



TEXAS HISTORICAL COMMISSION
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TEXAS HISTORICAL COMMISSION FY 2019 ANNUAL INTERNAL AUDIT PLAN

As Prepared by
McConnell & Jones LLP



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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October 24, 2018

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 2019 Internal Audit Plan for the Texas Historical Commission (THC). McConnell & Jones LLP (MJ) discussed this annual internal audit plan with the THC's Commissioners and received their approval on October 24, 2018. The Annual Internal 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. MJ will execute this Annual Internal Audit Plan 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 Commissioner John H. Nau, III at 512.463.5767 if you should have any questions about this audit plan.

Sincerely,

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1.0 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, 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 October 24, 2018 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; and prioritized the audits based on the risk rating. 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.

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 used these discussions, combined with the business process and balance sheet risks, as a basis to prepare the proposed annual audit plan.

4.0 FISCAL YEAR 2019 ANNUAL INTERNAL AUDIT PLAN

MJ will conduct two audits, follow-up on prior audit findings, update the risk assessment, prepare the FY 2020 Annual Internal Audit Plan and prepare the FY 2019 Annual Internal Audit Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **228 hours** for a total annual budget not to exceed \$25,610. The planned audits, timing and estimated hours are summarized in the table below.

FY 2019 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Information Security Policies	High	April 2019	90
2	CAPPS Access Controls	High	January 2019	76
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	27
4	Update Risk Assessment	Compliance	July 2019	12
5	Annual Audit Plan	Compliance	July 2019	3
6	Annual Audit Report	Compliance	August 2019	1
7	Audit Communications, Committee Meetings, Project Management	N/A	All Year	4
	Total			213

5.0 SIGNIFICANT INTERIM CHANGES

Interim changes to the annual internal 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 THC Commissioners will be submitted to the State Auditor's Office.

This annual audit plan was presented to the Commissioners and approved on October 24, 2018.