

TEXAS HISTORICAL COMMISSION FY2016 INTERNAL AUDIT PLAN



TEXAS HISTORICAL COMMISSION
real places telling real stories

As Prepared by



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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August 6, 2015

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Mr. John Keel, CPA, State Auditor

Dear Ladies and Gentlemen:

Attached is the 2016 Internal Audit Plan for the Texas Historical Commission (THC). This annual audit plan was discussed with the THC's Commissioners and received approval on August 6, 2015. The annual audit plan will enable the THC 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. This annual audit plan will be executed by McConnell & Jones LLP (MJ) 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 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 plan.

Sincerely,

Odysseus Lanier, CPA

Partner

1.0 COMPLIANCE WITH HOUSE BILL 16: PUBLICATION OF AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

House Bill 16 amended the Texas Internal Auditing Act to require state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans and internal audit annual reports to the agency's Internet website within 30 days of approval. House Bill 16 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 House Bill 16, MJ will provide the required internal audit plan, internal audit annual report and any other required internal audit information to the Texas Historical Commission's (THC) Deputy Executive Director who will ensure the information is posted to the THC's website.

2.0 PURPOSE

The purpose of this document is to communicate the annual risk-based audit plan as approved by the Texas Historical Commission Commissioners on August 6, 2015, the methodology used to develop the annual 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 audit plan.

The annual audit plan was developed based on a prioritization of the audit universe using the results of the risk assessment and input from the THC leadership team. Using our risk assessment framework, we identified the organizational sources for potential engagements and auditable activities; examined organizational risk factors, using a weighted average risk measurement scoring system; evaluated the risk assessment results; and prioritized the audits based on the risk measurement score. The engagements selected were based on the quantified risk priorities and the organization's risk strategy.

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 THC leadership team. 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, policies and procedures, and contracts. We also considered contract management and information technology in our risk assessment.

The types of risk exposure relevant to the THC 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.

MJ discussed the risk exposures with the THC leadership team. We identified, analyzed, and prioritized risks by customizing risk factors and weighting system to the THC’s major systems, organizational objectives, structure, balance sheet, and business processes. These discussions, combined with the business process and balance sheet risks were used as a basis to prepare the proposed annual audit plan.

The following chart is the three-year audit plan which is a result of the risk assessment.

Texas Historical Commission Proposed Three Year Audit Plan

Audit Area	Risk Category	Year 1 2016	Year 2 2017	Year 3 2018
Grants Management	High			
Human Resources	Medium			
Section 106 Reviews	Compliance			
Tax Credit Program	New Program			
Key Performance Measures	Compliance			
Interagency Receivables	High			
Follow-Up on Prior Audit Findings	Compliance			
Update Risk Assessment & Develop Annual Audit Plan	Compliance			
Annual Audit Report	Compliance			
Audit Communications	Compliance			

4.0 2016 ANNUAL AUDIT PLAN

MJ will conduct two audits, follow-up on prior audit findings, update the risk assessment, prepare the 2017 annual audit plan and prepare the 2016 annual audit report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **216 hours** for a total annual budget not to exceed \$24,781. The planned audits, timing and estimated hours are summarized in the chart below.

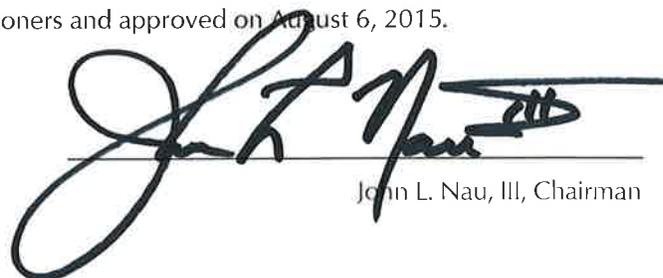
2016 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Grants Management	High	October - December 2015	71
2	Human Resources	Medium	April - May 2016	71
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	20
4	Update Risk Assessment	Compliance	July - August 2016	20
5	Annual Audit Plan	Compliance	July - August 2016	9
6	Annual Audit Report	Compliance	August 2016	10
7	Audit Communications, Committee Meetings, Project Management	N/A	All Year	15
	Total			216

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 THC executive management and present these changes to the THC's Commissioners 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.

This annual audit plan was presented to the Commissioners and approved on August 6, 2015.



John L. Nau, III, Chairman