

**STATE OFFICE OF RISK MANAGEMENT**  
Austin, Texas

**ANNUAL INTERNAL AUDIT REPORT**

Fiscal Year 2016



STATE OFFICE OF RISK MANAGEMENT  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2016

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# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors  
State Office of Risk Management  
Austin, Texas

We have prepared the Annual Internal Audit Report (Report) for the State Office of Risk Management (SORM) for the fiscal year ended August 31, 2016, which accompanies this letter. The Report includes all information required to comply with the State of Texas Internal Audit Annual Report requirements.

*Garza/Gonzalez  
& Associates*

September 1, 2016

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## INTRODUCTION

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

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

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

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

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

### **2016 Internal Audit Functions Performed**

Following are the functions performed by the Internal Auditor for fiscal year 2016:

- Preparation of the Annual Internal Audit Report for fiscal year 2016
- Risk Assessment and Preparation of the Internal Audit Plan for Fiscal Year 2017

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### INTERNAL AUDIT OBJECTIVES

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

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

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## I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information

To comply with the provisions of Texas Government Code, 2102.015 and the State Auditor's Office, within 30 days after approval by SORM's Board of Directors, SORM will post the following information on its website:

- An approved fiscal year 2017 internal audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2016 internal audit annual report, as required by Texas Government Code, Section 2102.009.

## II. Internal Audit Plan for Fiscal Year 2016

An internal audit plan for fiscal year 2016 was not prepared. The only functions performed by the Internal Auditor for fiscal year 2016 were preparation of the Annual Internal Audit Report; and, completion of a risk assessment and internal audit plan for fiscal year 2017.

In the prior 3 years, the Internal Auditor performed the following audits and functions:

### Fiscal Year 2015:

- Document Management & Records Retention
- Follow up of Prior Year Audit Recommendations
- Preparation of the Annual Internal Audit Report

### Fiscal Year 2014:

- Accounting and Financial Reporting
- Procurement/HUB Compliance/Travel
- Follow up of Prior Year Audit Recommendations
- Preparation of the Annual Internal Audit Report

### Fiscal Year 2013:

- Medical Cost Containment Unit
- Follow up of Prior Year Audit Recommendations
- Preparation of the Annual Internal Audit Report

The internal audit report prepared for fiscal year 2016 was as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Report Date</u>
1.	Annual Internal Audit Report	9/1/2016

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### III. Consulting and Nonaudit Services Completed

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

### IV. External Quality Assurance Review

The internal audit department's most recent *System Review Report*, dated October 7, 2015, indicates that its system of quality control has been suitably designed and conforms with applicable professional standards in all material respects.

### V. External Audit Services Procured in Fiscal Year 2016

SORM procured the internal audit services for preparation of the Annual Internal Audit Report for fiscal year 2016.

### VI. Reporting Suspected Fraud and Abuse

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

### VII. Internal Audit Plan for Fiscal Year 2017

A risk assessment was performed to develop the Internal Audit Plan (Plan) for fiscal year 2017. The Plan, which will be presented to the Board of Directors at a meeting to be determined at a later date, includes the following internal audit and functions to be performed.

- Claims Operations Area
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Board of Directors

VIII. Organizational Chart

