



**State Office of Risk Management**

**Internal Audit Services**

**FY 2018 Annual Internal Audit Report**

*Prepared by:*



**McCONNELL & JONES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

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October 9, 2018

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 2018 Internal Audit Report for the State Office of Risk Management (SORM). This annual 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 2018 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 2018 is due November 1, 2018.

Please contact Odysseus Lanier at 713.968.1603 or Stephen Vollbrecht at 512. 936.1508 if you should have any questions about this Annual Internal Audit Report.

Sincerely,

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Odysseus Lanier, CPA  
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 2018 INTERNAL AUDIT PLAN STATUS

The fiscal year 2018 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 2018 Annual Internal Audit Plan was completed as approved. The chart below reflects the approved audit plan status as of August 31, 2018.

Fiscal Year 2018 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Interagency Assessments	18-001	May 22, 2018	Interagency Assessment Process and Controls	Completed
2	Follow-Up on Open Audit Findings	The agency was in process of implementing recommendations during FY 2018.			
3	Update Annual Risk Assessment & Audit Plan	N/A	N/A	N/A	Completed
4	Annual Audit Report	N/A	N/A	N/A	Completed
5	Audit Communications, Project Management	N/A	N/A	N/A	On-going

**Deviation from 2018 Plan:**

MJ completed the approved FY 2018 Annual Internal Audit Plan as approved with no deviations.

**III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED**

Internal audit provided no consulting and advisory services during FY 2018.

**IV. 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 we have consistently received an unqualified opinion in our external peer review of our accounting and auditing practice by the AICPA in the most recent three peer reviews. 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. MJ did receive our latest peer review in 2017 which is still under review by the AICPA. Therefore, we provide a copy of our latest peer review letter below.

*Your Vision Our Focus*



**System Review Report**

February 20, 2016

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, 2014**. 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. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. 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. 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. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included audits of employee benefit plans and audits performed under *Government Auditing Standards*.

In our opinion, 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, 2014**, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. **McConnell & Jones, LLP** has received a peer review rating of *pass*.

*Turner, Stone & Company, LLP*

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## VI. INTERNAL AUDIT PLAN FISCAL YEAR 2019

MJ developed the fiscal year 2019 Annual Internal Audit Plan based on results of a risk assessment. The risk assessment included reviewing the agency’s strategic plan, the Legislative Appropriations Request, and policies and procedures; analyzing the agency’s financial reports; 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 audit, update the risk assessment, conduct prior audit finding follow-up activities, prepare the Fiscal Year 2020 Annual Internal Audit Plan and prepare the Fiscal Year 2019 Annual Internal Audit Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **299 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

### Fiscal Year 2019 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Human Resources	High	March 2019	221
2	Follow-Up on Prior Audit Findings	Compliance	On-Going	36
3	Update Risk Assessment and Annual Audit Plan	Compliance	July - August 2018	25
4	Annual Internal Audit Report	Compliance	August 2018	4
5	Audit Communications, Public Counsel Meetings, Project Management	N/A	All Year	13
	<b>Total</b>			<b>299</b>

## VII. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2018

External audit services procured in fiscal year 2018 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 and approved on October 9, 2018

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Lloyd M. Garland, M.D., Board Chair