

ANNUAL INTERNAL AUDIT REPORT FISCAL YEAR 2016



TEXAS HISTORICAL COMMISSION
real places telling real stories



Prepared By:



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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October 20, 2016

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 FY2016 Annual Internal Audit Report for the Texas Historical Commission (THC). 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). 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 2016 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 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 FY 2016 Annual Internal Audit Report is due November 1, 2016.

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,

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 2016 INTERNAL AUDIT PLAN STATUS

McConnell & Jones LLP prepared the Fiscal Year 2016 Annual Internal Audit plan based on a comprehensive risk assessment which was approved by the THC commissioners on August 6, 2015. 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, 2016.

Fiscal Year 2016 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Grants Management	16-001	August 2016	Grants Management	Completed
2	Human Resources	16-002	Pending	Human Resources Processes	In-Progress. Audit report to be issued in November 2016.
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 FY2016.

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.

See 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.

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*.

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V. INTERNAL AUDIT PLAN FISCAL YEAR 2017

MJ developed the Fiscal Year 2017 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. We also included consideration of contract management and information technology risks.

The State Auditor's Office (SAO) annual report guidelines included the requirement to indicate which projects in the audit plan address certain items described below.

State Auditor's Office Requirement	FY2017 Internal Audit Plan Activity
Benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.	Not included. Will be included in the FY2019 CAPPs implementation audit.
Contract management and other requirements of Senate Bill 20 (84th Legislature)	Not included. Will be included in the FY2019 CAPPs implementation audit.

Risks rated as high that are not included in the fiscal year 2017 audit plan include the following:

- Investments – these assets are managed by the state's Treasury and are outside of the agency's control.
- Land – these assets are held by the State of Texas.

MJ will conduct two audits, update the risk assessment, conduct follow-up activities related to prior audit findings, prepare the Fiscal Year 2018 Annual Internal Audit plan and prepare the Fiscal Year 2017 Annual Internal Audit report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **212 hours**. The planned audits, timing and estimated hours are summarized in the table below.

Fiscal Year 2017 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Historic Sites Retail Development Program	Medium	November 2016 – February 2017	84
2	Historic Marker Program Processes	Medium	March – May 2017	64
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	14
4	Update Risk Assessment	Compliance	July - August 2017	20
5	Annual Audit Plan	Compliance	July - August 2017	8

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
6	Annual Audit Report	Compliance	August 2017	8
7	Audit Communications, Committee Meetings, Project Management	N/A	All Year	14
	Total			212

Proposed audits will focus on internal controls and business processes

VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2016

External audit services procured in fiscal year 2016 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 October 20, 2016.

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
Mr. John W. Crain
Mr. Thomas M. Hatfield
Mr. Wallace B. Jefferson
Mr. Tom Perini
Mr. Gilbert E. Peterson
Mrs. Judy Richardson
Mr. Robert K. Shepard, Secretary
Mrs. Daisy Sloan White

Texas Historical Commission

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

Oversight Agencies

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