

INTERNAL AUDIT ANNUAL REPORT FISCAL YEAR 2017



TEXAS HISTORICAL COMMISSION
real places telling real stories



Prepared By:



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

Section	Page Number
<i>I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET</i>	<i>2</i>
<i>II. FISCAL YEAR 2017 INTERNAL AUDIT PLAN STATUS.....</i>	<i>2</i>
<i>III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED.....</i>	<i>3</i>
<i>IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)</i>	<i>3</i>
<i>V. INTERNAL AUDIT PLAN FISCAL YEAR 2018</i>	<i>5</i>
<i>VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2016.....</i>	<i>5</i>
<i>VII. REPORTING SUSPECTED FRAUD AND ABUSE.....</i>	<i>5</i>
<i>VIII. SIGNIFICANT INTERIM CHANGES</i>	<i>6</i>
<i>IX. REPORT DISTRIBUTION.....</i>	<i>7</i>



December 7, 2017

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

Dear Ladies and Gentlemen:

Attached is the FY 2017 Internal Audit Annual Report for the Texas Historical Commission (THC). This 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). THC engaged McConnell & Jones LLP (MJ) on October 24, 2014 to provide internal audit services to the THC in accordance with The Texas Internal Auditing Act, pursuant to a Request for Proposals (RFP) issued August 20, 2014. MJ submits this FY 2017 Annual Internal Audit Report on behalf of the THC Commissioners.

The Texas Internal Auditing Act requires agencies to file an annual report on their internal audit activities and the internal audit reports prepared for their governing board. The purpose of the Internal Audit Annual Report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the Internal Audit Annual Report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the FY 2017 Internal Audit Annual Report is due November 1, 2017.

Please contact Odysseus Lanier at 713.968.1603 or Chairman John L. Nau, III at 512.463.5767 if you should have any questions about this audit report.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Odysseus Lanier'.

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 Texas Historical Commission (THC) for posting to their website.

II. FISCAL YEAR 2017 INTERNAL AUDIT PLAN STATUS

McConnell & Jones LLP prepared the Fiscal Year 2017 Annual Internal Audit plan based on a comprehensive risk assessment which was approved by the THC commissioners on October 19, 2016. There were no deviations from the approved audit plan. The chart below reflects the status of the approved Internal Audit Plan as of August 31, 2017.

Fiscal Year 2016 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Historical Site Revenue Processes	17-001	August 31, 2017	Historical Sites Retail Management	Completed
2	Historic Site Maker Program Processes	17-002	Pending	State Historical Marker Program	Completed
3	Follow-Up on Open Audit Findings	N/A	N/A	N/A	Completed
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

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal Audit did not provide consultative services or non-audit services to THC management during FY 2017.

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. We provide a copy of our most recent 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/pesummary.

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

Turner, Stone & Company, L.L.P.
Accountants and Consultants
12700 Park Central Drive, Suite 1400
Dallas, Texas 75241
Telephone: 972-239-1660 / Facsimile: 972-239-1661
Toll Free: 877-813-4191
Web site: turnerstone.com



V. INTERNAL AUDIT PLAN FISCAL YEAR 2018

MJ developed the Fiscal Year 2018 Internal Audit Plan based on results of the annual 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; reviewing prior audit reports and findings; and conducting discussions with management. Our assessment evaluated risk exposures relating to the THC'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, conduct follow-up activities related to prior audit findings, update the risk assessment, prepare the Fiscal Year 2019 Annual Internal Audit plan and prepare the Fiscal Year 2018 Annual Internal Audit Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **221 hours**. The planned audits, timing and estimated hours are summarized in the table below.

Fiscal Year 2018 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Continuity of Operations Plan	Medium	November 2017 – December 2017	112
2	Follow-Up on Prior Audit Findings	Compliance	On-Going	78
3	Update Risk Assessment	Compliance	July 2018	16
4	Annual Audit Plan	Compliance	July 2018	3
5	Annual Audit Report	Compliance	August 2018	4
6	Audit Communications, Committee Meetings, Project Management	N/A	All Year	8
	Total			221

VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2017

External audit services procured in fiscal year 2017 consisted of internal audit services necessary to execute THC's internal audit plan.

VII. REPORTING SUSPECTED FRAUD AND ABUSE

Texas Historical Commission 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 Texas Historical Commission included a link to the State Auditor’s Office website for fraud reporting at the footer of the Texas Historical Commission website.
- The THC’s Fraud Prevention Policy also includes information on how to report any known, alleged or suspected fraud or other illegal activities at the THC to management within the agency or directly to the State Auditor’s Office.

VIII. 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 THC’s executive management and present these changes to the THC Commissioners for review and approval. Notification of significant changes to the Internal Audit Plan approved by the Audit Committee will be submitted to the State Auditor’s Office.

This annual internal audit report was presented to the Commissioners and approved on December 7, 2017.

John Nau, III, Chairman

- The Texas Historical Commission included a link to the State Auditor's Office website for fraud reporting at the footer of the Texas Historical Commission website.
- The THC's Fraud Prevention Policy also includes information on how to report any known, alleged or suspected fraud or other illegal activities at the THC to management within the agency or directly to the State Auditor's Office.

VIII. 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 THC's executive management and present these changes to the THC Commissioners for review and approval. Notification of significant changes to the Internal Audit Plan approved by the Audit Committee will be submitted to the State Auditor's Office.

This annual internal audit report was presented to the Commissioners and approved on December 7, 2017.



John Nau, III, Chairman

IX. REPORT DISTRIBUTION

This report is being distributed to the following individuals.

Texas Historical Commission Members

Mr. John Nau, III, Chair
Mr. Earl Broussard, Jr., Vice-Chair
Ms. Monica Burdette
Mr. John W. Crain
Mr. Wallace B. Jefferson
Ms. Catherine McKnight
Mr. Tom Perini
Mr. Gilbert E. Peterson
Ms. Daisy Sloan White

Texas Historical Commission

Mr. Mark Wolfe, Executive Director
Mr. Alvin Miller, Deputy Executive Director

Oversight Agencies

Governor's Office of Budget Planning and Policy
Legislative Budget Board
Internal Audit Coordinator, State Auditor's Office
Sunset Advisory Commission