board meetings.

II. RECRUITMENT AND RETENTION INITIATIVE

Related to the People and Culture initiative, we are undertaking a significant effort to address Recruitment and Retention. Work is underway to identify all available resources for reinvestment in our employees and processes to address the realities of the new work environment, including economic pressures and increased demands.

III. LEADERSHIP TRANSITIONS AND TRAINING

Recent leadership transition has allowed opportunities for advancement of existing staff and the onboarding of new staff. The Office is pleased to announce permanent positions for the Chief of Internal Operations, Director of Financial Management/CFO, Director of Information Technology, Director of Project Management, and Director of Compliance Management. Additional movements are anticipated. We are also piloting new management training from The Institutes and focusing on succession planning.

IV. LEGISLATIVE APPROPRIATIONS REQUEST/BIENNIAL OPERATING PLAN

Copies of the LAR and BOP are filed have been included in your packets for your records.

V. INSURANCE NEGOTIATIONS AND DEVELOPMENT

Strategic Programs, Enterprise Risk, and executive staff have been heavily engaged in development and support of the property, motor, and cyber lines. Expect significant developments over the next months in each of these domains.

VI. TECHNOLOGY PROJECTS (RMIS/CAPPS)

Project Management will provide an update on the Origami implementation (RMIS), and Agency Relations will provide an update on STAR implementation (LMS).

PROJECT MANAGEMENT

I. RMIS IMPLEMENTATION PROJECT UPDATE

A. PROJECT EXECUTION

The Project Management (PM) team completed two implementations in this quarter. The first implementation involved Origami moving production from "staging" to the "production" servers. The second implementation involved integration with the statewide CAPPS Financial system. With the successful completion of these implementations, PM staff are working with Origami to strategically scope and plan the remaining phases of the Origami migration project. In addition, PM is exploring opportunities to expand project management frameworks to other SORM divisions.

B. PROJECT MONITOR AND CONTROL

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

In addition to the Origami migration, PM facilitates, monitors, and reports on project activity across the agency. The SORM project activity statistics are presented below. Overall, project numbers showed a slight increase from the prior quarter.

Quarterly Statistics by Status

		Opened	Complete	Withdrawn	In Progress	Oh Hold	Pending Approval	Not Started
2019	Prior to FY20Q1	7	0	1	1	0	0	0
FY20	Q1	56	6	9	4	8	0	1
	Q2	23	24	0	0	1	1	0
	Q3	21	17	1	1	1	0	0
	Q4	7	17	1	0	1	1	1
FY21	Q1	21	9	9	1	2	0	1
	Q2	9	7	0	1	0	2	1
	Q3	9	8	0	1	1	0	0
	Q4	13	10	1	0	0	0	0
FY22	Q1	4	5	0	0	1	0	1
	Q2	6	2	0	1	2	0	0
	Q3	8	14	0	2	0	0	0
	Q4	13	7	0	11	0	0	0
	TOTAL	197	126	22	23	17	4	5

Quarterly Statistics by Category

		External Audit Finding	Legislative Requirement	New RMIS	SORM Must Have	Other
FY19	Prior to FY20Q1	2	1	1	2	1
FY20	Q1	3	12	9	13	19
	Q2	0	2	0	12	9
	Q3	1	1	14	3	2
	Q4	0	0	3	1	3
FY21	Q1	0	1	6	5	9
	Q2	0	1	3	4	1
	Q3	0	0	5	3	1
	Q4	0	1	10	2	0
FY22	Q1	0	0	3	1	0
	Q2	0	0	3	0	3
	Q3	0	1	6	1	0
	Q4	0	1	5	3	4
	TOTAL	6	21	68	50	52

AGENCY RELATIONS

I. TRAINING

Throughout FY22Q4, Agency Relations slowly began testing the learning management system (LMS) platform by allowing limited participation on the self-paced Workers' Compensation Claims Coordinator Training and the self-paced Driving Safety courses. This testing helped prepare us for a full platform update, including a visual overhaul, and the successful soft launch of the new platform on September 1, 2022. We have successfully transitioned all instructor led and virtual training from the legacy system (RMIS) to the new LMS and will fully launch self-paced training in October 2022.

Instructor Led Agency Training for FY22Q4

Course Name	Classes Taught	Students
15 Passenger Van Safety	1	17
Additional Duty Safety Officer (ADSO) Orientation	2	12
Conflict Resolution	1	8
Driving Safety	8	328
Personal Safety and Situational Awareness	1	5
Slips, Trips, and Falls	1	11
TOTAL	14	381

Self-Paced LMS Training FY22Q4

Virtual Course Name	Students
Driving Safety	62
Workers' Compensation Claims Coordinator Training	20
TOTAL	82

II. STATEWIDE CONTINUITY OF OPERATIONS (COOP) PROGRAM

During FY22Q4, the continuity program continued its efforts to create a continuity community through leadership, guidance, resources, and education. SORM staff completed a necessary "train-the-trainer" course for their Master Continuity Practitioner Certifications and are on track to become members of the FEMA instructor cadre. Several local administrations such as the Brazos River Authority and San Marcos CISD are using our services to enhance their COOP programs, and staff are currently working on internal and external training materials to enhance agency, individual, and state preparedness.

FY22Q4 COOP Activity

Plans Evaluated	20
Exercises Evaluated	15
Outreach/Presentations	23
Individual Consultations	20
Continuity Council and Committee Meetings	32
Internal SORM COOP Meetings	56

III. AGENCY RELATIONS OUTREACH

SORM continues to be engaged with the Legislature as they will soon determine federal fund grand distribution for IT projects.

YOUTUBE ANALYTICS

CANADA
1,001 views

UNITED STATES
28,602 views

UNITED KINGDOM
468 views

FY22Q4 TOP 5 US STATES

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

FY22Q4 TOP 3 VIDEOS

How to Survive an Active Shooter	21,857 views
How to Prevent Heat-Related Illness	6,469 views
Same Level Slips, Trips and Falls	1,986 views

FY21Q4 TOTAL

Total views	36,386
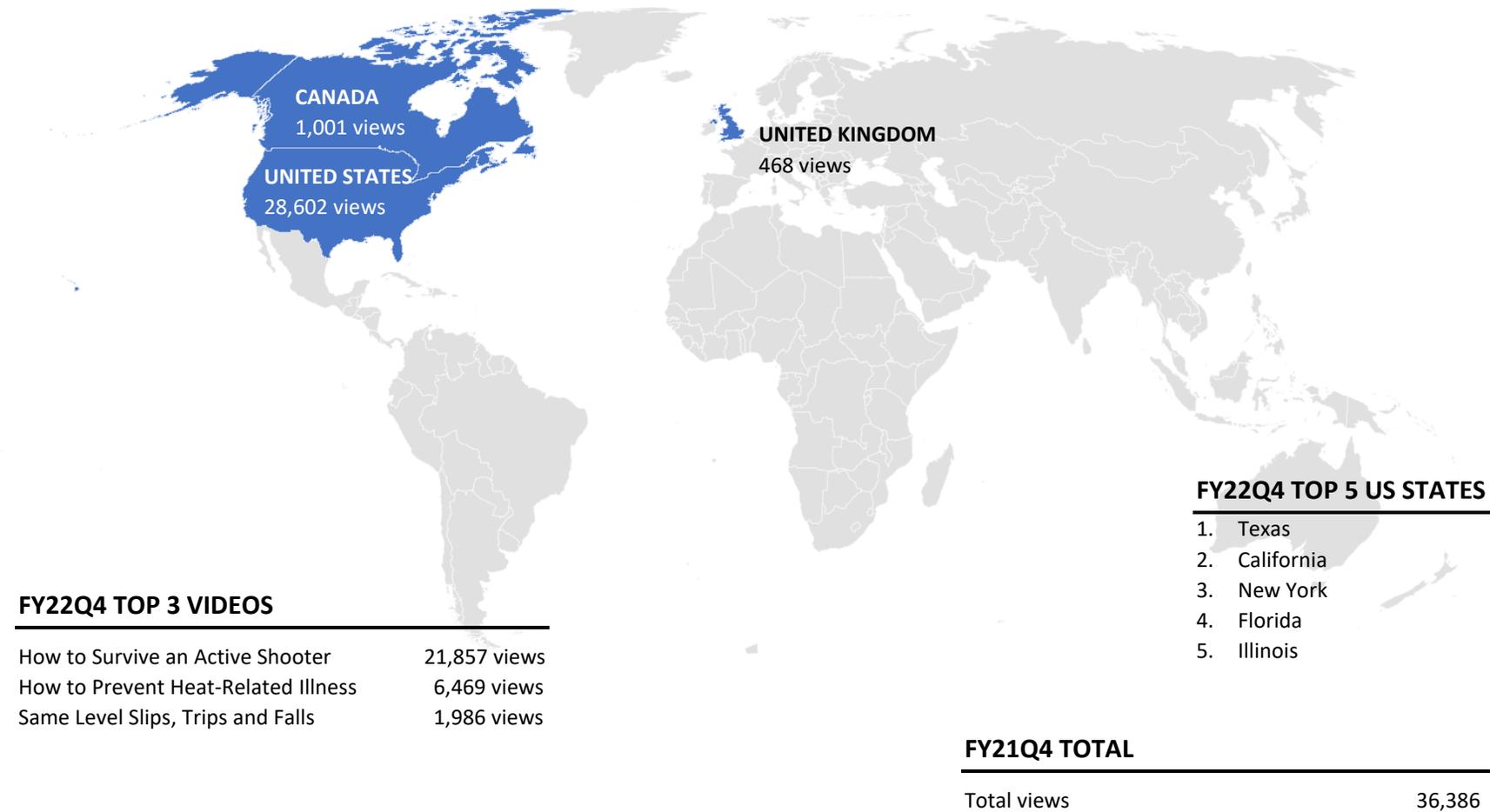
TALENT MANAGEMENT

New Hires	Vacancies
Otto Bieker, Legal Assistant	Director, Legal Management
Miriam Wilson, Claims Adjuster	Director, Compliance Management
Grizelda Gonzales, Medical Claim Bill Specialist	PM-Programmer
Briana Leal, Receptionist	PM-Cloud Application Administrator
	Performance Management Specialist
	Systems Support Specialist
	Senior Claims Adjuster
	Claims Adjuster (4)
	Compliance Assurance Specialist (2)
	Lead Cost Containment Specialist
	Receptionist

Annual Turnover Rates

FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
14%	23%	20%	19%	19%	16%	8%	10%	16%	18%	21%	10%	15%	16%	17%	16%	14%	15%	23%	28%
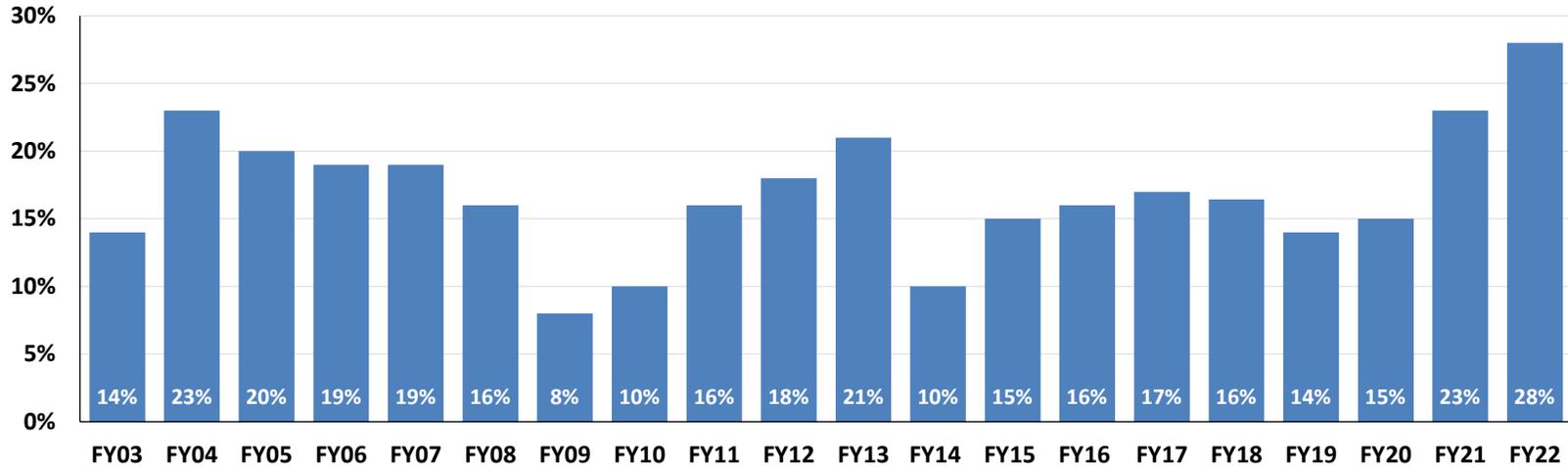
FINANCIAL MANAGEMENT

FY22 AGENCY (CONSOLIDATED) BUDGET
AUGUST 31, 2022

Objects of Expense	Initial Budget:	Adjustments Transfers (+ In, - Out)	Revised Budget:	Expenditures Year to Date @ 8/31/22	Encumbrances @ 8/31/22	Remaining Budget @ 8/31/22	Unpaid Expenses Incurred	Percent of Budget Expended/Incurred	Percent of Fiscal Year Elapsed
Salaries & Wages	7,557,391	0	7,557,391	5,811,081	0	1,746,310	528,285	83.9%	100.0%
Other Personnel Costs	400,000	0	400,000	738,631	0	(338,631)	29,914	192.1%	100.0%
Professional Services	1,650,000	405,000	2,055,000	1,364,856	136,980	553,164	179,826	75.2%	100.0%
Consumable Supplies	40,000	0	40,000	31,039	10,409	(1,449)	15	77.6%	100.0%
Utilities	5,600	0	5,600	3,966	1,775	(141)	187	74.2%	100.0%
Travel	90,350	0	90,350	37,627	0	52,724	7,049	49.4%	100.0%
Rental of Space	720	0	720	720	0	0	0	100.0%	100.0%
Rental of Equipment	24,000	0	24,000	17,698	3,587	2,715	0	73.7%	100.0%
Operating Costs	3,024,916	(405,000)	2,619,916	1,474,436	262,024	883,456	206,881	64.2%	100.0%
Capital Expenditures	99,000	0	99,000	0	61,815	37,185	0	0.0%	100.0%
TOTAL	**12,891,977**	**0**	**12,891,977**	**9,480,053**	**476,590**	**2,935,334**	**952,157**	**80.9%**	**100.0%**

Objects of Expense	Initial Budget:	Adjustments Transfers (+ In, - Out)	Revised Budget:	Expenditures Year to Date @ 8/31/22		Remaining Budget @ 8/31/22		Percent of Budget Expended/Incurred	Percent of Fiscal Year Elapsed
Indemnity	19,390,817	0	19,390,817	18,679,157		711,660		96.3%	100.0%
Medical	21,176,933	0	21,176,933	16,155,210		5,021,723		76.3%	100.0%
Total Exps.	**40,567,750**	**0**	**40,567,750**	**34,834,367**		**5,733,383**		**85.9%**	**100.0%**
Subrogation and Restitution	(567,750)	0	(567,750)	(-432,643)		(135,107)		76.2%	100.0%
NET TOTAL	**40,000,000**	**0**	**40,000,000**	**34,491,124**		**5,508,876**		**86.0%**	**100.0%**

Medical Bills Processed FY22
68,760 Total

Month	Value
Sept	1,980
Oct	1,986
Nov	2,232
Dec	2,229
Jan	2,322
Feb	2,147
Mar	2,473
Apr	2,802
May	1,594
Jun	2,221
Jul	2,101
Aug	2,544
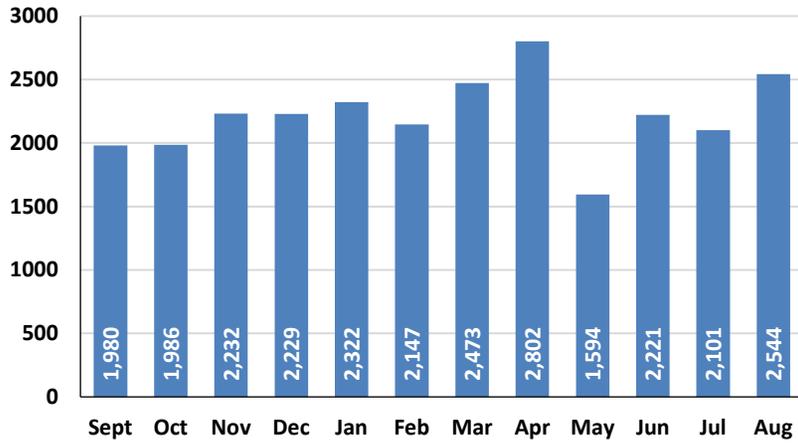
Indemnity Bills Processed FY22
26,631 Total

Month	Value
Sept	6,421
Oct	4,884
Nov	5,277
Dec	5,200
Jan	5,120
Feb	3,957
Mar	7,381
Apr	5,756
May	7,001
Jun	5,057
Jul	6,634
Aug	6,072
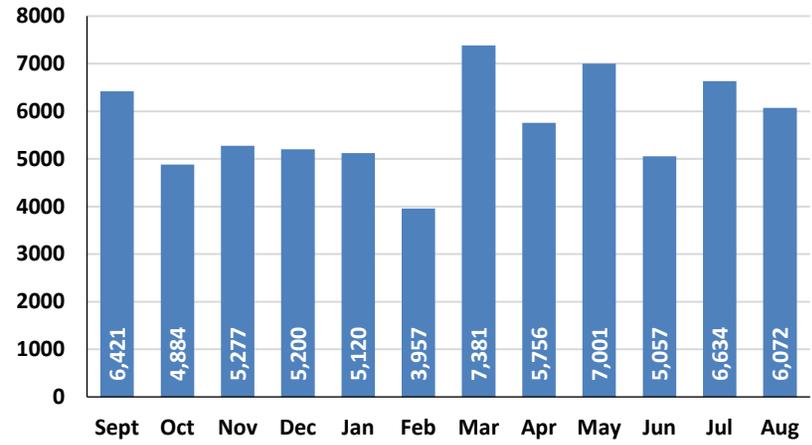
INFORMATION TECHNOLOGY

I. ONGOING AGENCY SUPPORT

Information Technology (IT) continues to support the agency operations through infrastructure support, processing, and reporting. Significant areas of activity in FY22Q4 include:

Area	Task
Equipment – Servers, desktops, laptops, and peripherals	• Replaced out of warranty/support server hardware with new equipment both at WPC and the Disaster Recovery (DR) site • Replaced malfunctioned parts for servers and workstations • Managed and supported server and PC infrastructure
Software changes (mainframe, web, client/server, and PC applications)	• Tested, validated, and implemented new computer programs for the new CAPPS Financials implementation, coordinating with both the Comptroller's Office and OAG • Completed code and process improvements for SORM applications • Updated web/mainframe development projects in Team Foundation Sever (TFS) • Supported the external website server and/or database changes
Origami Implementation	• Provide post-implementation support to SORM staff for the new Origami RMIS system • Complete Origami migration from Staging to Live environment • Worked with OAG, Origami, and the Comptroller's Office to migrate the payment processes and payment data to the new Origami RMIS system • Updated relevant documentation related to processes, procedures, and tasks related to the Origami implementation • Continued analyzing data and creating reports and workflows in the new Origami RMIS system
Ongoing User Support	• Ongoing software, email, and application support to SORM staff

Cybersecurity	• Reviewed scheduled Vulnerability Scan Reports for SORM computers and servers
	   o Installed updates on computers and servers to address vulnerabilities and comply with cybersecurity standards
	• Met with OAG's Cybersecurity team to assess current and future vulnerabilities and plan for addressing possible cyber threats
	   o SORM vulnerabilities continue decreasing at a steady rate for all our devices, including desktops, laptops, tablets, and printers

Vulnerabilities Trending Per Month (6 Months)

March 27, 2022 through September 23, 2022
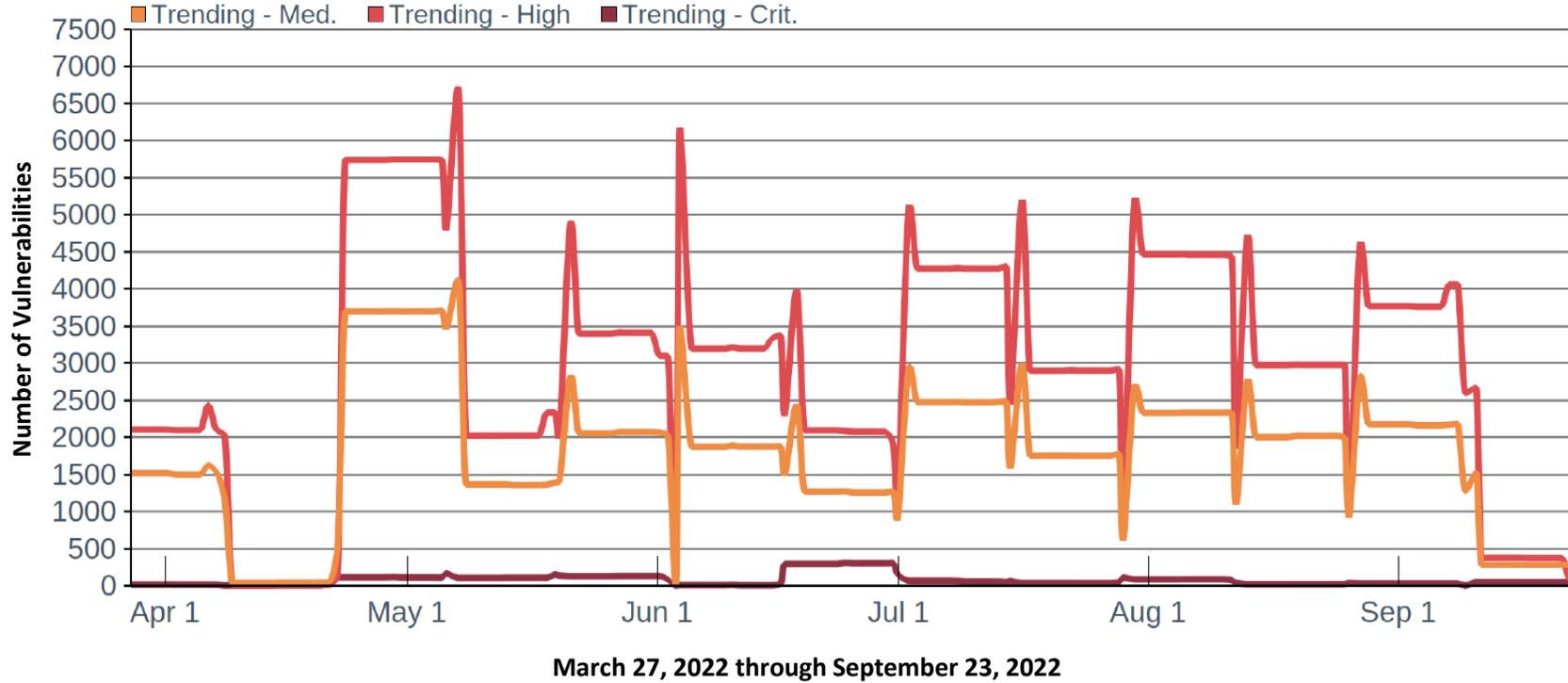
Current Vulnerabilities

	Low	Medium	High	Critical
< 7 Days	11	76	75	17
8 - 14 Days	0	21	14	24
15 - 21 Days	25	5	1	0
22 - 30 Days	0	29	32	7

Mitigated Vulnerabilities

	Low	Medium	High	Critical
< 7 Days	0	59	41	12
8 - 14 Days	0	12	36	6
15 - 21 Days	24	0	0	0
22 - 30 Days	0	5	36	4

II. ANTICIPATED ACTIVITY

In addition to routine support functions congruent with operations for the Office, we anticipate the following activities during FY23Q1 and beyond:

A. Implement a new password policy and password reset process in coordination with OAG
B. Begin Origami Phase 2 Implementation
C. Build the new Employee Checklist with Talent Management as the champion
D. Continue supporting external website and intranet server/database
E. Continue supporting the new Learning Management System (LMS) server/database

STRATEGIC PROGRAMS

ENTERPRISE RISK

I. STATEWIDE RISK MANAGEMENT PROGRAM

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

	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug
OSCs	20	18	15	13	14	9	31	39	18	21	21	12
RMPRs	0	0	2	1	0	2	3	2	2	0	1	12

101% of annual goal of 229 OSCs

100% of annual goal of 25 RMPRs

Recommendations Given FY22Q4
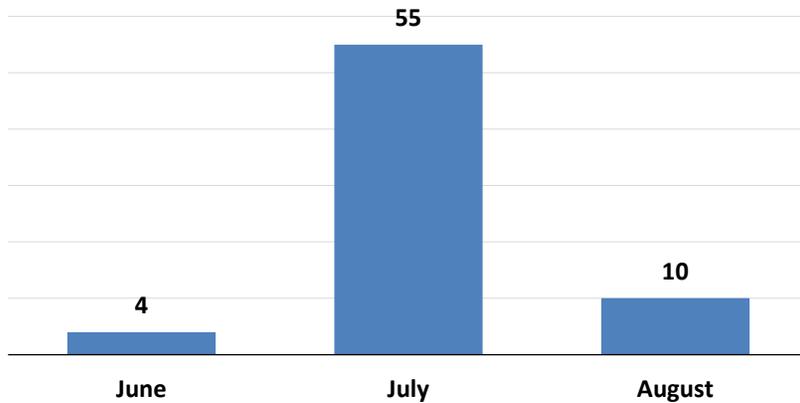
Closed Recommendations FY22Q4
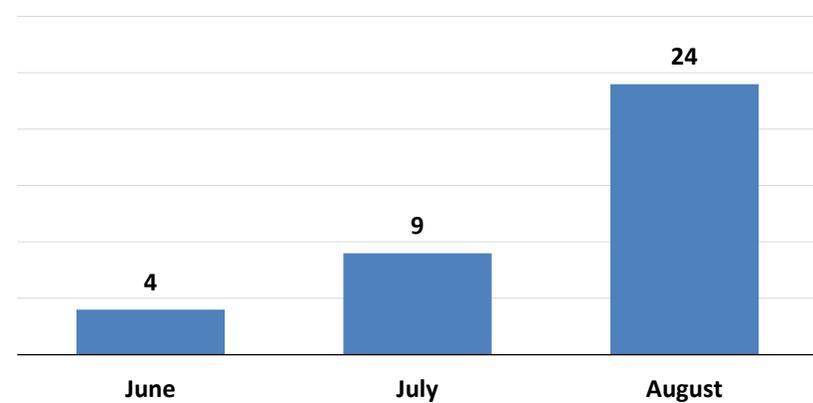
Category of Recommendations FY22Q4

COOP	2
Environmental	2
Insurance	1
Risk Management	13
Safety	43
Policy/Procedure/Training	8

II. STATEWIDE INSURANCE PROGRAM

A. PARTICIPANTS IN STATEWIDE INSURANCE LINES FY22Q4

D&O/POL	33	
Property	46	
Automobile	62	
Volunteer	15	
Builder's Risk	1	
Fine Arts	5	
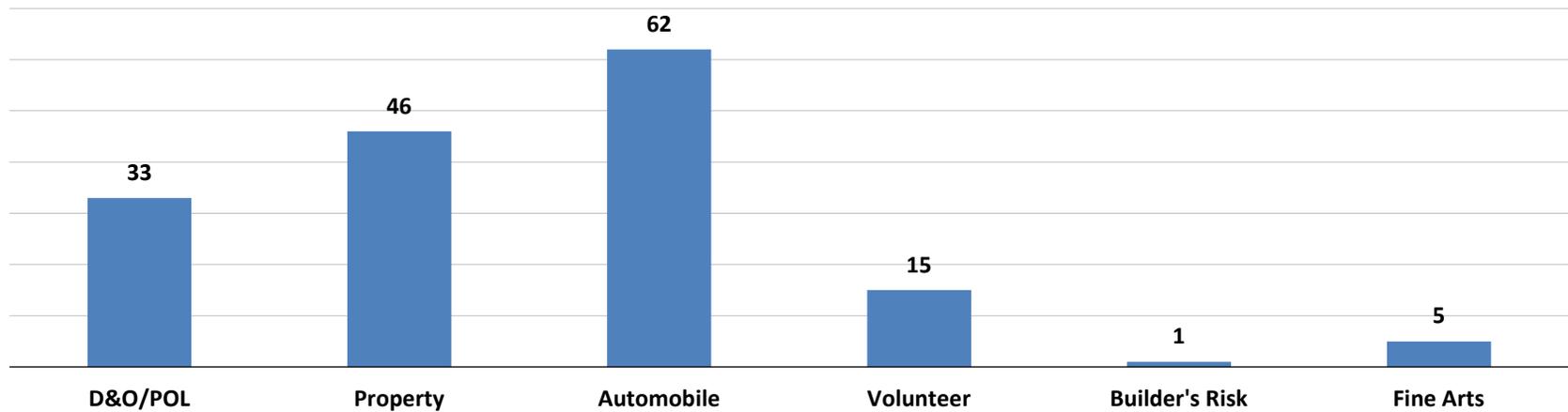
B. MONITORING

388 notary applications were processed during FY22Q4

C. INSURANCE PURCHASES

SORM 201s processed: 6
SORM 201s approved and premium paid: 6 for $86,729

SORM 201s FY22Q4

Line of Insurance	Approved	Comments	Premium
Foster Grandparent	✓	Annual renewal of the Volunteer Insurance Policy for its Foster Grandparent Program. This is a federally funded grant program which requires this specific insurance coverage in order to be an eligible sponsor of the program. Because the premiums are funded by the federal grant, the Agency is not participating with the SORM sponsored volunteer insurance program in order to keep the accounting of federal grant money separate from the state general revenue funds and ensure that the program related expenses are clearly established. See 45 CFR Part 2552	$1,820
Cyber	✓	The policy transfers some of the risk related to covered expenses, (i.e., notification and forensics),if there is a privacy event, security incident, or breach.	$62,995

Line of Insurance	Approved	Comments	Premium
WC CA	✓	This coverage provides workers compensation insurance for employees who work on behalf of the State of Texas but operate or live outside of Texas.	$5,311
Hull and Machinery	✓	Commercial hull, protection and indemnity (P&I) coverage protects the vessel owner against legal liabilities arising out of negligence in the operation of a vessel.	$14,000
Crime	✓	This insurance protects the interest of the entity, in the event a financial loss sustained due to employee theft, dishonest, misappropriation of funds, embezzlement or computer fraud.	$2,291
Postal Bond	✓	The US Postal Service Surety Bond required by the USPS for an on-campus Post Office assures the supplier's performance of an employee's duties and protects against improper processing of mail, and theft of the stamp stock.	$312
		TOTAL	**$86,729**

CLAIMS OPERATIONS

I. CLAIMS OPERATIONS ACTIVE WORKLOAD FY22Q4

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

A. SORM received 1,623 injury reports (claims) in FY22Q4, which is a slight decrease from the number of injury reports received in FY22Q3 (1,659)
B. 651 claims were accepted
C. 1,650 claims were inactivated
**D.** SORM had 2,128 open claims at the end of FY22Q4

Claims Received per Quarter

Quarter	Value
FY17Q4	2,052
FY18Q1	1,909
FY18Q2	1,678
FY18Q3	1,942
FY18Q4	2,016
FY19Q1	1,866
FY19Q2	1,640
FY19Q3	1,857
FY19Q4	2,178
FY20Q1	1,952
FY20Q2	1,871
FY20Q3	3,070
FY20Q4	5,734
FY21Q1	1,912
FY21Q2	1,751
FY21Q3	1,921
FY21Q4	2,366
FY22Q1	2,006
FY22Q2	2,195
FY22Q3	1,659
FY22Q4	1,623

Claims Open per Quarter

Quarter	Value
FY17Q4	3,546
FY18Q1	3,110
FY18Q2	2,884
FY18Q3	2,891
FY18Q4	2,866
FY19Q1	2,828
FY19Q2	2,691
FY19Q3	2,875
FY19Q4	3,111
FY20Q1	2,744
FY20Q2	2,761
FY20Q3	3,770
FY20Q4	5,146
FY21Q1	2,937
FY21Q2	2,722
FY21Q3	2,486
FY21Q4	2,549
FY22Q1	2,735
FY22Q2	2,707
FY22Q3	2,293
FY22Q4	2,128

II. ANALYSIS OF INCOME BENEFITS EXPENSES FOR FY22Q4

A. FY22Q4 reflects a slight increase in TIBs indemnity costs from FY22Q3
B. TIBs payments were $2,239,040 and IIBs payments were $789,861 in FY22Q4
C. At the end of FY22Q4, there were 437 TIBs, 132 IIBs, 31 SIBs with payment, 13 LIBs, and 105 DIBs claims open

Temporary Income Benefits (TIBs) expenditures for FY22Q4 totaled $2,239,040 on 437 claims

TIBs Expense per Quarter
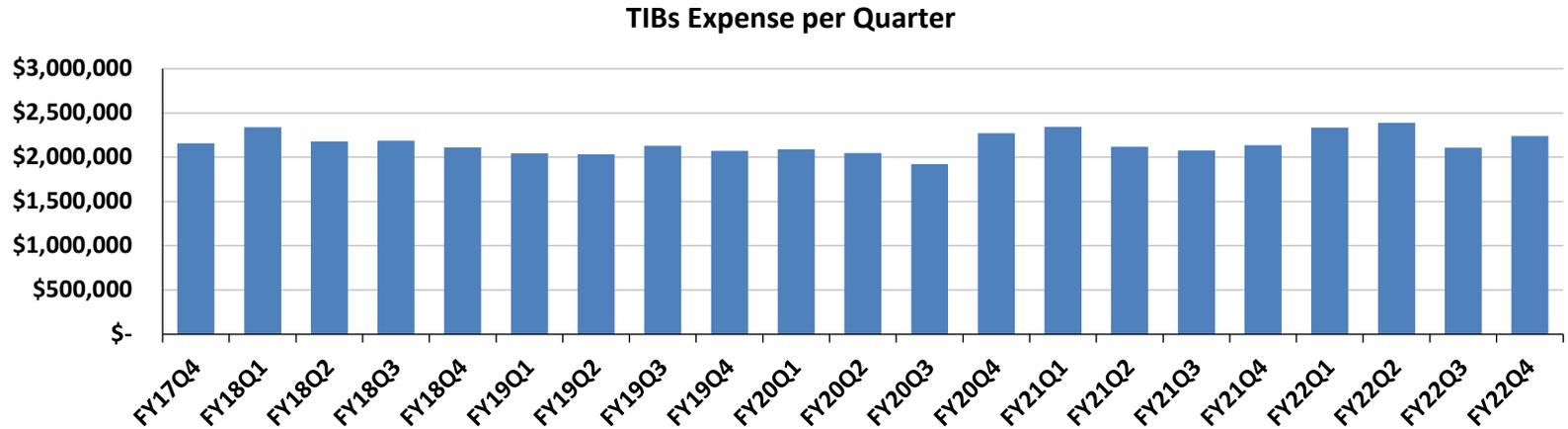
Impairment Income Benefits (IIBs) expenditures for FY22Q4 totaled $789,861 on 132 claims

IIBs Expense per Quarter
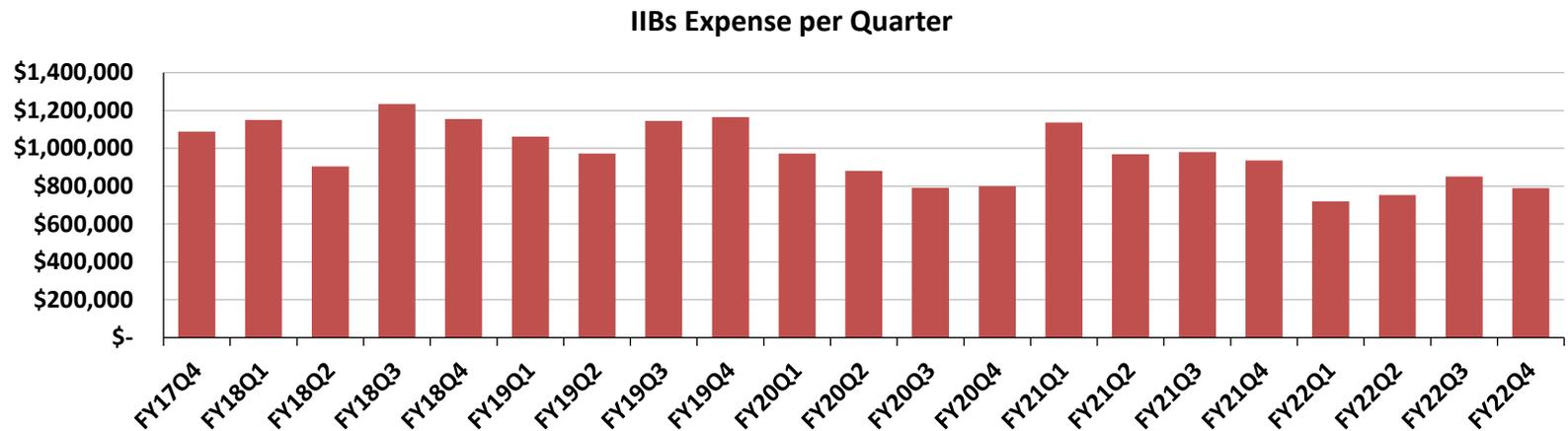
Supplemental Income Benefits (SIBs) expenditures for FY22Q4 totaled $349,323 on 31 claims

SIBs Expense per Quarter

*FY17Q4 – nine quarters paid due to CCH ruling
*FY22Q4 – thirteen quarters paid due to CCH rulings on two claims
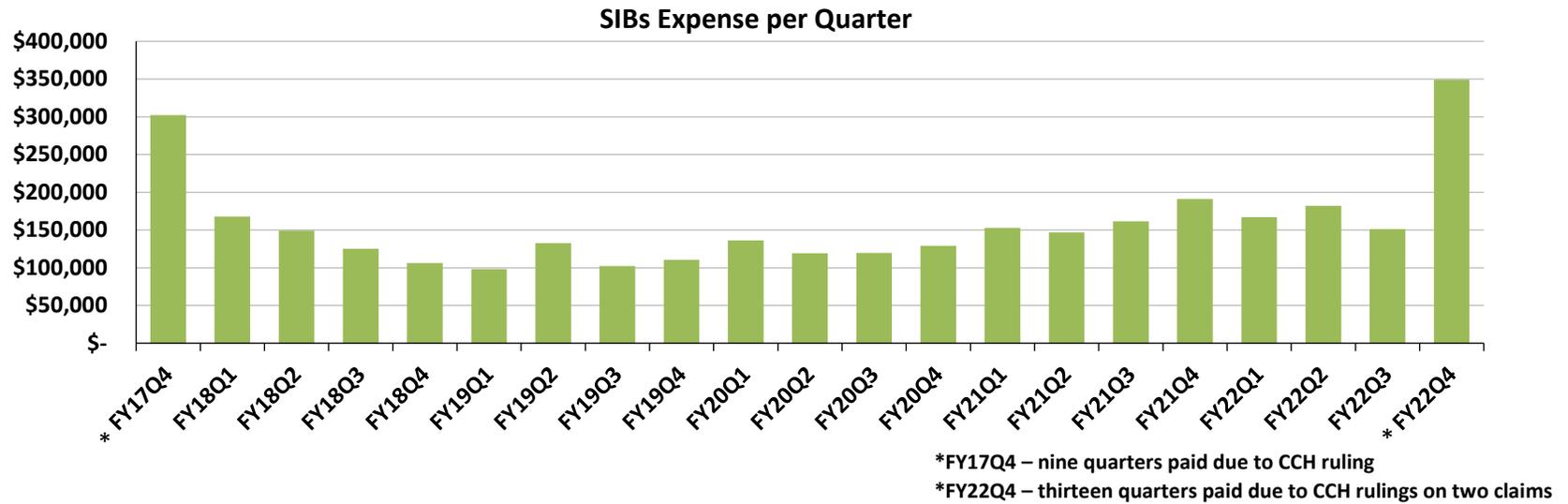
Combined indemnity expenditures for FY22Q4 totaled $4,585,413 on 686 claims

Combined Indemnity Expense per Quarter

Legend:
- Temporary Income Benefits (TIBs)
- Impairment Income Benefits (IIBs)
- Supplemental Income Benefits (SIBs)
- Lifetime Income Benefits (LIBs)
- Death Income Benefits (DIBs)
- Old Law (OLW)

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LEGAL SERVICES
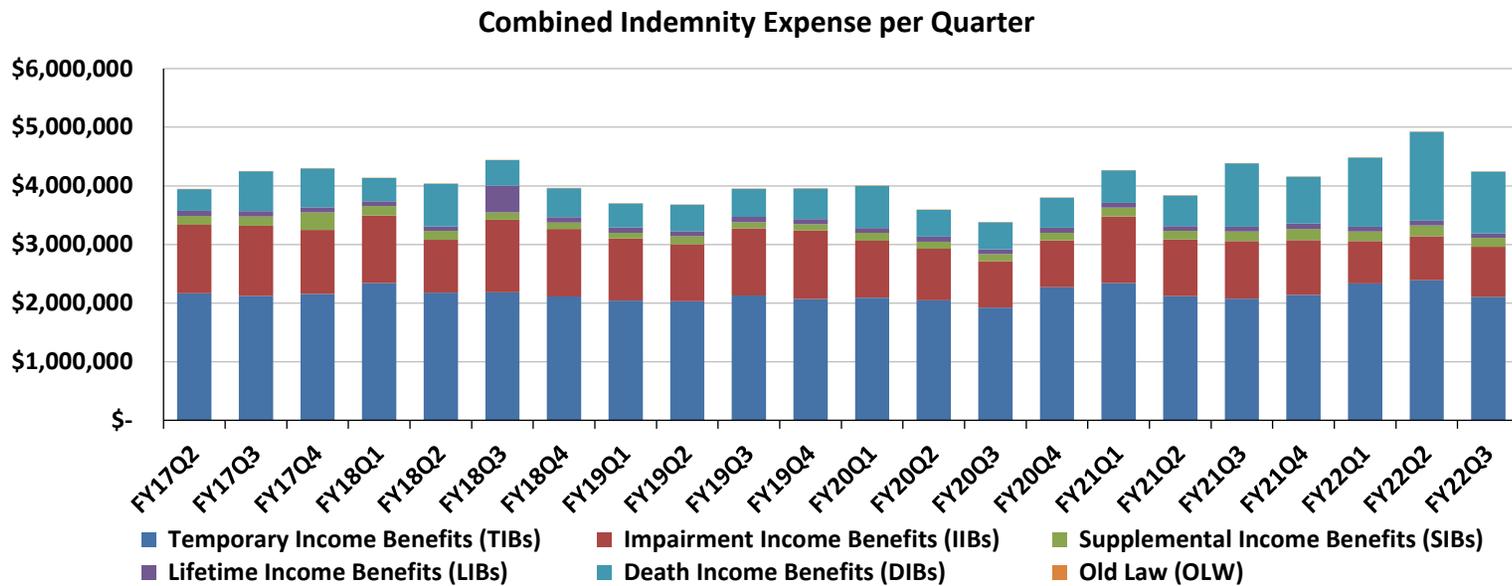
LITIGATION MANAGEMENT

I. BENEFIT DISPUTE RESOLUTION FY22Q4

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

Top 5 BRC Issues FY22Q4	Amount
Maximum Medical Improvement/Impairment Rating	29
Extent of Injury	27
Extent of Injury/Maximum Medical Improvement/Impairment Rating	15
Existence of Injury	5
SIBs Entitlement	5

Top 5 CCH Issues FY22Q4	Amount
Extent of Injury/Maximum Medical Improvement/Impairment Rating	20
Extent of Injury	9
Maximum Medical Improvement/Impairment Rating	6
Existence of Injury/MMI/IR/Disability	4
Disability	3

II. SPECIAL INVESTIGATIONS

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

FY22Q4	Pending	Opened	Closed	Criminal/Administrative Referrals
Fraud Investigations	10	5	3	1 Report Only

III. RECOVERY SERVICES

When a claimant's injuries are caused by a third party, SORM can request reimbursement for benefits that have been paid by the state for the compensable injury. If a TDI-DWC interlocutory order or decision is reversed or modified in SORM's favor, SORM can request reimbursement from the Subsequent Injury Fund for the overpayment of benefits.

	FY22 Recovery Total
Restitution	$1,793
SIF	$210,561
Subrogation	$220,288
TOTAL	$432,643

COST CONTAINMENT

I. MEDICAL COSTS

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

Total Medical Cost Savings FY20Q4 - FY22Q4

	FY20Q4	FY21Q1	FY21Q2	FY21Q3	FY21Q4	FY22Q1	FY22Q2	FY22Q3	FY22Q4
Billed	$8,243,226	$13,626,040	$15,989,298	$13,434,137	$12,439,427	$13,185,020	$9,203,826	$16,998,859	$12,898,231
Paid	$3,103,416	$4,199,594	$4,691,990	$4,314,976	$4,281,120	$4,252,953	$3,504,056	$2,680,590	$4,206,757
Savings	$5,139,810	$9,426,445	$11,297,308	$9,119,161	$8,158,306	$8,932,067	$5,699,770	$14,318,269	$8,691,474
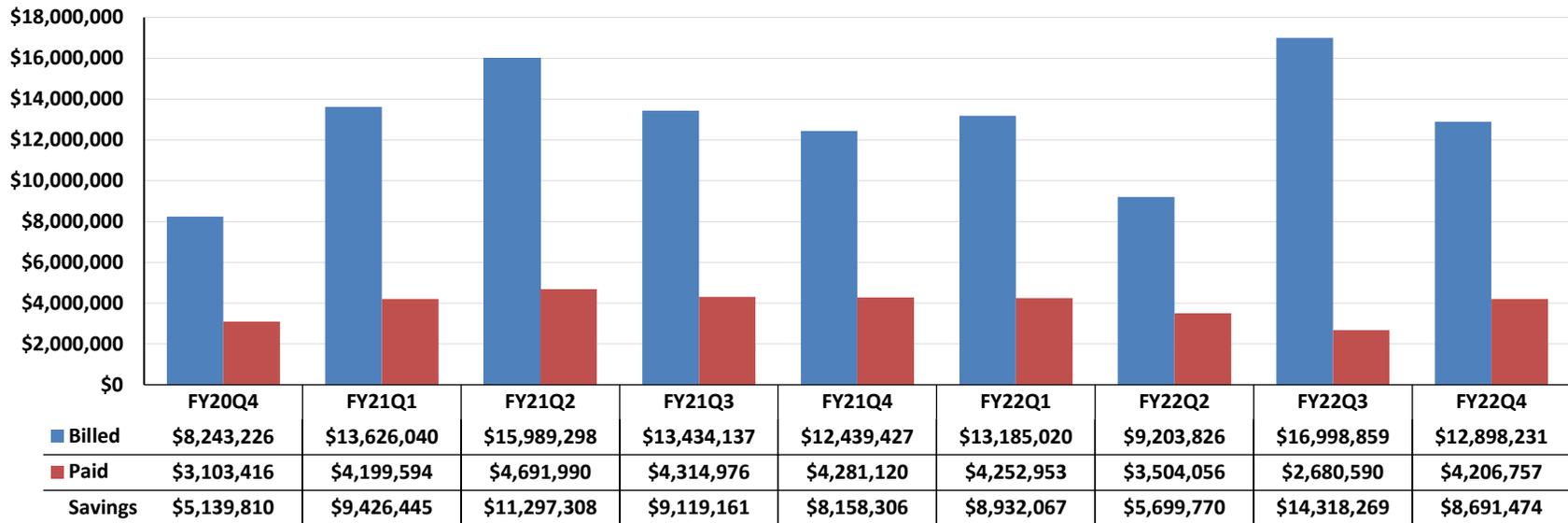
Medical Payments FY22Q4

Hospital: $1,968,665
Medical: $1,824,957
Misc. Expense: $234,141
Pharmacy: $178,995

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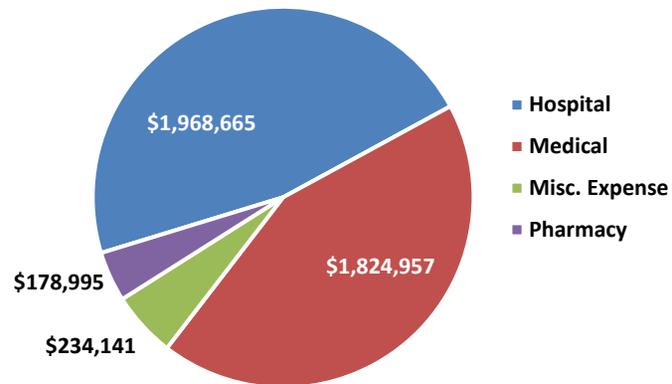
II. NETWORK AND NON-NETWORK DATA

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

Network and Non-Network FY19 - FY22

	Network FY19	Non-Network FY19	Network FY20	Non-Network FY20	Network FY21	Non-Network FY21	Network FY22	Non-Network FY22
Number of Claims	3,662	2,203	3,514	1,509	4,596	770	7,668	1,762
■ Q4	$2,605,680	$2,481,907	$2,427,246	$674,805	$3,824,285	$459,212	$3,464,951	$689,738
■ Q3	$2,393,718	$2,123,870	$2,910,436	$787,684	$3,491,421	$629,434	$2,793,842	$470,244
■ Q2	$2,325,785	$1,982,270	$2,744,007	$728,797	$3,906,428	$726,014	$2,939,926	$390,563
■ Q1	$2,353,428	$2,384,077	$2,694,384	$2,389,660	$3,383,454	$697,496	$3,482,369	$508,431

III. PREAUTHORIZATION

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

Network Utilization Review FY20Q4 - FY22Q4

	FY20Q4	FY21Q1	FY21Q2	FY21Q3	FY21Q4	FY22Q1	FY22Q2	FY22Q3	FY22Q4
■ Approved	711	676	576	811	764	740	724	808	721
■ Denied	252	235	129	154	188	225	139	120	222
Savings	$400,312	$408,785	$353,949	$362,288	$388,909	$312,438	$182,871	$308,238	$350,828

Non-Network Utilization Review FY20Q4 - FY22Q4

	FY20Q4	FY21Q1	FY21Q2	FY21Q3	FY21Q4	FY22Q1	FY22Q2	FY22Q3	FY22Q4
■ Approved	204	129	102	110	132	125	102	131	116
■ Denied	33	47	31	44	41	51	22	24	42
Savings	$30,999	$64,494	$60,239	$102,652	$33,773	$38,286	$20,353	$11,511	$63,205
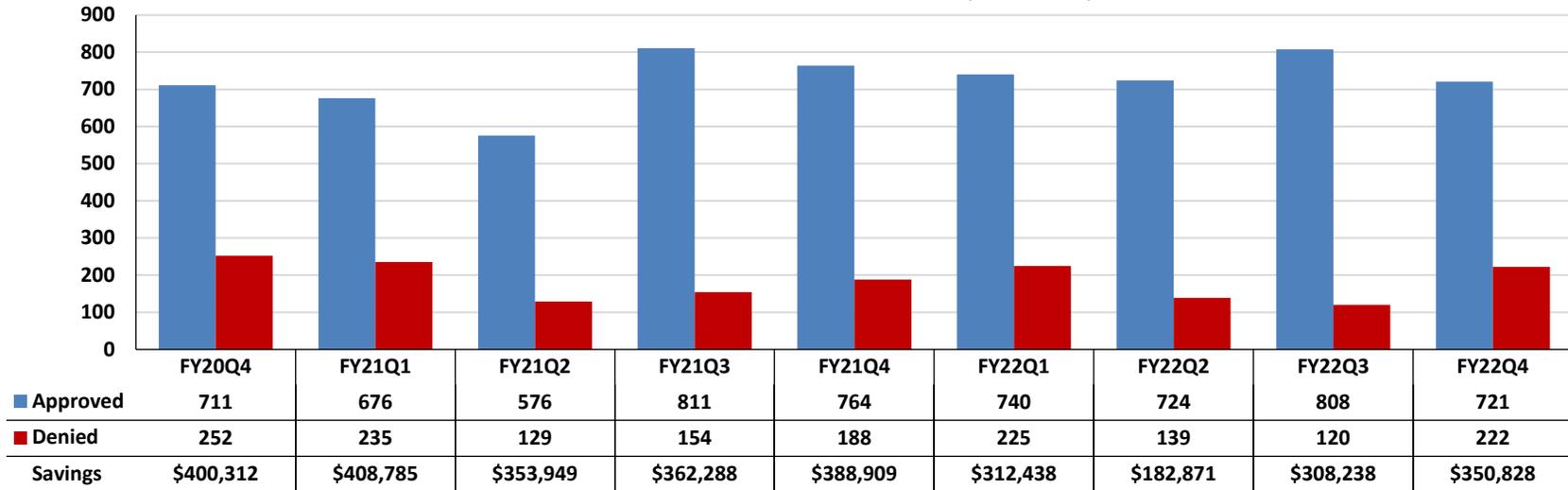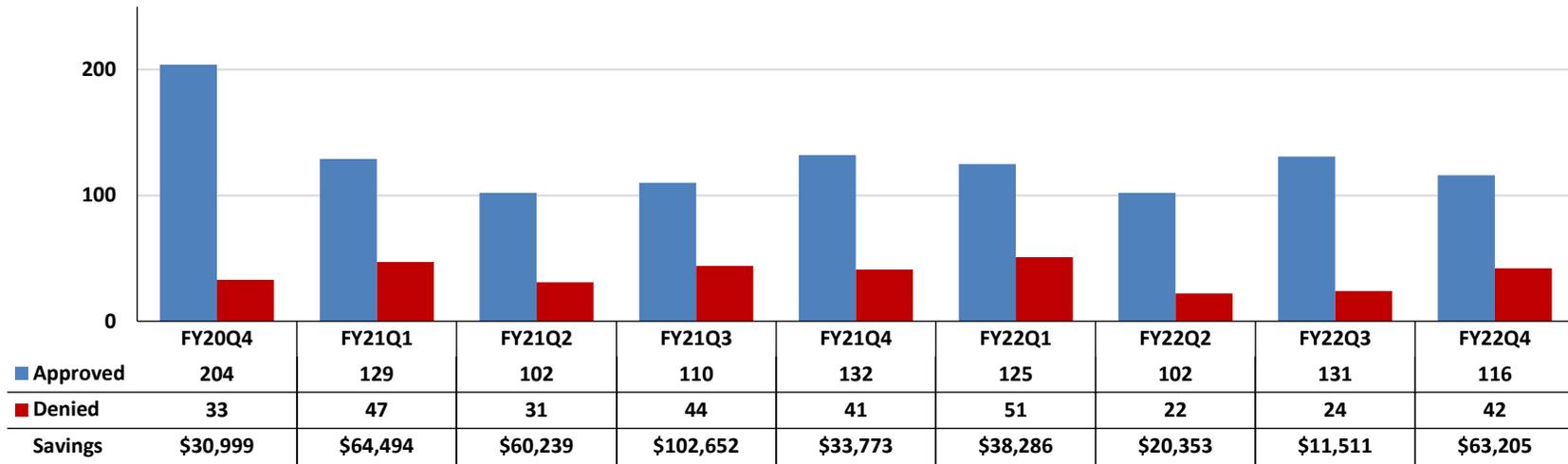
IV. PHARMACY BENEFIT MANAGEMENT

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

PBM Cost Savings FY20Q4 - FY22Q4

	FY20Q4	FY21Q1	FY21Q2	FY21Q3	FY21Q4	FY22Q1	FY22Q2	FY22Q3	FY22Q4
Fee Schedule	$238,484	$208,408	$211,914	$174,584	$129,681	$134,310	$137,500	$132,267	$138,273
Paid	$120,074	$106,704	$110,837	$98,009	$87,300	$88,328	$88,787	$86,264	$88,778
Total Savings	$118,410	$101,704	$101,077	$76,575	$42,381	$45,982	$48,713	$46,012	$49,496
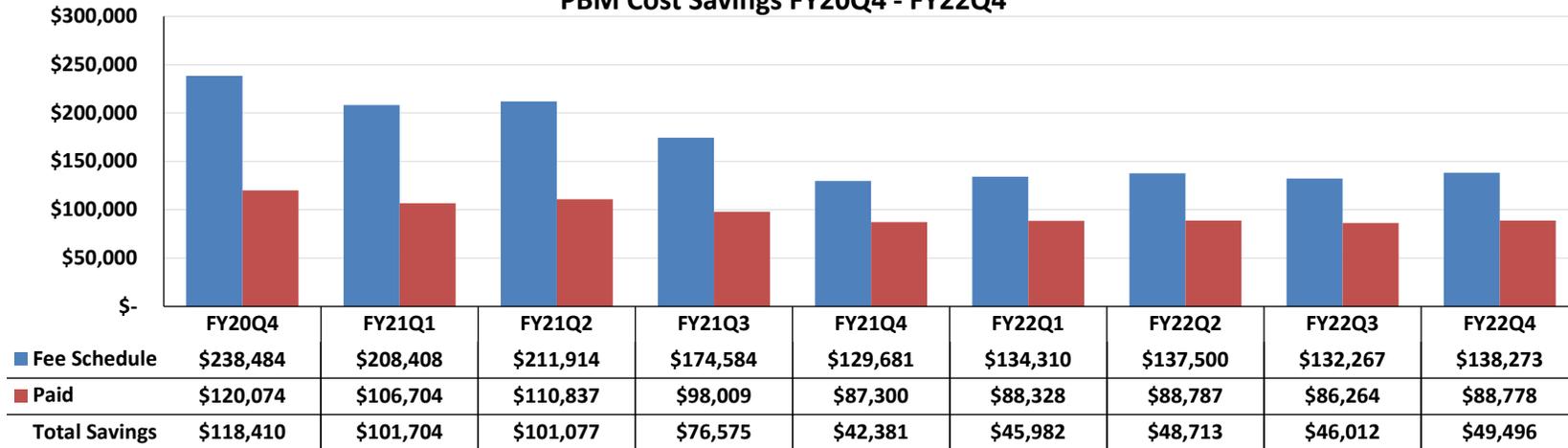
V. MEDICAL DISPUTE RESOLUTION FY22Q4

Medical dispute resolution is used to resolve disputes when an insurer reduces or denies payment of a medical bill or to determine the medical necessity of treatment for a compensable injury.

Medical Fee Disputes	14 Non-Network Providers
Medical Necessity Disputes	2 Non-Network IRO
	0 Network IRO

COMPLIANCE MANAGEMENT

I. REGULATORY COMPLIANCE

A. TEMPORARY INCOME BENEFIT AUDITS

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

Initial TIBs Compliance Rate & Late Payments

	FY20Q4	FY21Q1	FY21Q2	FY21Q3	FY21Q4	FY22Q1	FY22Q2	FY22Q3	FY22Q4
Initial TIBs	231	242	209	201	221	270	367	186	164
Late Payments	5	16	6	7	7	43	44	23	36
Compliance Rate	99%	95%	98%	96%	96%	88%	93%	89%	75%
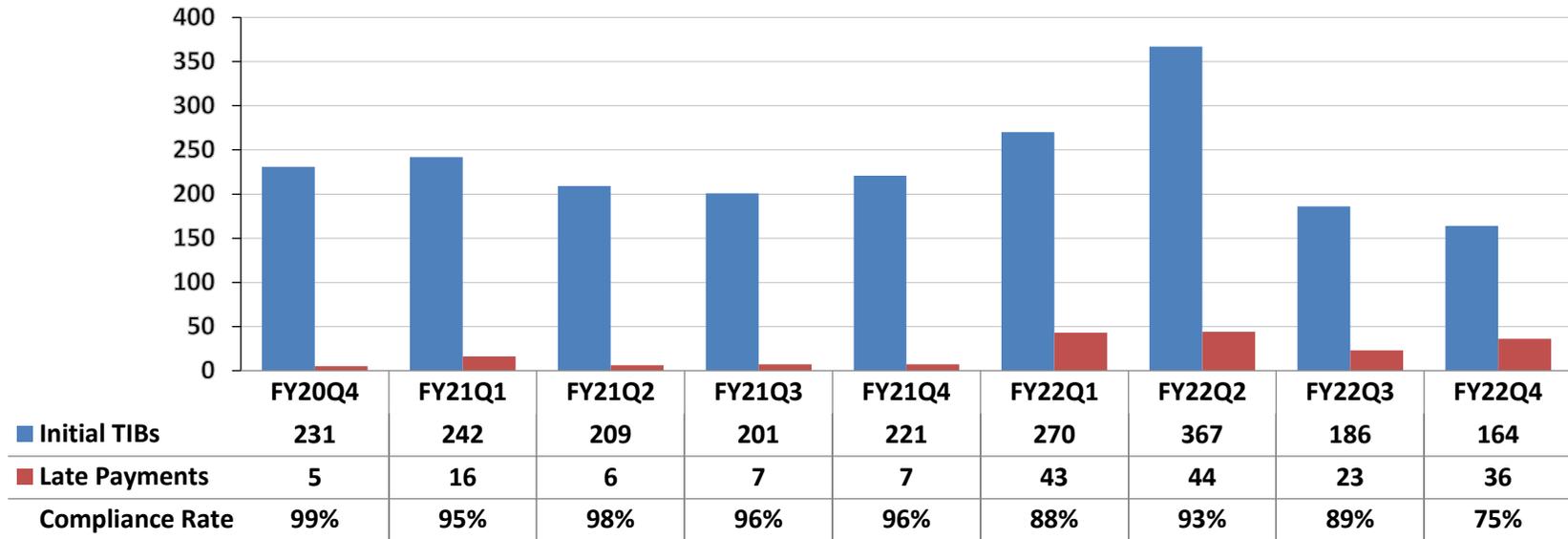
TIBs Late Payments FY22Q4

Carrier	21
Employer	15
System	0
No Fault/Misc.	0

B. IMPAIRMENT INCOME BENEFIT AUDITS

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

Initial IIBs Compliance Rate and Late Payments

	FY20Q4	FY21Q1	FY21Q2	FY21Q3	FY21Q4	FY22Q1	FY22Q2	FY22Q3	FY22Q4
■ Initial IIBs	32	35	31	27	23	17	30	24	14
■ Late Payments	0	0	0	0	0	1	2	4	8
Compliance Rate	100%	100%	94%	100%	100%	96%	97%	90%	79%
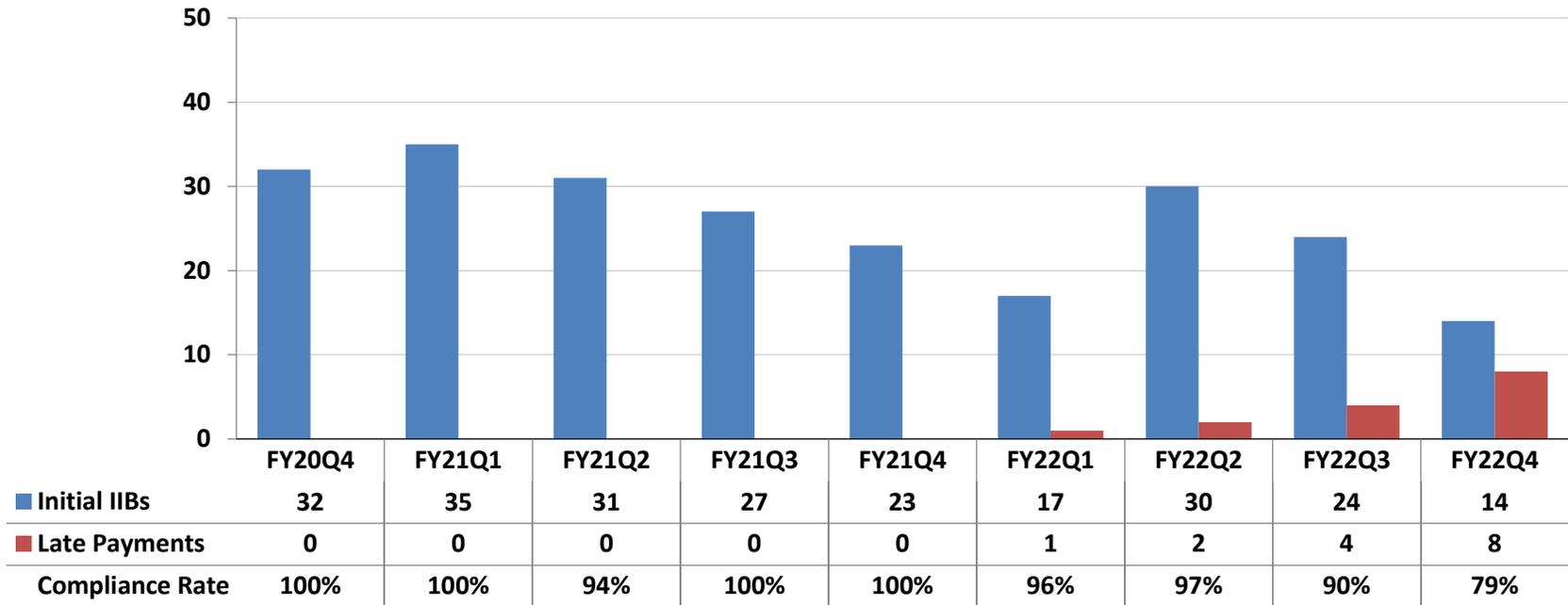
IIBs Late Payments FY22Q4

Carrier	7
System	1
No Fault/Misc.	0

II.   CONTRACT ADMINISTRATION

Area	Task
Procurement and Contract Negotiation	• No New Activity
Vendor Performance Monitoring	• Vendor Performance Evaluation Tool (VPET) • Business Owner Input • Certificates of Insurance • Cybersecurity Training • Issue Log
Vendor Performance Reporting	• Expiration • Annually • Renewal

State Office of Risk Management

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

5. New business

5.1   Presentation, discussion, and action regarding the Fiscal Year 2022 Internal Audit Report

<u>Information</u>

Board Member Ladner, and/or representatives of the agency's audit contractor, will present the final report for Fiscal Year 2022.

<u>Action Required</u>

The Chair may entertain motions for consideration and acceptance.

State Office of Risk Management

Internal Audit Services

FY 2022 Annual Internal Audit Report

Prepared by:

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Section   **Page Number**

McConnell Jones

September 7, 2022

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 2022 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 2022 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 2022 is due November 1, 2022.

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 2022 INTERNAL AUDIT PLAN STATUS

The fiscal year 2022 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 2022 Annual Internal Audit Plan was completed as approved. The chart below reflects the approved audit plan status as of August 31, 2022

Fiscal Year 2022 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Origami (RMIS) Implementation Review and Evaluation	N/A	N/A	N/A	Postponed to September 2022
2	Risk Management	22-001	April 26, 2022	Risk Management Function	Completed
3	Follow-Up on Open Audit Findings	On-Going			
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 2022 Plan:

The Origami review was postponed until September 2022 due to the system's go-live delay.

III.   RISK MANAGEMENT FUNCTION AUDIT REPORT SUMMARY

The objective of this audit was to assess if management controls and processes in place are effective to meet the Risk Management Department's responsibilities.

SORM's Risk Management function has encountered many challenges in their ability to conduct On Site Consultations (OSC) and Risk Management Program Reviews (RMPRs) due to the pandemic and the accessibility of agencies. Although they have made great efforts to achieve their performance measures, they were not able to meet with all the state entities identified to have the highest risks.

As the insurance manager for the state, SORM provides insurance services and obtains insurance policies that are generally available to Texas state agencies. SORM continues to partner with the Department of Information Resources (DIR) to develop a state-sponsored cybersecurity insurance policy. In the interim, several state agencies have obtained cybersecurity coverage through a rider to Directors' and Officers' policies. However, at the time of this audit, the insurance provider stopped allowing additional agencies to be provided this same rider. This lack of insurance, which is outside of SORM's control, may put the state at risk for financial recovery of future cyber incidents.

Finally, the function has been challenged by high turnover that has impacted their ability to train newer team members on the recent changes to the Risk Management Guidelines and all team members utilizing a standardized check list when working with state agencies.

We concluded that SORM's management control structure in place for the Risk Management function requires some improvement. We made the following recommendations. SORM has already implemented recommendation one.

i.   Consider upgrading one or two risk specialist positions to team lead with responsibility of ensuring the Risk Management team understands and can implement all components of their respective positions.

ii.   Assign specific individual(s) the responsibility for ensuring that all documentation and tools used by the Risk Management Department are up to date, and that staff are adequately trained on the updates. Require all risk managers to apply the updated Texas Enterprise Risk Management (TERM) Guidelines in a consistent manner, refer to the TERM Guidelines when completing inspections and reports, and complete all required checklists.

iii.   Implement process to ensure the risk matrix is reviewed and updated each fiscal year and is used to prioritize risk management consultations by risk level and/or demonstrated need. Implement processes to assure high risk state entities are prioritized and risk management consultations are completed each fiscal year. Consider creating internal performance measures for risk managers setting a specified number of reviews of high-risk state entities each year.

IV.   CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit provided no consulting and advisory services during FY 2022.

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, 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.

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

12700 Park Central Drive, Suite 1400
Dallas, Texas 75251
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Toll Free: 877-853-4195
Web site: turnerstone.com

INAA
GROUP
INTERNATIONAL ASSOCIATION OF ACCOUNTANTS AND AUDITORS

VI.   INTERNAL AUDIT PLAN FISCAL YEAR 2023

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, review the external cyber security review results and remediation status, perform a risk assessment, conduct prior audit finding follow-up activities, prepare the fiscal year 2024 Annual Internal Audit Plan and prepare the fiscal year 2023 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require 268 hours. The planned audits, timing and estimated hours are summarized in the table below.

Contract management is not included in the FY 2023 Annual Internal Audit Plan as this was one component of the Legal Services Compliance Management audit we performed in FY 2020 and Agency Relations poses a higher risk to the agency.

Fiscal Year 2023 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Agency Relations *Scope:* ✓ Internal Professional Development and Training ✓ External Communications ✓ Internal Communications	High	Nov. 2022 – February 2023	168
2	External Cyber Security Assessment Follow-Up ✓ Findings remediation status	High	December 2022	40
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	37
4	Risk Assessment and Annual Audit Plan	Compliance	March 2023	10
	Annual Internal Audit Report	Compliance	September 2022	3
5	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	6
	Total			**268**

VII.   EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2022

External audit services procured in fiscal year 2022 consisted of the internal audit function.

VIII. 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.

IX. 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.

o

STATE OFFICE OF RISK MANAGEMENT

Internal
Audit Services

AN INTERNAL AUDIT OF

Risk Management Function

Report No. 22-001

April 26, 2022

M McConnell Jones
Diverse Thinking | Unique Perspectives

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

Report Highlights

Why Was This Review Conducted?

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) performed this internal audit as part of the approved FY 2022 Annual Internal Audit Plan.

Audit Objectives and Scope

To ensure that management controls and processes in place are effective to meet the Risk Management Department's responsibilities.

Audit Focus

We focused on the following aspects of the Risk Management Program:

1. Adopted Enterprise Risk Management Guidelines roll-out.
2. Revised risk management inspection and assistance processes.
3. Applicable performance measures.
4. Sunset review recommendation implementation.

Scope: FY2021 through 1st Quarter FY2022

Audit Conclusion

SORM's Risk Management function has encountered many challenges in their ability to conduct On Site Consultations (OSC) and Risk Management Program Reviews (RMPRs) due to the pandemic and the accessibility of agencies. Although they have made great efforts to achieve their performance measures, they were not able to meet with all the state entities identified to have the highest risks.

As the insurance manager for the state, SORM provides insurance services and obtains insurance policies that are generally available to Texas state agencies. SORM continues to partner with the Department of Information Resources (DIR) to develop a state-sponsored cybersecurity insurance policy. In the interim, several state agencies have obtained cybersecurity coverage through a rider to Directors' and Officers' policies. However, at the time of this audit, the insurance provider stopped allowing additional agencies to be provided this same rider. This lack of insurance, which is outside of SORM's control, may put the state at risk for financial recovery of future cyber incidents.

Finally, the function has been challenged by high turnover that has impacted their ability to train newer team members on the recent changes to the Risk Management Guidelines and all team members utilizing a standardized check list when working with state agencies.

Internal Control Rating

Some Improvement Needed.

What Did We Recommend?

1. Consider upgrading one or two risk specialist positions to team lead with responsibility of ensuring the Risk Management team understands and can implement all components of their respective positions.
2. Assign specific individual(s) the responsibility for ensuring that all documentation and tools used by the Risk Management Department are up to date, and that staff are adequately trained on the updates. Require all risk managers to apply the updated Texas Enterprise Risk Management (TERM) Guidelines in a consistent manner, refer to the TERM Guidelines when completing inspections and reports, and complete all required checklists.
3. Implement process to ensure the risk matrix is reviewed and updated each fiscal year and is used to prioritize risk management consultations by risk level and/or demonstrated need. Implement processes to assure high risk state entities are prioritized and risk management consultations are completed each fiscal year. Consider creating internal performance measures for risk managers setting a specified number of reviews of high-risk state entities each year.

Number of Findings/Opportunities by Risk Rating

Category	High	Medium	Low	Total
Findings	1	2	0	3
Improvement Opportunities	0	0	1	1

Thank you!

We wish to thank all employees for their openness and cooperation. Without this, we would not have been able to complete our review.

INTRODUCTION

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the State Office of Risk Management (SORM) performed an internal audit of the agency's Risk Management function. This audit was included in the approved FY 2022 Internal Audit Plan.

We performed this audit as part of the approved FY 2022 Annual Internal Audit Plan. This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained accomplishes that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

OBJECTIVE

The purpose of this audit was to assess whether management's controls and business processes in place are effective to meet the Risk Management Department's responsibilities.

During this audit, we focused on the following areas:

1. Adopted Enterprise Risk Management Guidelines roll-out internally and to state agencies.
2. Revised risk management inspection and assistance processes.
3. Applicable performance measures.
4. Sunset review recommendation implementation.

The scope for this part of the audit was FY2021 and 1st Quarter FY2022.

FINDING VS IMPROVEMENT OPPORTUNITY

We define a finding as an internal control weakness or non-compliance with required policy, law, or regulation. We define an improvement opportunity as an area where the internal control or process is effective as designed but can be enhanced.

We concluded that overall **internal controls need some improvement. Exhibit 1** describes the internal control rating.

SORM's management control structure over the Risk Management Function is generally adequate, appropriate, and effective but a few specific control weaknesses were noted.

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INTERNAL CONTROL RATING		SORM's management control structure over the Risk Management Function is generally adequate, appropriate, and effective but a few specific control weaknesses were noted.
Best Practices	**Best Practices** – Observations indicate best practice opportunities identified during the course of the review that may add value to the function/department/organization. Best practices do not require management comments and do not require internal follow-up to validate implementation status.	
Effective	**Effective** – Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.	
Some Improvement Needed	**Some Improvement Needed** – A few specific control weaknesses were noted; generally, however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.	
Major Improvement Needed	**Major Improvement Needed** – Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.	
Unsatisfactory	**Unsatisfactory** – Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.	

Exhibit 1: Internal control rating description.

Observation and Risk Rating Summary

Exhibit 2 provides a summary of our audit observations. See the business risk section of this report for a discussion of all issues identified, recommendations, and management responses.

Business Objective	Internal Control Rating	Findings	Recommendations
1. Risk Management Department Organization Structure	Some Improvement Needed	Eleven risk management specialists (focused on risk, insurance, and continuity of operations) report directly to the Enterprise Risk Director. The Risk Management Department's process complexities and staff turnover led to ineffective staff oversight, internal control weaknesses and process inconsistencies noted during this audit.	▪ Consider upgrading two risk manager positions to team leads. o Assign responsibility for ensuring that all risk management employees complete required orientation checklists and understand all components of their position to the team leads. o Assign team leads responsibility to ensure that all risk management tools and documents are

Business Objective	Internal Control Rating	Findings	Recommendations
		Management Actions Subsequent to Audit Fieldwork: SORM leadership approved two team leader positions and identified individuals to assume these roles effective June 1, 2022. Additional positions have been added to the Risk Management team. These actions should help the department address the findings noted in this report in addition to helping them to become more effective and efficient.	updated, and staff perform inspections in a consistent manner using the checklists and tools provided in the Standard Operating Procedures (SOPs).
2. TERM Guidelines Updates and Communications *(Sunset Recommendation 3.1)*	Generally Effective	No findings noted.	No recommendations made. *Opportunity for Improvement* ▪ Consider enhancing controls to ensure that changes made to TERM Guidelines are tracked, and versioning of document(s) are updated.
3. TERM Guidelines Implementation and Usage *(Sunset Recommendation 3.3)*	Some Improvement Needed	There is inconsistent use of the updated TERM Guidelines by risk managers. We also noted that SOPs and checklists do not include references to the TERM Guidelines.	▪ Require all risk managers to apply the updated TERM Guidelines in a consistent manner, refer to the TERM Guidelines when completing inspections and reports, and complete all required checklists. ○ Assign specific individual(s) the responsibility for ensuring that all documentation and tools are up to date, and that staff are adequately trained on the updates. ○ Conduct regular refresher training sessions for risk managers that include TERM Guidelines and to address any trends that the team leads identify.
4. Risk Management Department Resource Allocation *(Sunset Recommendation 3.2)*	Some Improvement Needed	SORM performs enough OSCs and RMPRs to fulfill the legislative requirement. However, the agency is not currently allocating resources based on a	▪ Implement process to assure: ○ the risk matrix is reviewed and updated each fiscal year and is used to prioritize risk management

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Business Objective	Internal Control Rating	Findings	Recommendations
		documented risk method. The Risk Management Department is currently short staffed and has experienced significant turnover in risk manager positions. We also noted that the risk matrix was not updated during the pandemic and does not ensure that all state entities are served on a rotational basis.	consultations by risk level and/or demonstrated need. ○ high risk state entities are prioritized, and risk management consultations are completed each fiscal year.
5. Performance Measures	Generally Effective	No findings noted.	No recommendations made.
6. Insurance Program *(Sunset Recommendations 3.4 and 3.5)*	Generally Effective	No findings noted.	No recommendations made.

FIGURE 2 *Observation and Recommendation Summary.*

Internal Control Rating and Suggested Corrective Action Timing Legend:

Priority: (●) Low: < 12 months   (▲) Medium: 6-12 months   (■) High: < 6 months

BACKGROUND

The Legislature created the State Office of Risk Management (SORM) in 1997 to protect the state's employees as well as its physical and financial assets by reducing and controlling risk. As the full-service risk and insurance manager for the state, SORM has the important task of helping state entities plan for and manage situations they hope never arise, including injuries or illnesses to state employees. SORM administers the state's workers' compensation insurance program; provides six state-sponsored lines of insurance and reviews and approves non-sponsored insurance purchases; and assists with the development of state entities' risk management programs and continuity of operations plans. The state entities participating in SORM's programs pay assessments to fund the agency, with each entity's amount based on factors such as the entity's size, injury frequency rate, and past claims costs.

SORM developed and published the Texas Enterprise Risk Management (TERM) Guidelines to provide state agencies with guidance on managing their enterprise risks. These guidelines and checklists are included in the Risk Management Department's standard operating procedures as a basis for performing On Site Consultations (OSCs) and Risk Management Program Reviews (RMPRs).

The Risk management Department has encountered significant staff turnover in its twelve positions resulting in 24 people rotating through the nine positions over the past three to four years. This turnover includes four directors during this time frame. Currently there are two (2) open positions. **Exhibit 3** provides SORM's Risk Management function organization chart.

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┌─────────────────────┐
│   Chief, Strategic   │
│      Programs        │
└─────────────────────┘
           │
┌─────────────────────┐
│ Director, Enterprise Risk │
└─────────────────────┘
     │        │        │
```

| Enterprise Risk Specialists (Risk), 7 positions | Enterprise Risk Specialists (Insurance) 3 positions | Enterprise Risk Specialist (COOP) 1 position |

Exhibit 3: SORM Risk Management Function organization.

In September 2017 the 85th Legislature R.S. enacted Senate Bill 1910, which charged the Department of Information Resources (DIR) with evaluating the costs and benefits of cybersecurity insurance. SORM began its partnership with DIR on cybersecurity issues following enactment of this provision. [1] Texas Government Code Section 2054.512 continues to require DIR's state cybersecurity coordinator and the cybersecurity council to consolidate and synthesize best practices to assist state agencies in understanding and implementing cybersecurity measures that are most beneficial to the state. In addition, DIR prepares a report in even-numbered years identifying preventive and recovery efforts the state can undertake to improve cybersecurity in this state. SORM will assist, as requested, with DIR's recommendations for legislative action to increase the state's cybersecurity and protect against adverse impacts from a cybersecurity event.

SORM and DIR continue to work together to develop a state-sponsored cybersecurity insurance policy. In the interim, several state agencies have obtained cybersecurity coverage through a rider to Directors' and Officers' policies. However, at the time of this audit, the insurance provider stopped allowing additional agencies to be provided this same rider. This lack of insurance, which is outside of SORM's control, may put the state at risk for financial recovery of future cyber incidents.

BUSINESS OBJECTIVES, RISKS, FINDINGS AND MANAGEMENT RESPONSE

This section of the report provides a summary of SORM's key business objectives, primary business risks, management controls in place and the respective internal control assessment. Each table also includes our assessment of internal controls for the respective business risk, our recommendations to address deficiencies noted, or opportunities to enhance current controls and management's response.

1 BUSINESS OBJECTIVE: RISK MANAGEMENT DEPARTMENT STRUCTURE

Business Objective	To ensure that the Risk Management Department is structured to provide adequate staff and operations oversight, ensure that service to state entities is through consistent application of the Texas Enterprise Risk Management (TERM) Guidelines, and adherence to SOPs.
Business Risk	SORM's Risk Management Department may not be appropriately structured to ensure oversight and consistent application of TERM Guidelines and SOPs.
Management Controls in Place	▪ The Risk Management Department reports to the Division Chief of Strategic Programs and is led by a director.

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[1] This provision was repealed in the 86th Leg., R.S., Ch. 509 (S.B. 64), Sec. 9, eff. September 1, 2019.

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1 BUSINESS OBJECTIVE: RISK MANAGEMENT DEPARTMENT STRUCTURE	
	▪ New risk managers are provided a training checklist packet that they are required to complete. ▪ New risk managers shadow tenured risk managers to observe the inspection process. ▪ Risk managers have access to tools and checklists that cover risk areas. ▪ SORM SOPs are in place.
Control Tests	▪ Reviewed the Risk Management organization structure and discussed responsibilities with staff. ▪ Reviewed Risk Management Department's new hire training checklist packet. ▪ Interviewed risk managers about their new hire experience. ▪ Interviewed risk managers about the training process and how they stay current on the guidelines and performance expectations. ▪ Interviewed risk managers about the inspection process and tools used. ▪ Reviewed checklists and tools used during inspections. ▪ Reviewed the SOPs to determine if guidelines are incorporated. Interviewed risk managers.
Control Assessment / Findings	Some Improvement Needed Eleven enterprise risk specialists (seven risk, three insurance and one continuity) report directly to the Enterprise Risk Director. The Risk Management Department's process complexities and staff turnover led to ineffective staff oversight, internal control weaknesses and process inconsistencies noted during this audit, including: ▪ The new staff orientation checklists for the two newest risk managers were not completed. ▪ The new staff orientation documents provided have not been updated for TERM Guidelines. We noted that they still refer to Risk Management for Texas State Agency (RMTSA) on page 15. Orientation materials indicate a last update of March 9, 2022. ▪ Although risk managers stated that they were able to shadow another risk manager, we were not provided evidence of training on TERM Guidelines and how to incorporate them into the inspection process. Generally, risk managers do not have a continuing education or training requirement that ensures that they are up to date on current regulations or internal tools. Some of the risk managers stated that they take courses, i.e., OSHA 30, at will. ▪ There is a lack of consistency with adherence to SOPs. Interviews with the risk managers identified their approach to On Site Consultations (OSC) and Risk Management Program Reviews (RMPRs) varied significantly, resulting in a lack of consistency in the way reviews are performed, including the use of checklists and other tools.
Recommended Actions	▪ Consider upgrading two risk manager positions to team leads. ▪ Assign responsibility for ensuring that all risk management employees complete required orientation checklists and understand all components of their position including updated TERM Guidelines to the team leads. ▪ Assign team leads responsibility to ensure that all risk management tools and documents are updated to reflect current TERM Guidelines and staff perform inspections in a consistent manner using the checklists and tools provided in the SOPs.

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1 BUSINESS OBJECTIVE: RISK MANAGEMENT DEPARTMENT STRUCTURE

	▪ Conduct new hire training sessions for risk managers that include online resources to ensure that risk managers provide ongoing communication to state entities about TERM Guidelines and the resources contained within. *Management Actions Subsequent to Audit Fieldwork:* ▪ SORM leadership approved two team leader positions and identified individuals to assume these roles effective June 1, 2022. Additional positions have been added to the Risk Management team. These actions should help the department address the findings noted in this report in addition to helping them to become more effective and efficient.
Management Response and Action Plan	Management agrees with findings and recommendations and have implemented the following: • Two of the enterprise risk specialists are "team leads" (one in an enterprise risk role, the other in an insurance role). • Team Leads are responsible to update all risk management tools and documents to reflect current TERM Guidelines and ensuring staff consistently performs inspections using the checklists and tools provided in the SOPs. • The Team Leads will conduct new employee training sessions and the Department Director will review the training conducted at appropriate milestones, for each employee.

2 BUSINESS OBJECTIVE: RISK MANAGEMENT GUIDELINES UPDATES AND COMMUNICATIONS

Business Objective:	To regularly review, update and communicate risk management guidelines for state entities as well as make guidelines accessible internally and externally.
Business Risk	Risk Management guidelines may not be reviewed, updated, communicated, or made accessible to all state entities.
Management Controls in Place	▪ The risk management guidelines were reviewed, and changes were tracked prior to the TERM Guidelines implementation. ▪ Texas Enterprise Risk Management Guidelines are posted on the State Office of Risk Management website. ▪ When the TERM Guidelines were published, an email was sent to all agencies announcing the existence. The announcement included links to the TERM Guidelines.
Control Tests	▪ Reviewed the guidelines on the web site. ▪ Reviewed the email announcement that was sent to all agencies. ▪ Reviewed the document change log for TERM Guidelines. ▪ Reviewed the new hire orientation checklist for the two newest risk managers.
Control Assessment / Findings	Internal controls are generally effective.
Recommended Actions	Opportunity for Improvement

	o Consider enhancing controls to ensure that changes made to TERM Guidelines are tracked, and versioning of document(s) are updated by creating a version history log within the document.
Management Response and Action Plan	Management response is not required for improvement opportunities not related to internal controls or process efficiencies.

3 BUSINESS OBJECTIVE: RISK MANAGEMENT GUIDELINES IMPLEMENTATION AND USAGE	
Business Objective	To ensure that the revised Texas Enterprise Risk Management Guidelines are reflected in the agency's policies and procedures, checklists, and reports for the risk management inspection and assistance process.
Business Risk	Inspections and assistance processes may not be updated to reflect revised guidelines.
Management Controls in Place	▪ Standard Operating Procedures (SOPs) exist for the risk management function. ▪ Checklists exist for the risk management function. ▪ Report template exists for the risk management function.
Control Tests	▪ Reviewed SOPs, checklists and completed reports to determine if TERM Guidelines were incorporated into the document.
Control Assessment / Findings	Some Improvement Needed. There is inconsistent use of the updated TERM Guidelines by SORM enterprise risk specialists. We also noted that SOPs and checklists do not include mention of the TERM Guidelines. ▪ Enterprise risk specialists that were involved in the TERM Guidelines project stated that they refer to the TERM Guidelines in their visits and reports. The two newer enterprise risk specialists had not incorporated TERM Guidelines references in their inspection process. ▪ We were not provided completed reports during the test period for the newer enterprise risk specialists.
Recommended Actions	o Require all risk managers to apply the updated TERM Guidelines in a consistent manner, refer to the TERM Guidelines when completing inspections and reports, and complete all required checklists. o Assign specific individual(s) the responsibility for ensuring that all documentation and tools are up to date, and that staff are adequately trained on the updates. o Conduct regular refresher training sessions for risk managers that include TERM Guidelines and to address any trends that the team leads identify.
Management Response and Action Plan	Management agrees with findings and recommendations and will implement the following: • The TERM Guidelines will be incorporated into risk management consultations and risk management program reviews that includes a recommendation. • Versioning control will be added to the TERM Guidelines that are published on SORM's website. SORM is determining how and what to display regarding versioning.

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4 BUSINESS OBJECTIVE: ALLOCATING RESOURCES BASED ON RISK

Business Objective	To support the client risk management function or activities by allocating SORM risk management resources to target its state entity customers with the highest risk.
Business Risk	▪ SORM's limited resources available to serve a broad range of state entities with many functions and needs may not provide adequate assistance to the highest risk customers.
Management Controls in Place	▪ Risk matrix is developed by Risk Management Department to risk-rank state entities. ▪ Schedule of planned and completed visits is maintained by the Risk Management Department.
Control Tests	▪ Reviewed risk matrix to ensure that it is in place and updated. ▪ Compared schedule and log of completed and planned inspections to high-risk agencies listed on the risk matrix. Focused on top ten state entities with highest risk. ▪ Interviewed the Division Chief of Strategic Programs (Chief), Enterprise Risk Management Director, and risk manager in charge of updating the risk matrix.
Control Assessment / Findings	Some Improvement Needed. SORM meets the annual target for the OSC and RMPR performance measures. However, the agency is not currently allocating resources based on a documented risk method. SORM's Risk Management Department is currently short staffed and has experienced significant turnover in risk manager positions. The pandemic, the high turnover and unfulfilled positions could possibly affect SORMs ability to effectively support the risk management function based on the risk matrix. We also noted that the risk matrix was not updated during the pandemic and does not ensure that all state entities are served on a rotational basis. ▪ State entities are categorized as low, medium, or high risk by SORM based on a group of criteria. However, the pandemic has had an adverse effect on the accessibility of state entities served, thus affecting the ability to conduct OSCs and RMPRs. SORM resources are then reallocated based on available state entities. ▪ The risk matrix has not been updated since FY 2019. The risk manager responsible for updating the risk matrix is in the process of working on the FY 2022 risk matrix. Meanwhile, the SORM Risk Management Department staff ensure that they visit the two state entities that they feel are the highest risk: Texas Department of Criminal Justice and the Health and Human Services Department. ▪ Five of the top ten highest risk agencies from the FY 2019 risk matrix have not been visited in the current fiscal year. However, two of those five are scheduled for July and August 2022.
Recommended Actions	o Implement process to ensure the risk matrix is reviewed and updated each fiscal year and is used to prioritize risk management consultations by risk level and/or demonstrated need. o Implement process to assure high risk state entities are prioritized and risk management consultations are completed each fiscal year. Consider creating internal performance measures setting a specified number of reviews of high-risk state entities.

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4 BUSINESS OBJECTIVE: ALLOCATING RESOURCES BASED ON RISK

Management Response and Action Plan	Management agrees with findings and recommendations and will implement the following: • The risk matrix will be reviewed and updated at least biennially. • SORM will evaluate the functionality within the Origami Risk Management Information System, and if necessary, explore the possibility of including a risk matrix (type) assessment in the Phase III of the implementation.

5 BUSINESS OBJECTIVE: PERFORMANCE MEASURES

Business Objective	To establish and utilize performance measures to monitor the effectiveness of the Risk Management function at meeting its strategic and organizational objectives.
Business Risk	▪ Performance Measures (Internal and LBB) may not be met or be effective at managing the Risk Management Department's activities.
Management Controls in Place	▪ Performance measures are calculated quarterly and /or annually and compared to target level. ▪ Variances are researched, and a cause of the variance is documented. ▪ Applicable key performance measures are reported to the state quarterly and annually.
Control Tests	▪ Examined performance measures, recalculated variances, and reviewed variance explanations. ▪ Reviewed reporting of performance measures on FY21 Quarter Performance Measures reports for Q1 – Q3 and the FY21 Q4 ABEST Performance Measure Report. ▪ Analyzed Performance Measures for FY19, FY20, and FY21 to determine impact on managing the risk management function.
Control Assessment / Findings	Generally Effective ▪ Performance measures are calculated, and variances are appropriately explained in the ABEST report that is submitted to state. ▪ Changes to performance measure definitions, targets, and other elements can only be requested in even-numbered years as part of the biennial budget process. ▪ The COVID-19 pandemic moved many state entities from their normal business locations into a work-from-home environments. Since many state entities either were not allowing visitors or their risk management staff was working remotely, SORM had to adjust its business practices to ensure it could fulfill its statutory obligations and meet its risk management performance measures. As an interim measure, the Risk Management Department and Public Relations Department utilized technology to conduct virtual consultations and risk management training.
Recommended Actions	Controls are effective at managing risks.

Management Response and Action Plan	Management response is not required for improvement opportunities not related to internal controls or process efficiencies.

6 BUSINESS OBJECTIVE: INSURANCE PROGRAM

Business Objective	To identify insurance needs and administer insurance services obtained by state entities, including the self-insured government employee workers' compensation insurance program and the state-sponsored insurance program.
Business Risk	Processes may not be in place to capture or solicit the insurance needed by state entities. According to SunGard Availability Services, Texas had the most ransomware attacks on state bodies in 2020.
Management Controls in Place	▪ Risk management surveys are deployed to state entities annually by SORM's risk managers. ▪ Risk managers provide state entities insurance proposals upon request.
Control Tests	▪ Discussed insurance requirements with Division Chief of Strategic Programs ▪ Reviewed Risk Evaluation Surveys for a randomly selected sample of state entities to determine insurance currently covered by SORM, insurance recommendations by SORM, as well as additional insurance information requested by the state entities. ▪ Discussed insurance requirements with the Risk Manager III – Insurance Specialty. ▪ Reviewed sourced insurance provided to randomly selected sample of state entities.
Control Assessment / Findings	Generally Effective Internal controls are generally effective. We noted that SORM has processes in place to identify insurance needs and obtain insurance policies for statewide use. State entities are required to obtain SORM's approval of any non-sponsored insurance purchase before the purchase occurs. Texas Labor Code Section 412.032 requires SORM to identify entities that have not complied with requirements of Chapter 412. Our analysis and audit testing noted that: ▪ SORM acts as a full-service insurance manager for the state entities identified in Labor Code Chapter 412 ▪ Nine (9) state entities have not obtained any insurance from SORM and have chosen to keep the risk internally. ▪ Property insurance and automobile insurance provide coverage in the event of liability under the Texas Tort Claims Act as well as a mechanism to control expenditures to replace tangible state-owned property that is damaged or destroyed. The state-sponsored automobile insurance program, which is the most held insurance by the state entities, had 60 participants. The policy provides coverage for owned and non-owned vehicles. Of the 25 state entities sampled, 16 had obtain auto insurance was coverage.

6 BUSINESS OBJECTIVE: INSURANCE PROGRAM

	▪ The state-sponsored Property insurance program had 47 participants in the 2022 – 2023 policy renewal. ▪ Exceptions to sovereign immunity exist for alleged wrongful acts occurring in the management of an entity. Employment practices liability provides coverage for claims brought by employees (past, present, and prospective) alleging an employment related wrongful act, as well as claims by third parties (students, vendors, etc.) alleging discrimination or harassment. The state-sponsored Directors' and Officers' program had 33 participants in FY21. Of the 25 state entities sampled, six (6) had purchased this coverage. ▪ In September 2017 the 85th Legislature R.S. enacted Senate Bill 1910, which charged the Department of Information Resources (DIR) with evaluating the costs and benefits of cybersecurity insurance. SORM began its partnership with DIR on cybersecurity issues following enactment of this provision, which has since been repealed. SORM continues to partner with the Department of Information Resources (DIR) to develop a state-sponsored cybersecurity insurance policy. In the interim, several state agencies have obtained cybersecurity coverage through a rider to Directors' and Officers' policies. However, at the time of this audit, the insurance provider stopped allowing additional agencies to be provided this same rider. This lack of insurance, which is outside of SORM's control, may put the state at risk for financial recovery of future cyber incidents.
Recommended Actions	Controls are effective at managing risks.
Management Response and Action Plan	No response required.

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State Office of Risk Management
Internal Audit Services

An Internal Audit of:

Information Technology Audit
Origami Implementation

Part 2
Final Report #22-001
August 31, 2022

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

Audit Report Highlights
Information Technology Audit - Origami Implementation Part 2

Why Was This Review Conducted?

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) performed this audit as part of the approved FY 2022 Annual Internal Audit Plan.

Audit Background

The State Office of Risk Management (SORM) has implemented the Origami Risk Management Information System (RMIS) platform to address all agency business functions. Phase 1 of the audit was performed in FY 2021 during the initial stages of the Origami Implementation. Phase 2 of the audit is to review lessons learned that may be utilized in future large-scale projects.

Audit Objectives

Phase 2 focused on the outcome of the deployment to:

- Review lessons learned.
- Evaluate vendor response to SORM's tickets and backlog for warranty period. *Note 1: MJ performed an assessment relating to this objective. However, due to on-going negotiations between SORM and the vendor, MJ discussed the results with management in lieu of including the assessment in the written report.*
- Review stabilization / performance of production environment.

For lessons learned, MJ focused on the following areas: training, gap assessments, project specifications and requirements, user acceptance testing (UAT), data migration and mapping, and system performance and stabilization.

Audit Conclusions

Overall, SORM's Origami implementation was completed without significant interruptions to everyday business. The strength of both SORM's project management team, system administrator, and SORM's department leadership contributed significantly to the success of this implementation, despite significant challenges. These constraints, if presented in future large-scale projects and with a different team, could negatively impact SORM's ability to meet its agency objectives.

We identified challenges encountered during this implementation and made five (5) recommendations as a path forward to achieve SORM's objectives.

Internal Control Rating

Some Improvement Needed.

What Did We Recommend?

1. Improve effectiveness and efficiencies as well as assure team members are utilizing more than the basic features of Origami:
   - conduct detailed discussions with team members and stakeholders to identify potential changes to procedures, and to create enhanced training/ support materials,
   - work with the team to ensure that reports needed to manage daily processes and reporting requirements are developed, tested, and put into production, and
   - look for gaps in user understanding and usage of system and work with Origami or user groups to provide training where needed.
2. Review current system gaps, where the system is failing to meet the needs of the organization and users. with Origami and determine which can be addressed programmatically and which will require process changes internally.
3. Continue to work with Origami to provide functionality to meet the strict requirements and timelines imposed by Texas Workers' Compensation Act.
4. Conduct cross-team meetings focusing on workflows to determine how actions performed by one team can impact others. This will help teams understand how their workflows conducted in Origami impact each other.
5. Implement a process to reconcile record counts and financial data in future implementations. SORM should also determine whether any existing dollar amounts in the new system should be reconciled using this process.

Number of Findings / Opportunities by Risk Rating

Category	High	Medium	Low	Total
Findings	2	2	1	5
Improvement Opportunities	0	0	13	13

Thank you!

We wish to thank all employees for their openness and cooperation. Without this, we would not have been able to complete our review.

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Introduction

> *McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the State Office of Risk Management (SORM) performed an internal audit of the agency's Information Technology's Origami Risk Management Information System (RMIS) implementation. This audit was included in the approved FY 2023 Internal Audit Plan.*

We performed this audit as part of the approved FY 2023 Annual Internal Audit Plan. This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained meets that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

Objective, Conclusion, and Internal Control Rating

> *The purpose of this audit was to provide insights on how to use lessons learned from this system implementation for future large-scale projects.*

This audit is Part 2 of the Origami Risk Management Information System (RMIS) platform audit. Part 1 was completed in April 2021 and focused on the project management of the Origami Phase 1 (Workers' Compensation) deployment. The objective for this review was to assess the management control structure of the following implementation activities:

1. Project management / governance - is management effectively managing the implementation of Origami with the goal of replacing the existing CMS/legacy system.
2. Data conversion and data processing - are data conversion plans effective to ensure the integrity and accuracy of the data that has been transferred from the legacy system to the new system?
3. Data cleanup and training – do planned processes ensure that data and financial information is accurate in the new system and ensure that users are trained in new processes and procedures?

Part 2 of the audit focused on the outcome of the deployment to identify lessons learned. This audit was scheduled after the May 2022 go-live date. The objectives of the Part 2 audit were as follows:

1. Review lessons learned.
2. Evaluate the vendor's warranty period performance. (See note 1, pg. 1)
3. Review stabilization / performance of the production environment.

COMMENDATIONS

An engaged and empowered team consisting of SORM's project managers and worker's compensation directors were key to the success of the Origami system implementation. The project management team's experience and skill provided much needed governance to support the positive outcome of this project. The director's commitment to ensuring that all staff were able to perform their assigned tasks post implementation and their willingness to act as champions for new system and process solutions contributed significantly to the overall adoption of the new system. The result is a successful implementation despite considerable challenges.

FINDING VS IMPROVEMENT OPPORTUNITY

We define a finding as an internal control weakness or non-compliance with required policy, law, or regulation. We define an improvement opportunity as an area where the internal control or process is effective as designed but can be enhanced.

CONCLUSION AND INTERNAL CONTROL RATING

We concluded that overall **internal controls need some improvement**. **Exhibit 1** describes the internal control rating.

Some improvement is needed for SORM's project management control structure in place over the Origami Phase 2 post Implementation. Management's controls are generally adequate, appropriate, and effective, but a few specific control weaknesses were noted.

INTERNAL CONTROL RATING

RATING DESCRIPTION

Best Practices – Observations indicate best practice opportunities identified during the course of the review that may add value to the function/department/organization. Best practices do not require management comments and do not require internal follow-up to validate implementation status.

Effective – Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.

Some Improvement Needed – A few specific control weaknesses were noted; generally, however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.

Major Improvement Needed – Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.

Unsatisfactory – Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

SORM's project management control structure in place over the Origami Phase 2 post implementation is generally adequate, appropriate, and effective, but a few specific control weaknesses were noted.

Exhibit 1: Internal control rating description.

OBSERVATION AND RISK RATING SUMMARY

Exhibit 2 provides a summary of our audit observations. See the business risk section of this report for a discussion of all issues identified, recommendations, and management responses.

McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

Business Objective	Internal Control Rating	Findings	Recommendations

1. Training	Some Improvement Needed	**Detailed Findings:**
		
		1. Budget dollars and hours were not available for a comprehensive training program.
		2. Stakeholders participated in UAT which provided them familiarity to the system. These stakeholders were able to teach themselves aspects of the system after go-live to provide training and support to their staff.
		3. Some users are still learning how to effectively navigate the system and perform processes.
		4. Training information provided by Origami to support user learning and education was generic and not designed for SORM users and processes specifically.
			Recommendations #1:
			
			1. Improve effectiveness and efficiencies as well as assure team members are utilizing more than the basic features of Origami (Medium):
			  ▪ conduct detailed discussions with team members and stakeholders to identify potential changes to procedures, and to create enhanced training/ support materials,
			  ▪ work with the team to ensure that reports needed to manage daily processes and reporting requirements are developed, tested, and put into production, and
			  ▪ look for gaps in user understanding and usage of system and work with Origami or user groups to provide training where needed.
			
			Opportunity for Improvement for future large scale system deployments:
			
			a. Develop a true training program to be provided prior to system implementation to avoid the "learn on the job" training that can significantly reduce the effectiveness and efficiencies of the areas impacted for several months at best.
			  o User training should be required for all users.
			  o Number of hours of training needed by department and/or job responsibilities.
			  o The potential impact training will have on worker performance.

2. Gap Assessments	Some Improvement Needed	**Detailed Findings:** 1. Gap assessments, conducted by SORM and Origami, were not executed at the	**Recommendation #2:** 2. Review current system gaps, where the system is failing to meet the needs of the

Business Objective	Internal Control Rating	Findings	Recommendations
		appropriate detailed level to identify key processes and dependencies that could impact the deployment, if not addressed appropriately. Both SORM and Origami made assumptions that the other side understood the gaps. 2. Origami experienced staff turnover during the project, which may have negatively impacted the outcomes of the gap assessments.	organization and users. with Origami and determine which can be addressed programmatically and which will require process changes internally (Medium). *Opportunity for Improvement for future large scale system deployments:* b. Work closely with the system provider (e.g., Origami) to assure both SORM and the provider have a full understanding of the gaps for the entire transaction cycle(s) to be impacted by the deployments.
3. Project Specifications and Requirements	Some Improvement Needed	**Detailed Findings:** 1. SORM encountered resource constraints due to COVID, which negatively impacted their ability to devote sufficient time to the review of project specifications and requirements to identify potential issues. 2. Origami did not understand the breadth or depth of SORM's requirements including state-imposed timelines for workers' compensation claims, and 3. Some cross department dependencies and workflows were not thoroughly validated prior to implementation. This resulted in changes to the processes and workflows post implementation in the production environment. Consequently, unanticipated outcomes had to be addressed as a result of those changes. *Note: SORM did not have a data analyst prior to implementation, although this role was eventually filled. Due to the limited time available between the analyst hire date and the go-live date, SORM prioritized go-live critical reports,*	**Recommendations #3 & 4:** 3. Continue to work with Origami to provide functionality to meet the strict requirements and timelines imposed by Texas Workers' Compensation Act (High). 4. Post implementation, ensure that all key stakeholders are properly alerted to changes in processes and workflows so that they can proactively make the appropriate adjustments. (Low). *Opportunity for Improvement for future large scale system deployments:* c. SORM should work with key stakeholders on identifying and documenting must have requirements/specifications on new systems which can be provided to system vendors as a starting point for identifying how new system will be able to address the requirements. These should include: o cross department dependencies o workflow hand-offs, and o agency and regulatory needs.

Business Objective	Internal Control Rating	Findings	Recommendations
		leaving many reports undone. The analyst left prior to go-live leaving SORM without a subject matter expert (SME) to troubleshoot and modify or create reports. SORM is in the process of filling that position. *SORM's remediation to the above is as follows, and MJ concurs:* *SORM's system administrators and data analyst have been trained to create predesigned reports that users can run on a self-service basis for data analysis and reporting. Training for individual users would improve their skills in using the advanced search features and saving the search criteria for future use.*	This information should be relayed to the system provider for project planning and implementation purposes. d. SORM should consider building a Texas Origami User Group to share issues, understanding of system functionality, and potential requests for system updates. This user group should be able to gain more traction in gaining systems updates that will benefit all its members.
4. User Acceptance Testing (UAT)	Some Improvement Needed	**Detailed Findings:** 1. The UAT process did not cover the full range of data and processes that SORM handles daily. UAT was conducted up to the day prior to the start of the system deployment. This resulted in users being unable to complete their testing to the full extent needed. 2. UAT documented objectives and/or requirements created by each department were not detailed enough to thoroughly address the business objectives. 3. Departments were isolated when conducting UAT and were unable to collaborate on testing results. 4. UAT scripts and definitions were developed by departments, and some were not adequate for the testing.	**Opportunities for Improvement:** Ideally, a test environment would be available to SORM to conduct UAT on system transactions that are not understood to see impact before utilizing in the production environment. However, we have learned that this is not an option. *Opportunity for Improvement for future large scale system deployments:* e. SORM should work with system provider to create realistic, complete testing scripts/scenarios and a reasonable timeframe for SMEs to perform testing, analyze output, and edit scripts for additional testing, where needed, to assure UAT identifies potential issues with key processes. f. Future UATs should be supported by a documented UAT plan that contains a clear outline of processes to be tested. g. SORM should ensure stakeholders involved in UAT

Business Objective	Internal Control Rating	Findings	Recommendations
			are able to collaborate with other users outside of the areas of responsibility to understand how various transactions and processes impact each other's teams. h. SORM should work with system provider to clarify needs for UAT scripting and testing to ensure key stakeholder resources are available for this phase of the deployment and understand the impact of the UAT requirements.
5. Data Migration and Mapping	Some Improvement Needed	**Detailed Findings:** 1. Primary control totals focused on validation of the volume of data regarding physical record counts and claim file counts. Defined control total totals for the financial data were not formally documented.	**Recommendation #5** 5. Implement a process to reconcile record counts and financial data in future implementations. SORM should also determine whether any existing dollar amounts in the new system should be reconciled using this process (High).
6. System Performance and Stabilization	Generally Effective	**Detailed Findings:** ▪ Origami uses a staging environment for the initial go-live of its clients instead of the production environment. The staging environment is shared by other Origami customers which at times was sluggish in its response times and performance. Once SORM transitioned to the production environment, system performance was no longer an issue. ▪ SORM's submits required electronic data interchanges (EDI) through the Origami system which in turn submits the transactions to its contracted vendor which then provides the EDI records to TDI. SORM does not have control of the EDI activity, or the ability to prevent processing delays that could potentially, violate state mandated time requirements.	**Recommendations** No recommendations were made. Controls working effectively. *Opportunities for improvement for current processes:* i. SORM should measure system performance and compare it to the service level agreements (SLAs) outlined in the Origami contract. Any degrade in performance should be communicated to Origami in the timeframe outlined in the contract and monitored until resolution is achieved. SORM should also ensure that parties are compliant with EDI requirements as outlined in the SLA. j. SORM should explore options for implementing strict deadlines when sending EDI transactions to other organizations and business entities. SORM should, at a minimum, ensure its contracted vendor communicates the strict

Business Objective	Internal Control Rating	Findings	Recommendations
			State time requirements to contracted third parties that handle EDI transactions.
7. Vendor Warranty Period	Generally Effective	**Detailed Findings:** ▪ Per the contract, the warranty period was to begin at "go-live". However, the definition of "go-live" was unclear. SORM interpreted "go-live" to mean when they were in the production environment. Origami considered it to be when SORM was in the staging environment. This definition gap could have limited SORM's ability to identify issues prior to the end of the warranty period. ▪ The project management team developed a system of logging, evaluating, escalating, and monitoring ticket status and resolution pre and post implementation. Prior to and post go-live weekend, the project management team provided a spreadsheet that the directors had access to that was used to triage issues as they arose. Additionally, for four weeks post implementation, the project management team facilitated daily stand-up meetings to allow users to discuss challenges and exchange useful observations.	**Recommendations** No recommendations were made. Controls working effectively. *Opportunity for Improvement for future large scale system deployments:* k. Consider utilizing a senior level technical advisor with significant system deployment experience (including database, development, infrastructure knowledge) to advocate for the agency during vendor vetting, contract negotiations, as well as clarifying system requirements and terminology to assure system meets needs of SORM. l. Consider extending the warranty period to a minimum of one month after transitioning into the production environment.

FIGURE 2 *Observation and Recommendation Summary.*

BACKGROUND

The Origami RMIS platform was selected to replace SORM's CMS/legacy system. This implementation will be completed in six (6) segments and will ultimately impact all agency business functions. The first implementation is the Origami Workers' Compensation system.

The original go live date was July 2021 however that date was moved to November 2021. Ultimately SORM went live into the Origami "staging" environment on May 2, 2022. SORM later moved to the Origami "production" environment on the weekend of July 23, 2022.

SORM's goal is to utilize lessons learned from this project for future large-scale projects.

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Vendor Warranty Period

As part of the Origami contract, a warranty period of one month after the go-live date was provided to address issues relating to the implementation. These issues, consisting of both enhancements and software bugs, were to be addressed by Origami at no additional cost. The contract also provided for 250 service hours per year, to be utilized for implementing system enhancements, with the option to purchase more hours, if needed.

SORM maintains a backlog of approved enhancement requests for system updates that identifies what is critical to the agency as well as prioritized by a SORM internal user group. For requests made but not yet approved to be placed on the enhancement request backlog, the project management office hosts group meetings with representatives from various SORM teams to discuss the impacts of the requests on other teams, benefits to be realized by SORM, how requests will save in time/FTEs, and/or how requests will help SORM meet its strategic objectives.

Users submit enhancement requests or system bugs to the SORM project management office, who triages them before entering a ticket into the Origami system. When SORM is notified that a ticket has been resolved, SORM tests that change prior to closing the ticket. Depending on the issue, that resolution may be tested by the end user or the system administrator and may take place in the production or testing environment. McConnell Jones (MJ) performed data analysis on the tickets submitted during the warranty period. There were instances where the end user was delayed in relaying to the project management team that ticket resolutions were successful. For data analysis purposes, MJ used the actual date the ticket was resolved by Origami for those tickets that SORM was delayed in closing in the system. Due to on-going negotiations, the results of this assessment were communicated directly to management in lieu of including them in this report.

Stabilization / Performance of Production Environment

MJ interviewed key internal stakeholders about the performance and stability of the system environment. For the initial go-live period, SORM operated in the "staging" environment until July 23, 2022, transition to the "production" environment. A staging is the environment is considered the last step before system changes go into production, or the "live" environment. Origami uses the staging environment to perform final testing for system upgrades as well as an initial onboarding site for new customers going-live on the Origami systems. It is possible for more than one customer to be in the staging environment at the same time.

Production is the actual unique, live environment that SORM permanently resides in and where SORM may receive updates unique to only SORM in addition to the universal updates. Operating in a "staging" environment posed some challenges for SORM, such as slower response times. In general, SORM received notifications from Origami of upcoming releases to the staging environment.

Since moving to the production environment, SORM has been notified of all system releases. According to stakeholders, performance overall is consistent and smooth.

DETAILED FINDINGS AND MANAGEMENT RESPONSE

> *This section of our report provides a discussion on the reportable findings we noted during the audit, our recommendations, and management's response.*

Business Objective #1: Training

Risk Ranking: Some Improvement Needed

Observation(s)

1. Budget dollars and hours were not available for a comprehensive training program.
2. Stakeholders participated in UAT which provided them familiarity to the system. These stakeholders were able to teach themselves aspects of the system after go-live to provide training and support to their staff.
3. Some users are still learning how to effectively navigate the system and perform processes.
4. Training information provided by Origami to support user learning and education was generic and not designed for SORM users and processes specifically.

Recommendation(s) #1

For current processes:
1. Improve effectiveness and efficiencies as well as assure team members are utilizing more than the basic features of Origami:
   - conduct detailed discussions with team members and stakeholders to identify potential changes to procedures, and to create enhanced training/ support materials,
   - work with the team to ensure that reports needed to manage daily processes and reporting requirements are developed, tested, and put into production, and
   - look for gaps in user understanding and usage of system and work with Origami or user groups to provide training where needed.

Opportunity for Improvement for future large scale system deployments:
a. Develop a true training program to be provided prior to system implemented that to avoid the "learn on the job" training that can significantly reduce the effectiveness and efficiencies of the areas impacted for several months at best.
   - o User training should be required for all users.
   - o Number of hours of training needed by department and/or job responsibilities.
   - o The potential impact training will have on worker performance.

Management Response #1

Management agrees with the training recommendations. Training stakeholders will be identified and tasked with establishing best practices for internal, and when applicable, external training.

Business Objective #2: GAP Assessment

Risk Ranking: Some Improvement Needed

Observation(s)

1. Gap assessments, conducted by SORM and Origami, were not executed at the appropriate detailed level to identify key processes and dependencies that could impact the deployment, if not addressed appropriately. Both SORM and Origami made assumptions that the other side understood the gaps.
2. Origami experienced staff turnover during the project, which may have negatively impacted the outcomes of the gap assessments.

Recommendation(s) #2

For current processes
2. Review current system gaps, where the system is failing to meet the needs of the organization and users with Origami and determine which can be addressed programmatically and which will require process changes internally.

Opportunity for Improvement for future large scale system deployments:
b. Work closely with the system provider (e.g., Origami) to assure both SORM and the provider have a full understanding of the gaps for the entire transaction cycle(s) to be impacted by the deployments.

Management Response #2

Management agrees with the recommendations but notes that implementation will be dependent upon SORM and Origami successfully negotiating a contract amendment as well as the availability of funds for additional professional service hours.

Business Objective #3: Project Specifications and Requirements

Risk Ranking: Some Improvement Needed

Observation(s)

Finding(s):
1. SORM encountered resource constraints due to COVID, which negatively impacted their ability to devote sufficient time to the review of project specifications and requirements to identify potential issues.
2. Origami did not understand the breadth or depth of SORM's requirements including state-imposed timelines for workers' compensation claims, and
3. Some cross department dependencies and workflows were not thoroughly validated prior to implementation. This resulted in changes to the processes and workflows post implementation in the production environment. Consequently, unanticipated outcomes had to be addressed as a result of those changes.

Note: SORM did not have a data analyst prior to implementation, although this role was eventually filled. Due to the limited time available between the analyst hire date and the go-live date, SORM prioritized go-live critical reports, leaving many reports undone. The analyst left prior to go-live leaving SORM without a subject matter expert (SME) to troubleshoot and modify or create reports. SORM is in the process of hiring someone for that position

SORM's remediation to the above is as follows, and MJ concurs:

SORM's system administrators and data analyst have been trained to create predesigned reports that users can run on a self-service basis for data analysis and reporting. Training for individual users would improve their skills in using the advanced search features and saving the search criteria for future use.

Recommendation(s) #3

For current processes:
   3. Continue to with Origami to provide functionality to meet the strict requirements and timelines imposed by Texas Workers' Compensation Act.
   4. Post implementation, ensure that all key stakeholders are properly alerted to changes in processes and workflows so that they can proactively make the appropriate adjustments

Opportunity for Improvement for future large scale system deployments:
   c. SORM should work with key stakeholders on identifying and documenting must have requirements/specifications on new systems which can be provided to system vendors as a starting point for identifying how new system will be able to address the requirements. These should include:
      o cross department dependencies
      o workflow hand-offs, and
      o agency and regulatory needs.
      o This information should be relayed to the system provider for project planning and implementation purposes.
   d. SORM should consider building a Texas Origami User Group to share issues, understanding of system functionality, and potential requests for system updates. This user group should be able to gain more traction in gaining systems updates that will benefit all its members.

Management Response #3

Management agrees with the recommendations but notes that implementation will be dependent upon SORM and Origami successfully negotiating a contract amendment as well as the availability of funds for additional professional service hours.

Business Objective #4: User Acceptance Testing (UAT)

Risk Ranking: Some Improvement Needed

Observation(s)

Finding(s):

   1. The UAT process did not cover the full range of data and processes that SORM handles daily. UAT was conducted up to the day prior to the start of the system deployment. This resulted in users being unable to complete their testing to the full extent needed or to follow-up on potential issues identified.
   2. UAT documented objectives and/or requirements created by each department were not detailed enough to thoroughly address the business objectives.
   3. Departments were isolated when conducting UAT and were unable to collaborate on testing results.
   4. UAT scripts and definitions were developed by departments, and some were not adequate for the testing.

Recommendation(s) #4

Ideally, a test environment would be available to SORM to conduct UAT on system transactions that are not understood to see impact before utilizing in the production environment. However, we have learned that this is not an option.

Opportunity for Improvement for future large scale system deployments:
   e. SORM should work with system provider to create realistic, complete testing scripts/scenarios and a reasonable timeframe for SMEs to perform testing, analyze output, and edit scripts for additional testing, where needed, to assure UAT identifies potential issues with key processes such as workers' compensation.

f. Future UAT should be supported by a documented UAT plan that contains a clear outline of processes to be tested.
g. SORM should ensure stakeholders involved in UAT are able to collaborate with other users outside of the areas of responsibility to understand how various transactions and processes impact each other's teams.
h. SORM should work with system provider to clarify needs for UAT scripting and testing to ensure key stakeholder resources are available for this phase of the deployment and understand the impact of the UAT requirements.

Management Response #4

Management agrees with the recommendations but notes that implementation will be dependent upon SORM and Origami successfully negotiating a contract amendment as well as the availability of funds for additional professional service hours.

Business Objective #5: Data Migration and Mapping

Risk Ranking: Some Improvement Needed

Observation(s)

Finding(s):

1. Primary control totals focused on validation of the volume of data regarding physical record counts and claim file counts.
2. A process was not in place to reconcile and document dollar amounts between the legacy system and the new system. If the dollars do not reconcile between the two systems, it is possible that some records were dropped or not completely migrated to the new system.

Recommendation(s) #5

For current processes:
5. Implement a process to reconcile record counts and financial data in future implementations. SORM should also determine whether any existing dollar amounts in the new system should be reconciled using this process.

Management Response #5

Management agrees with the recommendations. Stakeholders will determine best practices for data validation in future implementation phases.

Business Objective #6: System Performance and Stabilization

Risk Ranking: Generally Effective

Observation(s)

Finding(s):

1. Origami uses a staging environment for the initial go-live of its clients instead of the production environment. The staging environment is shared by other Origami customers which at times was sluggish in its response times and performance. Once SORM transitioned to the production environment, system performance was no longer an issue.
2. SORM's submits required electronic data interchanges (EDI) through the Origami system which in turn submits the transactions to its contracted vendor which then provides the EDI records to TDI. SORM

does not have control of this activity, which can result in processing delays and, potentially, violations of state mandated time requirements.

Recommendation(s) #6

For current processes:
No recommendations were made.

Opportunity for improvement:
i. SORM should measure system performance and compare it to the service level agreements (SLAs) outlined in the Origami contract. Any degrade in performance should be communicated to Origami in the timeframe outlined in the contract and monitored until resolution is achieved. SORM should also ensure that parties are compliant with EDI requirements as outlined in the SLA.
j. SORM should explore options for implementing strict deadlines when sending EDI transactions to other organizations and business entities. SORM should, at a minimum, ensure its contracted vendor communicates the strict State time requirements to third parties that handle EDI transactions.

Management's Response #6

Management agrees with the recommendations. Existing contract provisions require the vendor, any subcontractor, and/or any third-party to which the vendor delegates a function to comply with data reporting requirements of law. Per the contract, the vendor retains responsibility for ensuring services performed under subcontracts are rendered in compliance with the contract. SORM also has the right to withhold, from amounts otherwise due to the vendor, the amount of any administrative fines and/or penalties imposed on SORM caused by or resulting from the wrongful acts, omissions, of, or information supplied by the vendor, its employees, subcontractors, and/or agents in the performance of duties related to the contract.

Business Objective #7: Vendor Warranty Period

Risk Ranking: Generally Effective

Observation(s)

Finding(s):
1. Per the contract, the warranty period was to begin at "go-live". However, the definition of "go-live" was unclear. SORM interpreted "go-live" to mean when they were in the production environment. Origami considered it to be when SORM was in the staging environment. This definition gap could have limited SORM's ability to identify issues prior to the end of the warranty period.
2. The project management team developed a system of logging, evaluating, escalating, and monitoring ticket status and resolution pre and post implementation. Prior to and post go-live weekend, the project management team provided a spreadsheet that the directors had access to that was used to triage issues as they arose. Additionally, for four weeks post implementation, the project management team facilitated daily stand-up meetings to allow users to discuss challenges and exchange useful observations.

Recommendation(s) #7

For current processes:
No recommendations were made.

Opportunity for Improvement for future large scale system deployments:
k. Consider utilizing a senior level technical advisor with significant system deployment experience (including database, development, infrastructure knowledge) to advocate for the agency during

vendor vetting, contract negotiations, as well as clarifying system requirements and terminology to assure system meets needs of SORM.

l.   Consider extending the warranty period to a minimum of one month after transitioning into the production environment.

Management's Response #7

Management agrees with the recommendations but notes that implementation will be dependent upon SORM and Origami successfully negotiating a contract amendment as well as the availability of funds for additional professional service hours. Similarly, employment of a technical advisor will require compliance with state procurement laws and rules as well as available funding.

BUSINESS OBJECTIVES, RISKS, FINDINGS AND RECOMMENDATIONS

This section of the report provides a summary of the State Office of Risk Management's (SORM) key business objectives, primary business risks, management controls in place and the respective internal control assessment.

Each table also includes our assessment of internal controls for the respective business risk, our recommendations to address deficiencies noted, opportunities to enhance current controls, and management's responses.

1 BUSINESS OBJECTIVE: TRAINING	
Business Objective	To implement and maintain controls and processes in place to assure users are properly trained in Origami and can perform their tasks efficiently and effectively through the system.
Business Risk	Users may not be properly trained in Origami and may be unable to perform their tasks efficiently and effectively.
Management Controls in Place	■ SORM users participated in the user acceptance training (UAT) phase to gain exposure to the system. ■ Origami sales demos were used as training for SORM users. ■ The project manager, along with the Agency Relations team, created quick tips for the users such as documents and videos. ■ The project management team created an intranet site devoted exclusively to the Origami implementation to provide central access to reference materials for users. ■ The intranet site provides users with access to a help button to submit questions directly to the project management team who will then facilitate replies with the appropriate information.
Control Tests	■ Interviewed key process owners. ■ Interviewed program manager and director ■ Reviewed Lessons Learned Phase 1 document provided by SORM project management team.
Control Assessment / Findings	**Some Improvement Needed** ■ Budget dollars and hours were not available for a comprehensive training program. Consequently, limited training was provided for the new system and many users taught themselves how to perform their tasks. ■ Stakeholders participated in UAT which provided them familiarity to the system. These stakeholders were able to teach themselves aspects of the system after go-live to provide training and support to their staff.

1 BUSINESS OBJECTIVE: TRAINING

	▪ Some users are still learning how to effectively navigate the system and perform processes. ▪ Training information provided by Origami to support user learning and education was generic and not designed for SORM users and processes specifically.

Recommended Actions	For current processes:
	
	1. Improve effectiveness and efficiencies as well as assure team members are utilizing more than the basic features of Origami:
	   ▪ conduct detailed discussions with team members and stakeholders to identify potential changes to procedures, and to create enhanced training/ support materials,
	   ▪ work with the team to ensure that reports needed to manage daily processes and reporting requirements are developed, tested, and put into production, and
	   ▪ look for gaps in user understanding and usage of system and work with Origami or user groups to provide training where needed.
	
	Opportunity for Improvement for future large scale system deployments:
	
	a. Develop a true training program to be provided prior to system implemented that to avoid the "learn on the job" training that can significantly reduce the effectiveness and efficiencies of the areas impacted for several months at best.
	o User training should be required for all users.
	o Number of hours of training needed by department and/or job responsibilities.
	o The potential impact training will have on worker performance.

2 BUSINESS OBJECTIVE: GAP ASSESSMENTS

Business Objective	To implement processes to assure a system gap assessment of SORM to Origami is conducted to identify issues in system implementation and potential areas of improvement.
Business Risk	A system gap assessment conducted of SORM to Origami may not have identified potential issues in system implementation and/or areas of improvement.
Management Controls in Place	▪ A gap assessment was performed virtually for this implementation.
Control Tests	▪ Interviewed key process owners. ▪ Interviewed program manager and director.
Control Assessment / Findings	**Some Improvement Needed** ▪ Gap assessments, conducted by SORM and Origami, were not executed at the appropriate detailed level to identify key processes and dependencies that could impact the deployment, if not addressed appropriately. Both SORM and Origami made assumptions that the other side understood the gaps. ▪ Origami experienced staff turnover during the project, which may have negatively impacted the outcomes of the gap assessments.
Recommended Actions	*For current processes:*

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2 BUSINESS OBJECTIVE: GAP ASSESSMENTS

2. Review current system gaps, where the system is failing to meet the needs of the organization and users. with Origami and determine which can be addressed programmatically and which will require process changes internally.

Opportunity for Improvement for future large scale system deployments:

b. Work closely with the system provider (e.g., Origami) to assure both SORM and the provider have a full understanding of the gaps for the entire transaction cycle(s) to be impacted by the deployments.

3 BUSINESS OBJECTIVE: PROJECT SPECIFICATIONS AND REQUIREMENTS

Business Objective	To implement controls and processes to assure project specifications and requirements for the Origami deployment are defined, documented, and implemented to ensure users are able to perform their duties and tasks.
Business Risk	Project specifications and requirements for Origami may not have been defined, documented, and implemented sufficiently, which may negatively impact users' ability to perform their duties and tasks.
Management Controls in Place	▪ Project specifications and requirements were reviewed for this implementation by the project management. ▪ SORM involved internal stakeholders early in the process.
Control Tests	▪ Interviewed key process owners. ▪ Interviewed program manager and director. ▪ Reviewed Lessons Learned Phase 1 document provided by SORM project management team.
Control Assessment / Findings	**Some Improvement Needed** ▪ SORM encountered resource constraints due to COVID, which negatively impacted their ability to devote sufficient time to the review of project specifications and requirements to identify potential issues. ▪ Origami did not understand the breadth or depth of SORM's requirements including state-imposed timelines for workers' compensation claims. ▪ Some cross department dependencies and workflows were not thoroughly validated prior to implementation. This resulted in changes to the processes and workflows post implementation in the production environment. Consequently, unanticipated outcomes had to be addressed as a result of those changes. Note: SORM did not have a data analyst prior to implementation, although this role was eventually filled. Due to the limited time available between the analyst hire date and the go-live date, SORM prioritized go-live critical reports, leaving many reports undone. The analyst left prior to go-live leaving SORM without a subject matter expert (SME) to troubleshoot and modify or create reports. SORM is in the process of hiring for that position SORM's remediation to the above is as follows, and MJ concurs: *SORM's system administrators and data analyst have been trained to create predesigned reports that users can run on a self-service basis for data analysis and reporting. Training for individual users would improve their skills in using the advanced search features and saving the search criteria for future use.*

3 BUSINESS OBJECTIVE: PROJECT SPECIFICATIONS AND REQUIREMENTS

Recommended Actions	For current process:
	
	3. Continue to work with Origami to provide functionality to meet the strict requirements and timelines imposed by Texas Workers' Compensation Act.
	4. Post implementation, ensure that all key stakeholders are properly alerted to changes in processes and workflows so that they can proactively make the appropriate adjustments.
	
	Opportunity for Improvement for future large scale system deployments:
	
	c. SORM should work with key stakeholders on identifying and documenting must have requirements/specifications on new systems which can be provided to system vendors as a starting point for identifying how a new system will be able to address the requirements. These should include:
	    o cross department dependencies
	    o workflow hand-offs, and
	    o agency and regulatory needs.
	    o This information should be relayed to the system provider for project planning and implementation purposes.
	d. SORM should consider building a Texas Origami User Group to share issues, understanding of system functionality, and potential requests for system updates. This user group should be able to gain more traction in gaining systems updates that will benefit all its members.

4 BUSINESS OBJECTIVE: USER ACCEPTANCE TESTING (UAT)

Business Objective	Implement controls and processes to assure user acceptance testing (UAT) is conducted to ensure that Origami meets user needs and requirements.
Business Risk	UAT may not have been sufficient to assure Origami met user needs and requirements.
Management Controls in Place	▪ SORM internal stakeholders participated in UAT.
Control Tests	▪ Interviewed key process owners. ▪ Reviewed Lessons Learned Phase 1 document provided by SORM project management team.
Control Assessment / Findings	**Some Improvement Needed** ▪ The UAT process did not cover the full range of data and processes that SORM handles daily. UAT was conducted up to the day prior to the start of the system deployment. This resulted in users being unable to complete their testing to the full extent needed or to follow-up on potential issues identified. ▪ UAT documented objectives and/or requirements created by each department were not detailed enough to thoroughly address the business objectives. ▪ Departments were isolated when conducting UAT and were unable to collaborate on testing results. ▪ UAT scripts and definitions were developed by departments, and some were not adequate for the testing.
Recommended Actions	Ideally, a test environment would be available to SORM to conduct UAT on system transactions that are not understood to see impact before utilizing in the production environment. However, we have learned that this is not an option. *Opportunity for Improvement for future large scale system deployments:*

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4 BUSINESS OBJECTIVE: USER ACCEPTANCE TESTING (UAT)

e. SORM should work with system provider to create realistic, complete testing scripts/scenarios and a reasonable timeframe for SMEs to perform testing, analyze output, and edit scripts for additional testing, where needed, to assure UAT identifies potential issues with key processes such as workers' compensation.

f. Future UATs should be supported by a documented UAT plan that contains a clear outline of processes to be tested.

g. SORM should ensure stakeholders involved are able to collaborate with other users outside of the areas of responsibility to understand how various transactions and processes impact each other's teams.

h. SORM should work with system provider to clarify needs for UAT scripting and testing to ensure key stakeholder resources are available for this phase of the deployment and understand the impact of the UAT requirements.

5 BUSINESS OBJECTIVE: DATA MIGRATION AND MAPPING

Business Objective	To implement controls and processes to assure data migration and mapping from the legacy system to Origami maintains data integrity and migrated data is complete and accurate.
Business Risk	Data migration and mapping from the legacy system to Origami may not ensure data integrity is maintained and data is not complete and accurate.
Management Controls in Place	▪ Stakeholders validated data as part of the migration from legacy system (CMS) to Origami.
Control Tests	▪ Reviewed Lessons Learned Phase 1 document provided by SORM project management team. ▪ Interviewed key process owners.
Control Assessment / Findings	**Some Improvement Needed** ▪ Primary control totals focused on validation of the volume of data regarding physical record counts and claim file counts. ▪ Defined control totals for the financial data were not formally documented.
Recommended Actions	*For current processes:* 5. Implement a process to reconcile record counts and financial data in future implementations. SORM should also determine whether any existing dollar amounts in the new system should be reconciled using this process.

6 BUSINESS OBJECTIVE: SYSTEM PERFORMANCE

Business Objective	To implement controls and processes in place to assure the Origami system performance is adequate to support the business needs of SORM.
Business Risk	Origami system performance may not have been adequate to support the business needs of SORM.
Management Controls in Place	▪ SORM implemented a ticket system to provide a means for users to report system issues. ▪ The SORM project management team reviewed and prioritized the tickets and worked with Origami to resolve timely.
Control Tests	▪ Interviewed key process owners.

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6 BUSINESS OBJECTIVE: SYSTEM PERFORMANCE

Control Assessment / Findings	**Generally Effective**
	▪ Origami uses a staging environment for the initial go-live of its clients instead of the production environment. The staging environment is shared by other Origami customers which at times was sluggish in its response times and performance. Once SORM transitioned to the production environment, system performance was no longer an issue.
	▪ SORM's submits required electronic data interchanges (EDI) through the Origami system which in turn submits the transactions to its contracted vendor which then provides the EDI records to TDI. SORM does not have control of this activity, which can result in processing delays that could potentially violate state mandated time requirements.
Recommended Actions	*For current processes:* No recommendations were made. *Opportunity for improvement:* i. SORM should being measure system performance and compare it to the service level agreements (SLAs) outlined in the Origami contract. Any degrade in performance should be communicated to Origami in the timeframe outlined in the contract and monitored until resolution is achieved. TSORM should also ensure that parties are compliant with EDI requirements as outlined in the SLA. j. SORM should explore options for implementing strict deadlines when sending EDI transactions to other organizations and business entities. SORM should, at a minimum, ensure its contracted vendor communicates the strict State time requirements to third parties that handle EDI transactions.

7 BUSINESS OBJECTIVE: VENDOR WARRANTY PERIOD

Business Objective	To implement processes and controls to assure Origami responds promptly and completely to tickets entered for system requests during warranty period.
Business Risk	Origami's response to system requests during the warranty period may not be prompt or complete, resulting in potential negative impacts to the agency.
Management Controls in Place	▪ SORM implemented a ticket system to provide a means for users to report system issues. ▪ The SORM project management team reviewed and prioritized tickets and worked with Origami to resolve timely.
Control Tests	▪ Performed data analysis on ticket information provided by SORM. ▪ Interviewed key process owners. ▪ Reviewed Lessons Learned Phase 1 document provided by SORM project management team.
Control Assessment / Findings	**Generally Effective** ▪ Per the contract, the warranty period was to begin at "go-live". However, the definition of "go-live" was unclear. SORM interpreted "go-live" to mean when they were in the production environment. Origami considered it to be when SORM was in the staging environment. This definition gap could have limited SORM's ability to identify issues prior to the end of the warranty period.

7 BUSINESS OBJECTIVE: VENDOR WARRANTY PERIOD

	▪ The project management team developed a system of logging, evaluating, escalating, and monitoring ticket status and resolution pre and post implementation. Prior to and post go-live weekend, the project management team provided a spreadsheet that the directors had access to that was used to triage issues as they arose. Additionally, for four weeks post implementation, the project management team facilitated daily stand-up meetings to allow users to discuss challenges and exchange useful observations.
Recommended Actions	*For current processes:* No recommendations were made. *Opportunity for Improvement for future large scale system deployments:* k. Consider utilizing a senior level technical advisor with significant system deployment experience (including database, development, infrastructure knowledge) to advocate for the agency during vendor vetting, contract negotiations, as well as clarifying system requirements and terminology to assure system meets needs of SORM. l. Consider extending the warranty period to a minimum of one month after transitioning into the production environment.

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5.   New business (Continued)

5.2   Presentation, discussion, and action regarding the Fiscal Year 2023 Internal Audit Plan

Information

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

Action Required

The Chair may entertain motions for consideration and acceptance.

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State Office of Risk Management
Internal Audit Services

FY 2023 Annual Internal Audit Plan

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

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October 18, 2022

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Internal Audit Coordinator, State Auditor's Office

Dear Ladies and Gentlemen:

Attached is the FY 2023 Annual Internal Audit Plan for the State Office of Risk Management (SORM) approved by SORM's Board of Directors. The Annual Internal Audit Plan will enable the SORM to comply with the Texas Internal Auditing Act, Texas Government Code Chapter 2102 as amended by House Bill 2485 during the 78th Legislature and House Bill 16 during the 83rd Legislature. McConnell & Jones LLP (MJ) will execute this annual audit plan in accordance with The Texas Internal Auditing Act, The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, and Generally Accepted Government Auditing Standards (GAGAS).

Please contact Darlene Brown at 713.968.1617 or Stephen Vollbrecht at 512. 936.1508 if you should have any questions about this audit plan.

Sincerely,

Darlene Brown

Darlene Brown, CIA, CFE
Partner

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Diverse Thinking | Unique Perspectives

1.0 Compliance with Texas Government Code, Section 2102.015: Posting the Audit Plan and Annual Report on the Internet

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports to the agency's internet website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, MJ will provide this Annual Internal Audit Plan, the Annual Internal Audit Report and any other required internal audit information to the State Office of Risk Management's (SORM) Executive Director who will ensure the information is posted to the SORM's website.

2.0 Purpose

The purpose of this document is to communicate the annual risk-based audit plan as approved by the State Office of Risk Management Board of Directors, the methodology used to develop the Annual Internal Audit plan, the timing and resource requirements necessary to complete the audit plan, and the communication of audit results and any significant interim changes to the Annual Internal Audit Plan.

The Annual Internal Audit Plan was developed based on a prioritization of the audit universe, input from SORM's leadership team and guidance provided by the State Auditor's Office (SAO). Using our risk assessment framework, we identified the organizational sources for potential engagements and auditable activities; examined organizational risk factors; evaluated the proposed engagements; and prioritized the audits based on the risk rating.

3.0 Risk Assessment

Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. An organization's risk exposure is determined through the identification of risks and evaluating the impact on operations and likelihood of occurrence.

Risk assessments identify an organization's exposure to business disruptions and barriers to achieving the organization's strategic goals. They serve as a tool to focus limited resources to perform evaluations of controls that are in place to limit the exposure.

In accordance with Texas Internal Auditing Act and The Institute of Internal Auditors (IIA) Standard 2010.A1, this internal audit plan is based on a documented risk assessment and input of the SORM leadership team. Our assessment evaluated risk exposures relating to the SORM's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, policies and procedures, and contracts.

MJ reviewed SORM's key documents such as the Legislative Appropriations Request (LAR), Strategic Plan, Budget, Annual Internal Audit Reports, Sunset Staff Report, State Auditor's Office reports and previous internal audit risk assessments.

The types of risk exposure relevant to the State Office of Risk Management are:

- *Financial Exposure*: Financial exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.
- *Compliance Exposure*: Compliance exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.
- *Information Exposure*: An information exposure exists whenever there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.
- *Efficiency Exposure*: An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.
- *Human Resource Exposure*: A human resource exposure exists whenever an area is managing human resources in a way, which is contrary to agency policy.
- *Environmental Exposure*: An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:
  - Recent changes in key personnel
  - Changing economic conditions
  - Time elapsed since last audit
  - Pressures on management to meet objectives
  - Past audit findings and quality of internal control
- *Public Service Exposure*: A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.
- *Reputational Exposure:* A reputational exposures exists whenever an event in the audit area could jeopardize the reputation of the agency and stakeholder trust.

We assigned weights to each of these risk categories for each SORM department or function. SORM is in the process of implementing two major information systems: Origami for claims processing and the state's Centralized Accounting and Payroll/Personnel System (CAPPS) for financial management. Additionally, the agency is in the process of redistributing some training and professional development responsibilities between Talent Management and Agency Relations. As a result, the risk scores have changed from prior years.

Figure 1 provides a heat map of the combined average score for each SORM department.
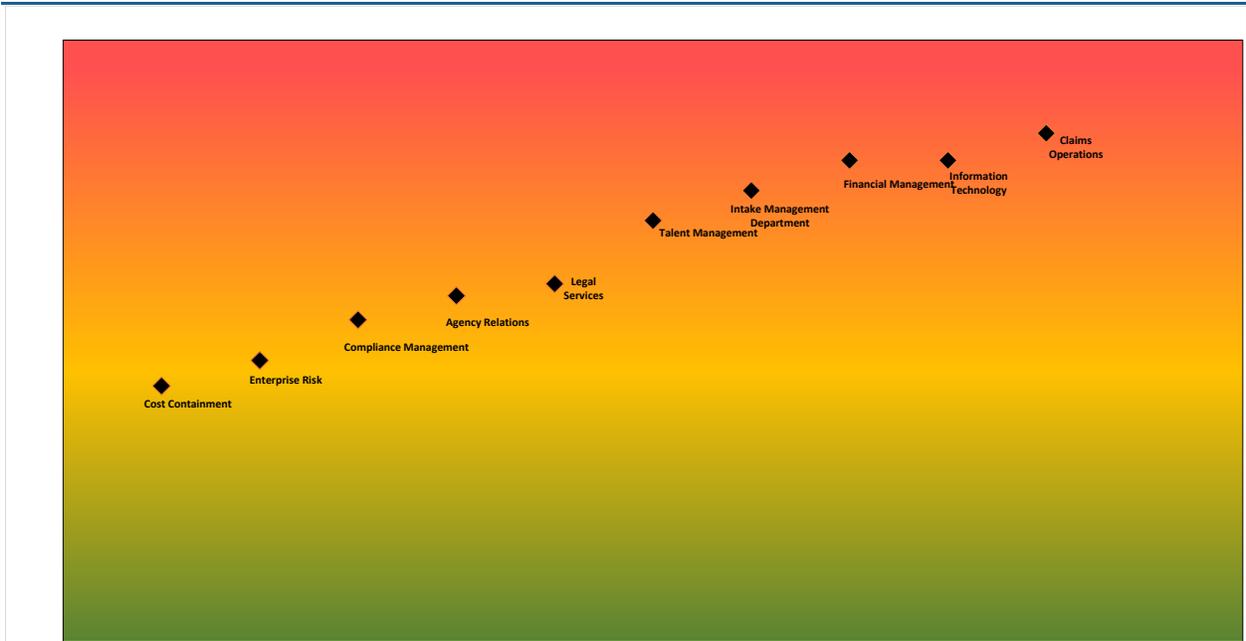
Figure 1 State Office of Risk Management Organizational Risk Summary 2022

MJ discussed the risk exposures with SORM's leadership team. We then prepared the Annual Internal Audit plan based upon current risks facing SORM's operations. Although claims operations, financial management, and intake management rated high risk, we do not have these included in the proposed FY2023 audit plan because these areas will be in significant transition during FY2023 as a result of implementing new information systems.

4.0   FY 2023 Annual Internal Audit Plan

MJ will conduct one scheduled audit, review the external cyber security review results and remediation status, perform a risk assessment, conduct prior audit finding follow-up activities, prepare the fiscal year 2024 Annual Internal Audit Plan and prepare the fiscal year 2023 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **268 hours**. The planned audits, timing and estimated hours are summarized in the table below.

Fiscal Year 2023 Annual Internal Audit Plan

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Agency Relations *Scope:* ✓ Internal Professional Development and Training ✓ External Communications ✓ Internal Communications	High	Nov. 2022 – February 2023	168

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
2	External Cyber Security Assessment Follow-Up ✓ Findings remediation status	High	December 2022	40
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	37
4	Risk Assessment and Annual Internal Audit Plan	Compliance	March 2023	13
5	Annual Internal Audit Report (FY 2023)	Compliance	September 2023	3
6	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	7
	Total			**268**

We will focus on risks, internal controls and business processes.

5.0   Significant Interim Changes

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to SORM executive management and present these changes to the SORM's Board of Directors for review and approval. Notification of significant changes to the internal audit plan approved by the Board of Directors will be submitted to the State Auditor's Office.

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6.   Old business

Information

Staff is available to address any questions or concerns from the previous meeting.

Action Required

No official action requested, at this time.

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7.   Public comment

Information

It is the policy of the Board that members of the public shall be given the opportunity to appear before the Board during public meetings of the Board and to speak on any issue under the jurisdiction of the Board.

Action Required

No official action requested, at this time.

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8. **Discussion and possible action on future meeting dates**

Information

Tentative meeting dates are attached for discussion.

Action Required

Selection of future meeting dates.

Tentative Board of Directors Meeting Dates
FY23Q1

Month	Day of Week	Date	Notes
January	Tuesday	10	
		17	
		24	
		31	

NOTES:
The Secretary of State requires a minimum of 7 days' notice before publication in the Texas Register.
Draft rules, revised rules, and final rules must be published in the Register for 30 days.

All dates shown are with notes on upcoming due dates and holidays that will affect the Office.

9. Adjourn meeting

The Chair:

1. Calls the meeting adjourned and announces time