

INTERNAL AUDIT ANNUAL REPORT FISCAL YEAR 2019



TEXAS HISTORICAL COMMISSION
real places telling real stories



Prepared By:



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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October 4, 2019

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 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) to provide internal audit services to the agency in accordance with The Texas Internal Auditing Act. MJ submits this FY 2019 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 2019 Internal Audit Annual Report is due November 1, 2019.

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 Annual Internal Audit Plan, Internal Audit Annual Report and any other required internal audit information is provided to the Texas Historical Commission for posting to their website.

II. FISCAL YEAR 2019 INTERNAL AUDIT PLAN STATUS

McConnell & Jones LLP prepared the Fiscal Year 2019 Annual Internal Audit plan based on a comprehensive risk assessment which was approved by the THC commissioners. 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, 2019.

Fiscal Year 2019 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	CAPPS Financials User Access	19-001	August 31, 2019	CAPPS Financials User Access	Completed
2	Information Technology Policies	19-002	August 27, 2019	Information Technology Policies	Completed
3	Update Annual Risk Assessment & Audit Plan	N/A	N/A	N/A	Completed
4	Internal Audit Annual Report	N/A	N/A	N/A	Completed
5	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 FY 2019.

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, in our four most recent peer reviews, we have consistently received an unqualified opinion in external peer review reports on the quality of our accounting and auditing practice by the AICPA. 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.

Your Vision Our Focus



Report on the Firm's System of Quality Control

January 31, 2018

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, 2017. 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

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. The Firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility


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.

Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including a compliance audit under the Single Audit Act; audits of employee benefit plans and an audit of a non-carrying broker-dealer.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the Firm, if applicable, in determining the nature and extent of our procedures.

Turner, Stone & Company, L.L.P.
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Dallas, Texas 75211
Telephone: 972-339-1665 / Facsimile: 972-339-1665
Toll Free: 877-853-4195
Web site: turnerstone.com



Opinion

In our opinion, the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP**, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017, 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*.

Turner, Stone & Company, L.L.P.

Turner, Stone & Company, L.L.P.

V. INTERNAL AUDIT PLAN FISCAL YEAR 2020

MJ developed the Fiscal Year 2020 Annual 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 2021 Annual Internal Audit plan and prepare the Fiscal Year 2020 Annual Internal Audit Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **225 hours**. The planned audits, timing and estimated hours are summarized in the table below.

Fiscal Year 2020 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	National Register and State Antiquities Landmark Designation Processes	High	January 2020	100
2	Texas Historic Preservation Tax Credit Program	High	March 2020	86
3	Follow-Up on Prior Audit Findings	Compliance	March 2020	25
4	Update Risk Assessment	Compliance	July 2020	8
5	Annual Audit Plan	Compliance	July 2020	3
6	Annual Audit Report	Compliance	August 2020	1
7	Audit Communications, Committee Meetings, Project Management	N/A	All Year	2
	Total			225

VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2019

External audit services procured in fiscal year 2019 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 4, 2019.

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.
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