Texas Historical Commission

INTERNAL AUDIT PLAN

Fiscal Year 2014

Presented to
THC Commissioners
October 23, 2013

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ACRONYMS:

IIA	Institute of Internal Auditors
SAIAF	State Agency Internal Audit Forum

RUPERT & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

October 23, 2013

OPEC Committee & Commissioners
Texas Historical Commission (THC)

The following document presents the proposed fiscal year 2014 Internal Audit Plan for your review and approval, in accordance with the Texas Internal Auditing Act.

Chapter 2102 of the Government Code requires that the internal audit plan be risk-based and include areas identified though a risk assessment process. This document presents the internal audit guidelines, risk assessment results, the proposed audit plan, and a summary of the internal audits performed in the recent years at THC.

The FY 2014 Internal Audit Plan that follows is submitted for your approval.

Respectfully,

Rupert & Associates, PC

Certified Public Accountants
Austin, Texas

Agency Overview

The Texas State Legislature established the Texas Historical Commission in 1953 as the Texas State Historical Survey Committee with the task to identify important historic sites across the state. The Texas Legislature changed the agency name to the Texas Historical Commission (THC) in 1973. Along with the name change came more protective powers, an expanded leadership role and broader educational responsibilities. The Texas Historical Commission is the state agency for historic preservation. The THC staff consults with citizens and organizations to preserve Texas' architectural, archeological, and cultural resources.

The THC has a governing board composed of 13 citizen members appointed by the governor to staggered six-year terms. The agency employs about 190 people who work in various fields, including archeology, architecture, history, economic development, heritage tourism, public administration, and urban planning.

The mission of the THC is to protect and preserve the historic and prehistoric resources for the use, education, enjoyment, and economic benefit of present and future generations. To accomplish these goals, the agency receives funds from the State General Revenue fund, Federal funds, interagency transfers, sporting goods sales tax, historic site fees, appropriated receipts, bond proceeds, and grants.

The THC is divided into seven divisions:

The **Archeology Division** works to identify, protect and preserve Texas' irreplaceable archeological resources.

The **Architecture Division** works to preserve and protect Texas' diverse architectural heritage. Staff members provide design and rehabilitation advice to assist with preserving properties that span the state's rich history, from majestic historic county courthouses and commercial buildings to Spanish missions and simple log cabins.

The **Community Heritage Development Division** works in partnership with communities and regions to revitalize historic areas, stimulate tourism and encourage economic development through the use of preservation strategies.

The **History Programs Division** provides preservation assistance to local governments, state and federal agencies, the state's 254 county historical commissions, museums, nonprofit preservation organizations, volunteers, students, educators and the general public to identify, evaluate and interpret the historic and cultural resources of Texas.

The **Public Information & Education Division** promotes the agency's programs and projects and develops outreach strategies to increase awareness of the agency's mission and purpose.

The **Staff Services Division** provides support to the agency, including functions relating to personnel, property management, budgeting, accounting, and purchasing.

The **Historic Sites Division** is responsible for administering 20 historic sites located around the state which include whitewashed ruins, Victorian mansions, sacred burial mounds and pivotal battlegrounds. These historic sites exemplify a breadth of Texas history.

Texas Internal Auditing Act

All state agencies receiving appropriations or pass-through funds of $10 million or more or those agencies with more than 100 employees must comply with §2102.005 of the Internal Auditing Act (Texas Government Code, Chapter 2102). This act requires the agency to conduct a program of internal auditing that includes:

- An annual audit plan that is prepared using risk assessment techniques and that identifies the individual audits to be conducted during the year; and
- Periodic audits of the agency's major systems and controls, including
    - accounting systems and controls,
    - administrative systems and controls, and
    - electronic data processing systems and controls.

This act requires the governing board of the state agency to appoint an internal auditor.

The internal auditor shall:

1. Report directly to the state agency's governing board;
2. Develop an annual audit plan;
3. Conduct audits as specified in the audit plan and document deviations;
4. Prepare audit reports;
5. Conduct quality assurance reviews in accordance with professional standards and periodically take part in a comprehensive external peer review; and
6. Conduct economy and efficiency audits and program results audits as directed by the state agency's governing board.

The program of internal auditing conducted by a state agency must provide for the auditor to have access to the administrator and be free of all operational and management responsibilities that would impair the auditor's ability to review independently all aspects of the state agency's operation.

The annual audit plan developed by the internal auditor must be approved by the state agency's governing board or its designee.

The internal auditor will prepare reports of audits conducted, including management's response to audit recommendations. The state agency's governing board and the administrator must review those audit reports. The Chief Audit Executive will submit a copy of each report to the budget division of the governor's office, the state auditor, the Legislative Budget Board and the Sunset Commission no later than the 30th day after the date the report is submitted to the state agency's governing body.

The Chief Audit Executive shall prepare an annual report and submit the report before November 1st of each year to the governor, the Legislative Budget Board, the Sunset Advisory Commission, the state auditor, the state agency's governing board, and the administrator. The State Auditor shall prescribe the form and content of the report, subject to the approval of the legislative audit committee.

The internal audit function shall conform to the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing,* the Government Accountability Office's (GAO) *Government Auditing Standards,* and the Texas Internal Auditing Act.

Internal Audit Professional Standards

In addition to the Texas Internal Auditing Act, the *International Standards for the Professional Practice of Internal Auditing* requires the internal audit activity to evaluate the effectiveness and contribute to the improvement of risk management processes. The internal audit activity must evaluate risk exposures, including the potential for the occurrence of fraud and how it is managed. The auditor assists the organization in maintaining effective controls by evaluating the effectiveness and efficiency of the risk management process and by promoting continuous improvement. Specifically, the internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization'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.

Internal auditors are required to ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished.

The internal audit activity also must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization,
- Ensuring effective organizational performance management and accountability,
- Communicating risk and control information to appropriate areas of the organization,

- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

Internal auditors must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

The internal audit activities and the internal audit plan for the Texas Historical Commission are designed to meet the guidelines for the internal audit activity as stated above.

Risk Assessment Process

This section presents the results of the THC Risk Assessment, and establishes the foundation for the Internal Audit Plan presented in the next section. The Risk Assessment was updated in September 2012 and the results were used for determining the FY 2014 internal audit plan.

I. Purpose

A risk assessment provides management and board members with a prioritized list of risks associated with the activities of the agency. From these risks, a management strategy is developed. The risk assessment allows the Board to identify the risks being monitored by management and evaluate the effectiveness of controls and responses to those risks. The risk assessment provides a foundation from which the annual internal audit plan is built.

II. Concepts of Risk

Risk is defined as the level of exposure to uncertainties that an agency must comprehend and manage to effectively and efficiently achieve its objectives and execute its strategies. Risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Controls are anything that improves the likelihood that goals and objectives will be achieved.

III. Methodology

The risk assessment process has three primary elements:

(1) Identify agency activities;
(2) Identify risks for each activity and rating the perceived impact and probability; and
(3) Identify actions or controls taken to mitigate those risks.

The risk assessment consolidates activities by functional area and prioritizes the activities based on their importance to achieving agency goals and objectives. The resulting risk assessment footprint identifies high-risk areas to be considered for inclusion in the internal audit plan.

IV. Risk Footprint

The risk assessment footprint in Exhibit 2 reflects the current risks as identified and ranked by the risk assessment process. Each risk identified in the matrix is assigned two risk factors of High, Medium, or Low based on the impact the risk would have on the agency if it occurred and the probability of occurrence. By combining these measures the agency develops a prioritized risk ranking for each risk factor. The following key provides the level of risk management that will be employed by the agency for each potential risk factor ranking:

- HH, HM – Extensive Risk Management that includes monitoring by management and an internal audit.
- HL, MH – Considerable Risk Management that includes monitoring by management and a less in depth audit.
- MM, ML, LH – Manage and monitor the risk
- LM, LL – Monitor and/or accept the risk

V. Results

The results of the risk assessment shown in Exhibit 2 illustrate the prioritization and organization of consolidated activities and risk factor priorities. The highest-risk areas are marked in red. Risks in the red area require oversight controls to ensure that the supervisory and operating controls are working. Oversight controls can include exception reports, status reports, analytical reviews, variance analysis, etc. These controls are performed by representatives of executive management, on information provided by supervisory management. Areas within this highest risk category should also be considered for inclusion in the internal audit plan.

Activities that fall within the yellow risk category require considerable risk management. Under this category of risk executive management or their designees should perform oversight controls to ensure that supervisory and monitoring controls are working. If internal audit provides services in this area, it is to ensure that oversight of the supervisory controls are appropriate and are being performed.

The last two categories of risk are marked in green and gray. Risks falling within the green areas rely on department managers to provide oversight by ensuring that supervisory controls and operating controls are working. Department managers should report to the Executive Director on the condition of these risks. Risks in the gray area are low impact risk areas that are managed by operating and supervisory controls and executive management accepts the residual risk in these areas.

Internal Audit Plan for Fiscal Year 2014

The two highest risks on the agency risk footprint that are being addressed this year are in the information technology (IT) area and the accounting area in Staff Services.

The IT risks relate to the risk of equipment failure. This will be an advisory project, the objectives of which are to provide management with assessments and advice for improving processes that will advance the goals and objectives of the organization. No assurance is provided. Typically, the objectives and the scope of the projects are agreed to by management. Equipment failure is rated as high impact and high probability on the agency's risk footprint.

The risks in the Staff Services division relate to property accounting for real property, fleet, and agency assets across a broad area with inadequate staff to monitor on a regular basis. The risk was rated as high impact and high probability by the Accounting division, with concurrence from management.

Therefore, the FY 2014 Internal Audit Plan for the Texas Historical Commission includes the following two projects:

1. IT Advisory Project to assess and advise on the risk of equipment failure
2. Property Management Audit
3. Follow up on prior year audit recommendations

Internal Audit will work with management to develop objectives and define the scope and timing of the audit projects. The auditor is also available to assist staff on audit recommendations that are still in process.

The estimated time budget for FY 2014 internal audits and audit-related work is 206 hours. The estimated budget hours for each internal audit activity is as follows:

- FY 2014 Risk Assessment and Internal Audit Plan 20 hrs
- #2014-1: IT Advisory Project 75 hrs
- #2014-2: Property Management Audit 75 hrs
- FY 2014 Annual Internal Audit Report 13 hrs
- Follow Up on Prior Audit Recommendations 13 hrs
- Administrative Meetings: Board / Audit Committee / SAIAF 10 hrs

Exhibit 1: Texas Historical Commission Risk Footprint - FY-2014

ACTIVITY PRIORITY	CONSOLIDATED ACTIVITY	IMPACT RATING	PROBABILITY RATING	RISKS 1	IMPACT RATING	PROBABILITY RATING	RISKS 2	IMPACT RATING	PROBABILITY RATING	RISKS 3	IMPACT	PROBABILITY RATING	RISKS 4	IMPACT RATING	PROBABILITY RATING	RISKS 5	IMPACT RATING	PROBABILITY RATING	RISKS 6	IMPACT RATING	PROBABILITY RATING	RISKS 7	IMPACT RATING	PROBABILITY RATING
10	**Purchasing (Staff Services)**	H	H	Inadequate staffing / staff not fully trained on all types of purchases, esp. construction. Large volume of purchasing and types of purchases, esp. construction. (2009)	H	H	Purchasing by Sites: smaller dollar amounts; staff not fully trained on all types of purchases; distance from main Purchasing staff. (THTP 2012)	M	H	Bid process - large volume; lack of available staff to manage	M	H	Non-compliance with State purchasing guidelines	M	H	Procurement card processing, complete & timely	M	L	Fraud		`			
11	**Information Technology (IT)**	H	H	Equipment Failure (server, router, etc) (2004)	H	L	Non-compliance with DIR / IRMA (2004)	H	L	Network Security Breach	H	L	Loss of IT staff	M	H	Intranet connectivity between Austin and sites needs improvement	L	H	Virus or Spyware Infection	L	L	Fraud		
9	**Accounting (Staff Services)**	H	H	Property (SPA), real property (GLO), fleet (CPA); new bar code system (SPA); inadequate staff to monitor on a regular basis; property assignments and delivery to sites; property forms signed	M	H	Draws of grant funds delayed due to lack of staff or staff training	M	H	Payroll accounting errors	M	H	Agency Accounts Payable: loss of staff and split of duties between other staff	M	M	Budget development and monitoring; reporting to management not timely	M	M	Property asset accounting	M	M	State Appropriations accounting	M	L
5	**Historic Sites**	H	M	Personal injury - staff & visitors (2013)	M	L	Business Continuity Planning (2011)	M	L	Management / coordination of field staff	M	L	Misappropriation of funds or failure to account for funds appropriately	M	L	Fraud	M	L	Volunteer liability	L	L	THC / ANF Operating Agreement compliance		
4	**Archeology (AD)**	H	L	Loss of irreplaceable records / proprietary information (2011)	H	L	Loss of artifacts	M	H	Real property, archeological, security	M	M	Safety Program	M	M	Volunteer liability	M	L	Non-compliance with state/fed laws/regs	M	L	Semi paperless / Digital Records Management	L	L
6	**Community Heritage Development (CHD)**	H	L	Loss of key files, irreplaceable records of projects (2011)	H	L	Loss of Digital data	M	M	Safety Program ineffective	M	L	Personal injury in the field	M	L	Misuse of Grant funds by recipients	M	L	Non compliance with state/federal regulations	M	L	PR / credibility risks (actions by staff or partners)	L	L
7	**Public Information & Education (PIE)**	H	L	Loss of information - print projects; photo archives; digital photos; medallion dbase (2011)	M	M	Loss of more staff due to budget cuts	M	M	Training: more backup and cross-training is critical with staff reduction	M	L	Loss of files stored on computers	L	L	Fraud								
3	**Architecture (DOA)**	H	L	Loss of key files / irreplaceable records of projects (2011)	M	M	THC Building Maintenance and Safety	M	L	Digital Records Management	M	L	Non compliance with state/federal regulations	L	L	Fraud								
2	**History Programs (HPD)**	H	L	Loss of historical information: markers, National Register, Cemeteries, surveys (2011)	M	M	Staff limitations due to budget cuts; inability to meet deadlines	M	L	Non compliance with state / fed laws / regs	L	L	Fraud											
1	**Executive / Admin**	M	M	THC Building Maintenance & Safety	M	L	Business Continuity Planning (2011)	L	L	Fraud	L	L	Bonds for historic sites											
8	**Human Resources (HR)**	L	L	Personnel Manual not kept current	L	L	Personnel records incomplete or inaccurate	L	L	Non-compliance with state/fed laws/regulations	L	L	Personnel hiring process risks	L	L	Fraud								
12	**Friends of THC**	L	L	Improper handling of funds / A/R	L	L	Fraud																	

Exhibit 1: Texas Historical Commission Risk Footprint - FY-2014

ACTIVITY PRIORITY	CONSOLIDATED ACTIVITY	RISKS	IMPACT RATING	PROBABILITY RATING	RISKS	IMPACT RATING	PROBABILITY RATING	RISKS
		8			9			10
10	Purchasing (Staff Services)							
11	Information Technology (IT)							
9	Accounting (Staff Services)	Travel Procedures and Controls	L	L	Fraud	L	L	Accounting systems at historical sites for A/R, procurement, p-card usage
5	Historic Sites							
4	Archeology (AD)	Fraud						
6	Community Heritage Development (CHD)	Theft / loss of equipment	L	L	Fraud risks			
7	Public Information & Education (PIE)							
3	Architecture (DOA)							
2	History Programs (HPD)							
1	Executive / Admin							
8	Human Resources (HR)							
12	Friends of THC							

Exhibit 2: History of THC Audits by Fiscal Year

2013-1	Governance Audit
2013-2	Historic Sites Risk Management Audit
2012-1	Purchasing: Bond and Grant Funds
2012-2	External Quality Assurance Review
2011-1	Business Continuity Planning Audit
2011-2	Document Management Evaluation
2010-1	Staff Services: Payroll Accounting Processes & Controls
2010-2	Historic Sites: Gate Receipts at the National Museum of the Pacific War
2009-1	Staff Services: Purchasing Audit
2009-2	External Quality Assurance Review
2008	Recommendations from the State Parks Audit
2007	Gate Receipts at the National Museum of the Pacific War
2006	Rehabilitation Tax Credit Application Review Process
2005	County Courthouse Program Review Interagency Transfers Audit Internal Audit Quality Assurance Review (External Review)

EXTERNAL AUDITS

2010	Comptroller of Public Accounts: Post-Payment Expenditure Audit Purchase, travel, payroll and grants transactions
2005	State Auditor's Office: Audit Report on the Texas Historical Commission Texas Historic County Courthouse Preservation Program Texas Preservation Trust Fund Grant Programs: Heritage Trails Partnership Certified Local Government History Museum

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