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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 2018 Internal Audit Annual Report for the Texas Historical Commission (THC). This 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) in November 2017 to provide internal audit services to the THC in accordance with The Texas Internal Auditing Act, pursuant to a Request for Proposals (RFP) issued September 27, 2017. MJ submits this FY 2018 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 Internal Audit Annual Report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the Internal Audit Annual Report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the FY 2017 Internal Audit Annual Report is due November 1, 2018.

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 2018 INTERNAL AUDIT PLAN STATUS

McConnell & Jones LLP prepared the Fiscal Year 2018 Annual Internal Audit plan based on a comprehensive risk assessment which was approved by the THC commissioners on December 7, 2017. 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, 2018.

<table>
<thead>
<tr>
<th>#</th>
<th>Description</th>
<th>Report Number</th>
<th>Report Date</th>
<th>Report Title</th>
<th>Audit Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Follow-Up on Open Audit Findings</td>
<td>18-002</td>
<td>August 28, 2018</td>
<td>Follow-up on Open Audit Findings</td>
<td>Completed</td>
</tr>
<tr>
<td>4</td>
<td>Update Annual Risk Assessment &amp; Audit Plan</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Completed</td>
</tr>
<tr>
<td>5</td>
<td>Annual Audit Report</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Completed</td>
</tr>
<tr>
<td>6</td>
<td>Audit Communications, Project Management</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>On-going</td>
</tr>
</tbody>
</table>
III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal Audit did not provide consultative services or non-audit services to THC management during FY 2018.

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. MJ did undergo our latest peer review in 2017 which is still under review by the AICPA. Therefore, we provide a copy of our latest peer review letter below.
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/preview.

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.

[Signature]

Turner, Stone & Company, LLP

Turner, Stone & Company, LLP
Accountants and Consultants
12700 Park Central Drive, Suite 1400
Dallas, Texas 75251
Telephone: 972-339-1660; Facsimile: 972-229-1665
Tel/Fax: 972-903-4101
Web site: turnerstone.com
V. INTERNAL AUDIT PLAN FISCAL YEAR 2019

MJ developed the Fiscal Year 2019 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.

MJ will conduct two audits, conduct follow-up activities related to prior audit findings, update the risk assessment, prepare the Fiscal Year 2020 Annual Internal Audit plan and prepare the Fiscal Year 2019 Annual Internal Audit Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **228 hours**. The planned audits, timing and estimated hours are summarized in the table below.

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

VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2018

External audit services procured in fiscal year 2018 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 24, 2018.
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. Jim Bruseth
- Ms. Monica Burdette
- Mr. John W. Crain
- Mr. Garrett Donnelly
- Ms. Renee Dutia
- Ms. Lilia Garcia
- Mr. David Gravelle
- Mr. Wallace B. Jefferson
- Ms. Laurie Limbacher
- Ms. Catherine McKnight
- Mr. Tom Perini
- Mr. Gilbert E. Peterson
- Ms. Daisy Sloan White

**Texas Historical Commission**
- Mr. Mark Wolfe, Executive Director
- Mr. Alvin Miller, Deputy Executive Director

**Oversight Agencies**
- Governor’s Office of Budget Planning and Policy
- Legislative Budget Board
- Internal Audit Coordinator, State Auditor’s Office
- Sunset Advisory Commission