

**ANNUAL INTERNAL AUDIT REPORT
FISCAL YEAR 2015**



TEXAS HISTORICAL COMMISSION
real places telling real stories



Prepared By:



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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 MJ

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

October 30, 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 2015 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). McConnell & Jones LLP (MJ) was engaged on October 24, 2014 to provide internal audit services to the THC in accordance with The Texas Internal Auditing Act. Pursuant to the Request for Proposals (RFP) issued August 20, 2014. MJ submits this internal audit annual report for fiscal year 2015 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 your 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 annual internal audit report for fiscal year 2015 is due November 1, 2015.

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

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I. 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, 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. INTERNAL AUDIT PLAN FOR FISCAL YEAR 2015

The Fiscal Year 2015 annual audit plan was prepared by McConnell & Jones LLP based on a comprehensive risk assessment and approved by the THC commissioners on January 29, 2015. There were no deviations from the approved audit plan. The chart below reflects the approved audit plan status as of August 31, 2015.

Fiscal Year 2015 Internal Audit Plan

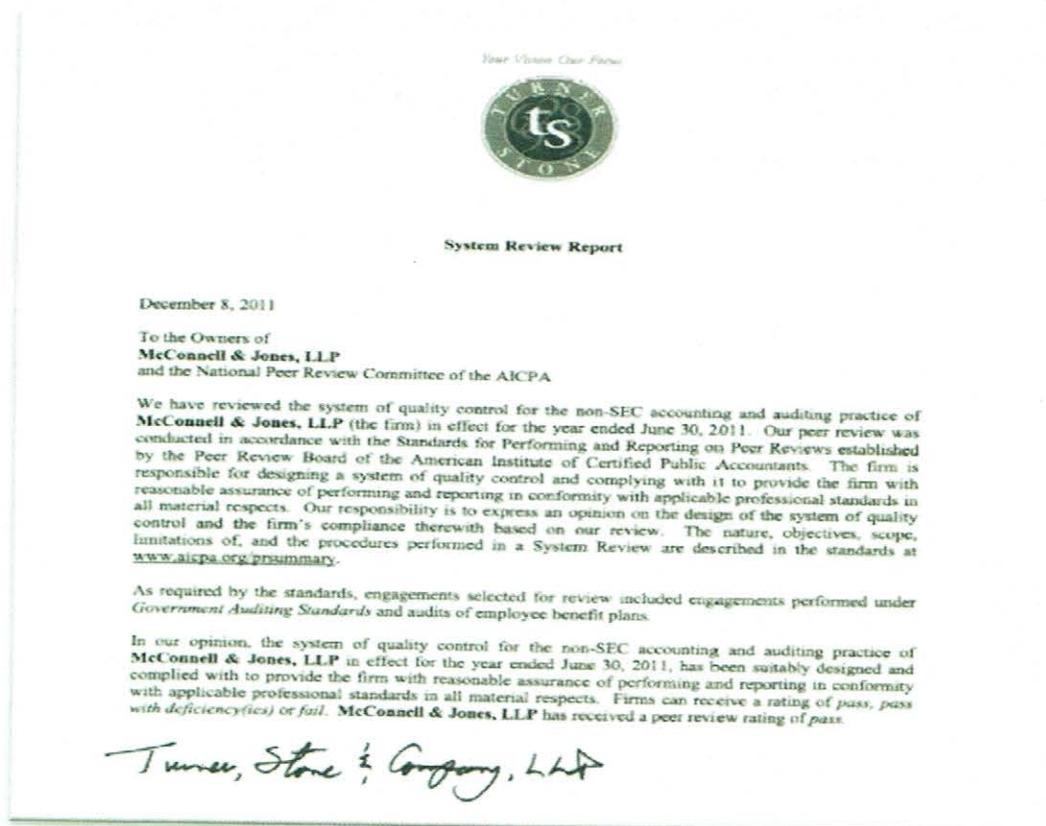
Audit Activity #	Description	Risk Rating	Estimated Hours	Status
1	Management Reports	High	76	Completed
2	Accounts Payable	High	75	Completed
3	Follow-Up on Prior Audit Findings	Compliance	20	Completed
4	Update Risk Assessment	Compliance	20	Completed
5	Annual Audit Plan	Compliance	13	Completed
6	Annual Audit Report	Compliance	15	Completed
7	Audit Communications, Committee Meetings, Project Management	N/A	13	Completed
8	Initial Risk Assessment	Compliance	49	Completed
	Total		281	

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal Audit provided consultative assistance to Staff Services Division financial office. The assistance was conducting a review of internal financial reports prepared by the Chief Financial Officer to determine if they were informative enough for Commissioner monitoring and decision making; provided the information necessary for the Executive Director to make operational decisions; and met each division manager's needs. Internal Audit issued a report and presented the results to the Commissioners. Internal Audit's participation and services were limited to an advisory basis only; ensuring both auditor independence and objectivity were not compromised. Such activity did not result in reports or management letters during fiscal year 2015.

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. Our last peer review was completed in December 2014, however we have not received the peer review letter. Our December 2011 peer review letter is provided below.



V. INTERNAL AUDIT PLAN FISCAL YEAR 2016

MJ developed the Fiscal Year 2016 audit plan based on results of the annual risk assessment and the State Auditor's Office guidelines for the Fiscal Year 2016. We have also included consideration of SB20 implementation as part of the post-payment audit follow-up activities that will be conducted.

MJ will conduct two audits, update the risk assessment, conduct prior audit finding follow-up activities, prepare the Fiscal Year 2017 annual audit plan and prepare the Fiscal Year 2016 annual audit report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **215 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

Fiscal Year 2016 Annual Audit Plan Activities

<i>Audit Activity #</i>	<i>Description</i>	<i>Risk Rating</i>	<i>Estimated Timing</i>	<i>Estimated Hours</i>
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			215

Proposed audits will focus on internal controls and business processes

VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2015

External audit services procured in fiscal year 2015 consisted of the internal audit function.

VII. REPORTING SUSPECTED FRAUD AND ABUSE

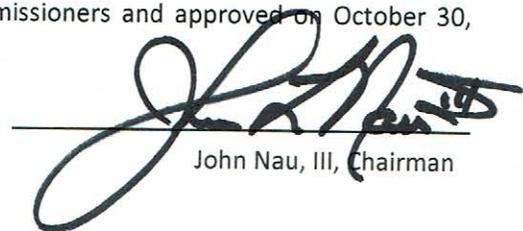
Texas Historical Commission has implemented measures to comply with Article IX, Section 7.10, the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022. These measures include, but are not limited to, the following:

- The Texas Historical Commission included a link to the State Auditor's Office (SAO) 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 (SAO).

This annual internal audit report was presented to the Commissioners and approved on October 30, 2015.



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
Mrs. Anna Benavides Galo
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

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Internal Audit Coordinator, State Auditor's Office
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Sunset Advisory Commission
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