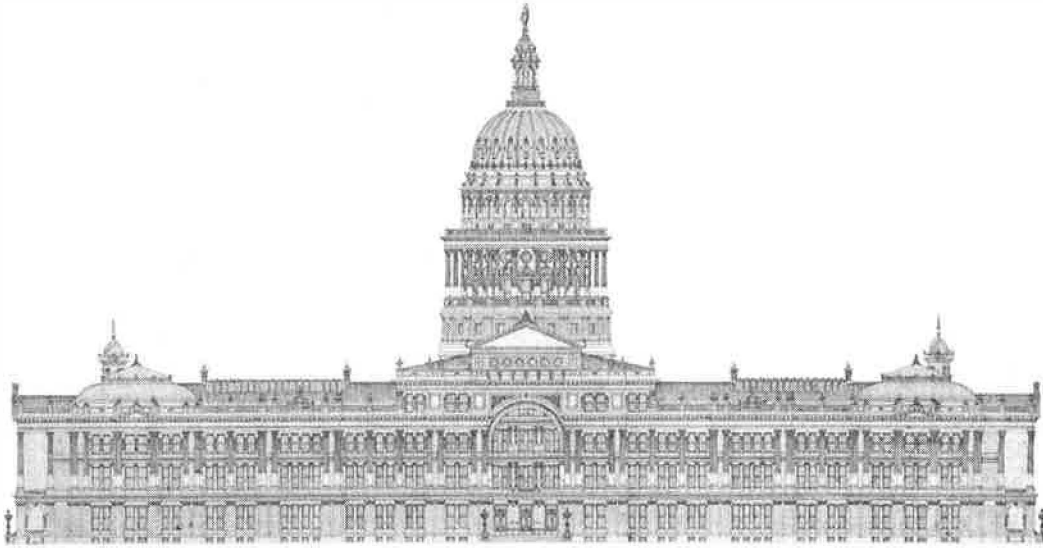


State Preservation Board



Annual Report of Internal Audit Activities Fiscal Year 2014

The Honorable Rick Perry
The Honorable David Dewhurst
The Honorable Joe Straus
The Honorable Kevin Eltife
The Honorable Charlie Geren
Cris Crouch Graham, Citizen Board Member
John Sneed, Executive Director

October 27, 2014



STATE PRESERVATION BOARD

The Honorable Rick Perry, Governor, Chairman
The Honorable David Dewhurst, Lieutenant Governor, Co-Vice Chairman
The Honorable Joe Straus, Speaker of the House, Co-Vice Chairman
The Honorable Kevin Eltife, Texas Senate
The Honorable Charlie Geren, Texas House of Representatives
Cris Crouch Graham, Citizen Board Member
John Sneed, Executive Director

October 27, 2014

Kate McGrath, Governor's Office of Budget, Planning, and Policy
Ed Osner, Legislative Budget Board
Ken Levine, Sunset Advisory Commission
Internal Audit Coordinator, State Auditor's Office

Ladies and Gentlemen:

I am pleased to submit the Annual Report of Internal Audit Activities for the State Preservation Board for Fiscal Year 2014 in compliance with the requirements of the Texas Internal Auditing Act, Texas Government Code, Chapter 2102, and in accordance with the requirements established by the State Auditor.

I appreciate the opportunity to provide you with this information. If you have any questions or need further information, please contact me at (512) 475-4975.

Sincerely,

Dale Hernandez, CIA, CGAP
Internal Auditor

cc:

The Honorable Rick Perry, Governor, Chairman
The Honorable David Dewhurst, Lieutenant Governor, Co-Vice Chairman
The Honorable Joe Straus, Speaker of the House, Co-Vice Chairman
The Honorable Kevin Eltife, Texas Senate
The Honorable Charlie Geren, Texas House of Representatives
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Purpose

The purpose of this annual report is to provide information on the benefits and effectiveness of the internal audit function at the State Preservation Board (SPB), and to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the annual report assists oversight agencies in their work planning and coordinating efforts.

The Texas Internal Auditing Act, Texas Government Code, Chapter 2102, Sec. 2102.009 requires that an annual report on internal audit activity be filed by November 1 of each year. The format used for this report was prescribed by the Texas State Auditor's Office.

Report Distribution:

- The Governor's Office
- The State Auditor's Office
- The Legislative Budget Board
- The Sunset Advisory Commission
- SPB Board Members
- SPB Executive Director

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I. Compliance With House Bill 16 Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web Site

In order to comply with the provisions of House Bill 16 (83rd Legislature, Regular Session), the State Preservation Board Internal Auditor will, within 30 days of approval, post the following information on the Agency's Internet Web site:

- An approved Fiscal Year 2015 Audit Plan, as provided by Texas Government Code, Section 2102.008. The Fiscal Year 2015 Audit Plan was posted on the Agency's Internet Web site on September 9, 2014.
- A Fiscal Year 2014 Internal Audit Annual Report, as required by Texas Government Code, Section 2102.009.
- The SPB Internal Auditor retains the right to refrain from posting information contained in the internal audit plan or the annual report that is exempt from public disclosure under Chapter 552 of the Texas Government Code.
- A "detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit" and a "summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report" are included in Section III, Internal Audit Plan for Fiscal Year 2014.

II. Planned Work Related to the Proportionality of Higher Education Benefits

This section is not applicable. The State Preservation Board is not a higher education institution.

III. Internal Audit Plan for Fiscal Year 2014

This section of the report contains the FY2014 Internal Audit Plan.

The Fiscal Year 2014 Audit Plan included audits of Capitol Complex Parking Meters, the Contract Monitoring Process, the Capitol Visitors Parking Garage, a Texas State History Museum (TSHM) Cash Handling Review, and a Follow-Up of the TSHM Parking Garage. During Fiscal Year 2014, Internal Audit substantially completed the Capitol Complex Parking Meters audit and the TSHM Parking Garage Follow-Up project. The final report for the TSHM Parking Garage Follow-Up project was released in September 2014. Internal Audit also responded to requests for information from the State Auditor's Office. Internal Audit started planning on the TSHM Cash Handling Review and was in the fieldwork phase of the Contract Monitoring Process audit. These projects were carried forward to Fiscal Year 2015.

Monitoring projects consisted of four cash counts at the gift shops and the TSHM Parking Garage. Internal Audit also conducted five physical counts of concession items at the TSHM IMAX concession area and monitored one physical inventory count of a sample of items at the gift shops and gift shop warehouse. The Internal Auditor also monitored the end of the year physical count at all four SPB Retail locations. In addition, Internal Audit monitored Retail voids, no sales and returns, and TSHM Concessions returns.

STATE PRESERVATION BOARD
FISCAL YEAR 2014 INTERNAL AUDIT PLAN
 For the Period September 2013 – August 2014

	Initial Allocated Hours
<u>Internal Audit Assurance and Consulting/Advisory Activities</u>	
1. Closeout of Fiscal Year 2012 Projects.....	24
2. Capitol Complex Parking Meters (Carry Over From FY 2013)	150
3. Contract Monitoring Process (Carry Over From FY 2013)	300
4. Capitol Visitors Parking Garage	110
5. TSHM Cash Handling Review.....	160
6. Follow-Up of TSHM Parking Garage.....	80
7. RK Group Contract	40
8. Monitoring Project: Cash Counts.....	80
9. Monitoring Project: Inventory and Ornament Counts.....	80
10. Monitoring Project: Retail Functions Including Voids and Returns	40
11. Monitoring Project: TSHM Concessions	80
12. Peer Review Assistance	40
13. Reserved for Special Requests	230
<i>SUBTOTAL</i>	<i>1,414</i>
<u>Auditing Standards and Statutorily Required Internal Audit Activities</u>	
14. Continuing Professional Education.....	40
15. Internal Audit Annual Report.....	80
16. Annual Risk Assessment Process for 2015	130
<i>SUBTOTAL</i>	<i>250</i>
<u>Administrative Internal Audit Activities</u>	
17. Administration of the Internal Audit Function	90
<i>SUBTOTAL</i>	<i>90</i>
 Fiscal Year 2014 TOTAL BUDGETED HOURS	 1,754

**AUDIT STAFF/
RESOURCES
AVAILABLE**

For FY 2014, there were 1,754 available hours calculated for audits, follow up reviews, external audit coordination, and special projects, including consulting and advisory services. Additional consideration was given for indirect hours such as holidays, vacation, sick leave, and general administration.

**RISK ASSESSMENT
PROCESS FOR
FY 2014**

The FY 2014 Internal Audit Plan was developed from the results of a risk assessment performed on the auditable units of the SPB. Auditable units are key activities and processes performed by the agency and were determined by reviewing the agency's Strategic Plan, financial information, organization charts, applicable governing statutes and rules, and by interviewing key personnel.

Internal Audit developed and evaluated the results of the risk assessment matrix, calculated internal audit resource hours available for FY 2014, and developed the FY 2014 Internal Audit Plan, which included input from the Executive Director. Internal Audit also determined that on-going monitoring and special projects would provide efficient use of resources for risk coverage in conjunction with traditional audits.

**DEVIATIONS FROM
THE FISCAL YEAR
2014 AUDIT PLAN**

The following planned audits were in process at the end of Fiscal Year 2014 and will be completed in Fiscal Year 2015:

An Internal Audit of the Capitol Complex Parking Meters. At the end of FY 2014, outstanding issues were being reviewed and a report had been drafted.

An Internal Audit of the Contract Monitoring Process: The project is in the fieldwork phase.

An Internal Audit of the Capitol Visitors Parking Garage: The project was carried forward for FY 2014.

TSHM Cash Handling Review: The project is in the planning phase. Fieldwork was delayed due to the implementation of a new ticketing system in July 2014.

A review of the RK Group Contract will be performed in Fiscal Year 2015.

SPECIAL PROJECTS

Review and Update of Internal Audit Policies and Procedures

Review and Update of Internal Audit Quality Assurance and Improvement Program

**MANAGEMENT
REQUESTS**

Management and staff requested assistance or advice from the Internal Auditor on various agency issues such as internal controls and procedures. The Internal Auditor provided agency employees with guidance and resources.

**CONTINUING
EDUCATION AND
PROFESSIONAL
DEVELOPMENT**

The Internal Auditor attended training throughout the year to comply with the requirements set forth in the *Government Auditing Standards*, December 2011 Revision, Sections 3.76 - 3.78.

The Internal Auditor completed two courses (Public Financial Management, and Government Budgeting Systems) in the Master of Accountancy in Governmental Accounting program at Rutgers University. This work satisfies Continuing Professional Education requirements and enhances the Internal Auditor's knowledge of governmental accounting.

State Agency Internal Audit Forum (SAIAF): Internal Audit attended SAIAF meetings. This provided an opportunity to share ideas, experiences, and approaches with other internal auditors and promote the effective and efficient use of state agency internal audit resources.

The Internal Auditor attended meetings of the Austin Area Chapter of the Association of Certified Fraud Examiners and the Association of Government Accountants. This provided an opportunity to remain current on topics in the fraud profession and network with other professionals.

List of Audits Completed & Summary of Issues and Actions Taken

Report No.	Report Date	Report Title	Findings	Recommendations	Status of Recommendations <ul style="list-style-type: none"> • Fully Implemented • Substantially Implemented • Incomplete/Ongoing • Not Implemented
14-101	2/4/14	An Internal Audit of the Hiring Process	<p>The SPB uses limited outlets to advertise job postings.</p> <p>Staff Services must perform screening functions and other duties with limited resources.</p> <p>In two of the 12 files tested, interviewer scores were identical.</p> <p>In some instances, a large number of candidates were interviewed.</p>	<ol style="list-style-type: none"> 1. Staff Services should utilize the information gathered from the newly implemented questionnaire to determine which outlets reach the widest job applicant audience. Job postings should be advertised using these channels whenever possible. 2. Management should consider hiring an additional, part-time Staff Services Officer to perform independent screening functions. 3. Hiring managers should ensure that each member of the interview panel scores candidates independently. 4. When a large number of candidates meet the minimum score needed for an interview, hiring managers should consider further refining the minimum score by considering predetermined preferred qualifications. 5. Staff Services should document in each job posting file all situations where the applicant did not respond to attempts to schedule an interview, declined the interview, or declined the job offer. 	<p>Self-reported by division.</p> <ol style="list-style-type: none"> 1. Fully implemented. 2. Fully implemented. A Full Time Staff Services Assistant was recently hired. 3. Fully implemented. 4. Fully implemented. 5. Fully implemented.
14-206	2/4/14	A Follow-Up of TSHM IMAX Concession Inventory Controls (Original Project No. 12-301)	<p>The methodology used for ordering Concessions products is informal and undocumented.</p> <p>Backup staff members are not fully trained to perform product ordering.</p> <p>There is no written documentation to show that product was counted at the time of receipt.</p> <p>Only one staff member is counting the product when it is received.</p> <p>Product is not stored in a secure, locked area.</p> <p>Product is stored in various areas of the</p>	<ol style="list-style-type: none"> 1. Visitor Services should develop a written methodology for projecting inventory needs and purchasing the appropriate amount of product. 2. Visitor Services management should fully train a backup staff member to process orders in the event the primary order person is not available. 3. When product is received, the receiver should count the items and sign the bill of lading, invoice or receiving documents to indicate quantity received and person performing the count. Any discrepancies should be documented. 4. Two staff members should be present during the count and verification of product received. 5. Visitor Services management should work with the Facilities Manager to develop a more permanent solution to secure the beverage and popcorn area. 6. When product is delivered and has been counted, it should be immediately moved to the locked beverage storage cage in the theatre area. 7. The Head of Visitor Services should adjust the popcorn totals in CounterPoint every week per the <i>Concessions - Expired Product</i> procedure. 	<p>Verified during the follow-up.</p> <ol style="list-style-type: none"> 1. Fully Implemented 2. Fully Implemented 3. Fully Implemented 4. Fully Implemented 5. Fully Implemented 6. Fully Implemented 7. Fully Implemented

Report No.	Report Date	Report Title	Findings	Recommendations	Status of Recommendations <ul style="list-style-type: none"> • Fully Implemented • Substantially Implemented • Incomplete/Ongoing • Not Implemented
			<p>Museum.</p> <p>Spoilage logs are not always completed at the end of the day.</p> <p>Spoilage is not always recorded in CounterPoint weekly as mandated by the procedures.</p> <p>The cash counts are performed by only one person.</p> <p>Some deposit slips and Concessions Register Reconciliation Forms are prepared using pencil.</p> <p>Cashiers are not using their own log-in credentials to enter transactions.</p> <p>The parties responsible for performing procedures are not clearly defined in the Museum's policy documents.</p> <p>Staff have not been formally trained on the Concessions procedures.</p>	<p>8. Visitor Services management should:</p> <ul style="list-style-type: none"> • Continue to complete the spoilage logs for beverages and candy. • Ensure that the Popcorn Spoilage Log is completed at the close of each shift. • Provide staff training on the use of the spoilage logs. • Adjust inventory levels in CounterPoint weekly to account for spoilage per the <i>Concessions - Expired Product</i> procedure. • Provide spoilage information documentation to Accounting on a regular basis per the <i>Concessions - Expired Product</i> procedure. <p>9. The cash count should be performed by two people. Each person should sign the count.</p> <p>10. The reconciliation form and the deposit slip should be prepared using ink to avoid unauthorized changes.</p> <p>11. The Concession Closeout Checklist should be a permanent form which should be completed by the cashier and approved by the Assistant after the steps are complete.</p> <p>12. Each cashier should log in to CounterPoint using their own log-in information.</p> <p>13. Visitor Services management should review the Museum Policy Documents to ensure the following:</p> <ul style="list-style-type: none"> • Duties are adequately segregated. • Responsible parties are defined for each part of the process. • Receiving procedures are clarified. • Responsibility for adjusting inventory in CounterPoint is clarified. <p>14. Staff should be trained on all policies and procedures.</p> <p>15. Training should be documented.</p>	<p>8. Substantially Implemented Visitor Services is improving efforts to provide spoilage information to Accounting on a regular basis.</p> <p>9. Ongoing. The cash count is performed in the presence of another staff member.</p> <p>10. Ongoing. Procedures were updated to require the use of ink.</p> <p>11. Fully Implemented</p> <p>12. Fully Implemented</p> <p>13. Fully Implemented</p> <p>14. Fully Implemented</p> <p>15. Fully Implemented</p>
14-207	9/4/14 NOTE: This project was finalized at the beginning of FY 2015,	A Follow-Up of the TSHM Parking Garage (Original Project No. 12-101)	<p>Deposits were not always made in a timely manner, especially when the primary deposit preparer was out of the office.</p> <p>Documentation supporting comped transactions could be improved.</p> <p>Other similar parking facilities do not offer</p>	<p>1. Visitor Services should strive to make deposits each business day. If this is not possible, deposits should be made at least once every two business days.</p> <p>2. Visitor Services management should fully train a backup staff member to process deposits in the event the primary person is not available.</p> <p>3. Visitor Services management should update the Parking Garage Daily Deposit Procedures to</p>	<p>Verified during the follow-up.</p> <p>1. Fully Implemented</p> <p>2. Fully Implemented</p> <p>3. Fully Implemented</p>

Report No.	Report Date	Report Title	Findings	Recommendations	Status of Recommendations <ul style="list-style-type: none"> • Fully Implemented • Substantially Implemented • Incomplete/Ongoing • Not Implemented
	but substantially completed during FY 2014.		<p>free parking to disabled or handicapped patrons.</p> <p>Shift paperwork is outdated and confusing.</p>	<p>include backup contingencies in the event of the absence of the regular deposit preparer, and to clarify the need to prepare the deposit in a timely manner.</p> <p>4. Management should consider documenting comped or reduced fee events on the shift paperwork.</p> <p>5. Management should periodically compare the anticipated number of comped transactions for an event to the actual number.</p> <p>6. Management should periodically review the shift paperwork and indicate their review and approval.</p> <p>7. Parking cashiers should continue to use the "Comments" section of the Cashier/Deposit Report to record unusual or atypical events.</p> <p>8. Log-in codes should be kept private and not shared.</p> <p>9. Museum management should re-evaluate the policy of offering free parking to patrons with a handicapped parking permit.</p> <p>10. The shift paperwork forms should be updated, with input from the parking cashiers, to make them easier to use and less confusing.</p>	<p>4. Fully Implemented</p> <p>5. Fully Implemented</p> <p>6. Fully Implemented</p> <p>7. Fully Implemented</p> <p>8. Fully Implemented</p> <p>9. Fully Implemented</p> <p>10. Fully Implemented</p>
14-201	N/A	Cash Counts	Completed four cash counts with no exceptions noted. This was a monitoring project with no findings. No report was issued.	No issues noted.	N/A
14-202	N/A	Inventory and Ornament Counts	Completed. Reviewed multiple Concessions inventory cycle counts, performed five physical counts of concession items at the TSHM IMAX concession area, and monitored one cycle count and the end of year physical count at all four Retail locations. This was a monitoring project. No report was issued.	No issues noted.	N/A
14-203	N/A	Various	Completed. Management brought several	Not Applicable	N/A

FY 2014 SPB Internal Audit Annual Report

Report No.	Report Date	Report Title	Findings	Recommendations	Status of Recommendations <ul style="list-style-type: none"> • Fully Implemented • Substantially Implemented • Incomplete/Ongoing • Not Implemented
		Management Requests	issues to the Internal Auditor during Fiscal Year 2014, and these issues were resolved or further research was performed. A report was not issued.		
14-204	N/A	Monitoring of the Retail Function Including Voids and Returns	Completed. The Internal Auditor provided information to the Director of Retail on a monthly basis. This was a monitoring project with no findings. No report was issued.	No issues noted.	N/A
14-205	N/A	Monitoring of TSHM Concessions	Completed. This was a monitoring project with no findings. No report was issued.	No issues noted.	N/A
14-407	N/A	DIR Peer Review Assistance	Completed. Assisted as a member of the team performing the Peer Review of the Internal Audit Division at the Department of Information Resources.	Not Applicable	N/A
14-404	9/17/13	Fiscal Year 2014 Internal Audit Plan	Completed. Annual risk assessment and Internal Audit Plan development for Fiscal Year 2014.	Not Applicable	N/A
14-405	9/2/14	Fiscal Year 2015 Internal Audit Plan	Completed. Annual risk assessment and Internal Audit Plan development for Fiscal Year 2015.	Not Applicable	N/A

List of Audits In Progress

Project No.	Project Title	High-level Audit Objective(s)	Project Status	Project Budget (Hours)
14-102	An Internal Audit of Capitol Complex Parking Meters	Ensure controls are operating as intended and assets are safeguarded.	Substantially Complete. The Internal Auditor is reviewing outstanding items and has drafted the report.	150
14-103	An Internal Audit of the Contract Monitoring Process	Determine whether the process ensures compliance with contract terms and conditions, and the SPB received the goods and services intended.	The project is in the Fieldwork phase and will be completed during FY 2015.	300
14-104	An Internal Audit of the Capitol Visitors Parking Garage	Research the benefits of automatic gates or pay stations at the Visitors Parking Garage.	Incomplete. The project was carried forward to FY 2015.	110
14-105	A Review of Cash Handling at the TSHM	Review TSHM cash handling procedures to verify that controls are in place to safeguard assets.	The project is in the planning phase and will be completed during FY 2015.	160
14-106	RK Group Contract	Evaluate compliance with the terms of the agreement and evaluate the efficiency and effectiveness of operations.	Incomplete. The project was carried forward to FY 2015.	40

IV. List of Consulting Engagements and Non-audit Services Completed

During Fiscal Year 2014, Internal Audit did not participate in any consulting engagements, as defined in *The International Standards for the Professional Practice of Internal Auditing* or provide any non-audit services as defined in the *Government Auditing Standards*, December 2011 Revision, Sections 3.33 - 3.58.

V. External Quality Assurance Review (Peer Review)

NOT APPLICABLE

The State Preservation Board's Internal Audit function is not due for an External Quality Assurance or Peer Review until 3 years from the start of the first audit. The Internal Auditor was hired in October 2011. A Peer Review will be performed during FY 2015.

According to the International Standards for the Professional Practice of Internal Auditing (Standards) promulgated by the Institute of Internal Auditors (IIA), an external assessment should be conducted a least once every five years by a qualified, independent reviewer or review team from outside the organization (Standards 1312).

According to generally accepted government auditing standards (GAGAS) promulgated by the U.S. Government Accountability Office (GAO), audit organizations should have an external quality control review completed within three years from the date the first audit begins in accordance with these standards (GAGAS 3.96 - 3.97). After the issuance of the review, a subsequent external quality control review should occur once every three years.

VI. Internal Audit Plan for Fiscal Year 2015

INTRODUCTION

The purpose of the Internal Audit Plan is to identify audits and other activities that will be conducted during fiscal year 2015. The Internal Audit Plan is developed using risk assessment techniques and methodology. The audit plan satisfies responsibilities established by Government Code, Chapter 2102, and applicable auditing standards.

The Audit Plan is flexible to consider risks and changes in conditions on an ongoing and as needed basis.

MISSION

The Internal Audit division is committed to supporting management and the Board in achieving their goals and objectives through competent and efficient auditing and consulting/advisory services. Internal Audit will accomplish this mission by providing independent analysis, appraisals, and recommendations to strengthen agency operations and controls.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

In addition to providing auditing services, Internal Audit coordinates with external auditors and provides consulting and advisory services as appropriate.

Internal Audit conducts its activities in compliance with the SPB Internal Audit Charter, the Texas Internal Auditing Act, and applicable Internal Audit Standards as outlined in the Internal Audit Charter.

INTERNAL AUDIT CHARTER

The Internal Audit Charter provides authorization to the Internal Auditor for full, free, unrestricted access to all SPB activities, records, property, and personnel relevant to the subject under review. The Internal Auditor exercises due diligence in the safeguarding and use of these resources.

**AUDIT STAFF/
RESOURCES
AVAILABLE**

SPB staffs the Internal Audit function with one full-time equivalent. The Internal Auditor is the Chief Audit Executive and reports directly to the Board and administratively to the Executive Director.

For FY 2015, there were 1,762 available hours calculated for audits, follow up reviews, external audit coordination, and special projects, including consulting and advisory services. Additional consideration was given for indirect hours such as holidays, vacation, sick leave, and general administration.

**PROJECTS
RELATED TO
EXPENDITURE
TRANSFERS,
CAPITAL
BUDGET
CONTROLS, OR
OTHER
LIMITATIONS**

The State Preservation Board Fiscal Year 2015 Audit Plan does not include any projects related to expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act. These types of projects will be considered during the risk assessment process and when developing future audit plans.

**ADDITIONAL
"HIGH" RISKS
NOT INCLUDED
IN THE FY 2015
INTERNAL
AUDIT PLAN**

Several key processes ranked as high risk during the risk assessment due to their impact to the agency's mission, and the high level of cash transactions and inventory and the corresponding opportunities for fraud. These nine areas scored at least 300 out of a possible 400 during the risk assessment process. An explanation of audit coverage or exclusion of these areas is discussed below.

Operate Gift Shops: Coverage of this high risk area is incorporated into the FY 2015 Audit Plan as cash, inventory and ornament counts and monitoring of various Retail functions. A major project is not planned during FY 2015, but regular oversight functions will be performed throughout the year.

Operate the Texas State History Museum: Except for the TSHM Cash Handling review project, Internal Audit projects covering processes at the Museum are not included in the FY 2015 Audit Plan. The Internal Auditor performed three audits at the Museum during FY 2012. In addition, the State Auditor performed an audit at the Museum during FY 2012. A follow-up of Internal Audit's Museum Concessions audit was performed in FY 2013. A follow-up of the TSHM Parking Garage was performed during FY 2014 and a follow-up of Special Events and Facility Rental will be performed during FY 2015. In addition, oversight and monitoring will be performed through periodic cycle counts of Concession inventory and

monitoring of Concession transactions in the Point of Sale system.

The following high risk key processes are included on the FY 2015 Audit Plan. Management concerns were considered during the development of the Audit Plan.

Operate Capitol Visitors Parking Garage: The FY 2015 Audit Plan includes a review of alternate payment methods.

RK Group Contract (Includes two high risk key processes). This project is carried forward from FY 2014. The two high risk key processes identified during the risk assessment include the Capitol Grill, and the TSHM Story of Texas Café. The focus of the project will be identified during the planning process and any areas not covered will be considered during future risk assessments and Audit Plan development.

Operate Museum Concessions at the IMAX Theatre: Internal Audit performed a follow-up during FY 2013 and will monitor returns and inventory during FY 2015.

Provide maintenance at the Capitol, the TSHM, and the Capitol Extension: The FY 2015 Audit Plan includes a review of Facilities processes and procedures. Additional areas not covered will be considered during future risk assessments and Audit Plan development.

An additional key process which ranked as high risk during the Risk Assessment process but did not score at least 300 was included on the Audit Plan based on Management concerns. This project is: Cash Handling Review. This project was carried over from FY 2014.

**RISK
ASSESSMENT
PROCESS FOR
FY2015**

The Texas Internal Auditing Act requires state agencies to conduct a program of internal auditing that includes an annual audit plan prepared using risk assessment techniques and that identifies the individual audits to be conducted during the year. Additionally, the program should include periodic audits of the agency's major systems and controls, including:

- (1) accounting systems and controls;
- (2) administrative systems and controls; and
- (3) electronic data processing systems and controls.

Per the Texas Internal Auditing Act, an audit can be a financial audit, a compliance audit, an economy and efficiency audit, an effectiveness audit, or an investigation.

The FY 2015 Internal Audit Plan was developed from the results of a risk assessment performed on the auditable units of the SPB. Auditable units are key activities and processes performed by the agency and were determined by reviewing the agency's Strategic Plan, financial information, organization charts, applicable governing statutes and rules, previous internal audit risk assessments and plans, and by interviewing key

personnel.

Internal Audit performed the risk assessment using five risk factors: (1) Impact to the Agency's Mission; (2) Control Environment; (3) Opportunity for Fraud; (4) External and Internal Interest; and (5) Impact on Net Revenue. Risks associated with contract management and any applicable information technology risks related to Title 1, Texas Administrative Code, Chapter 202, Information Security Standards were considered when evaluating the risk factors Control Environment and Opportunity for Fraud.

Internal Audit applied the five risk factors to each auditable unit. These risk factors were weighted and Internal Audit evaluated the results of the risk assessment matrix, calculated internal audit resource hours available for FY 2015, and developed the FY 2015 Internal Audit Plan, which included input from Division Directors and the Executive Director.

Internal Audit also determined that some risk coverage would be provided through on-going monitoring, follow-up reviews, and special projects, allowing for efficient use of resources.

Hours budgeted for projects are best estimates. Many unforeseeable factors can increase or decrease total hours allotted to a project.

Due to limited resource hours, Internal Audit cannot address, review, or monitor every risk. It is important that the Executive Director and the Board understand the limitations of the audit coverage and the attendant risk for areas not audited.

**STATE PRESERVATION BOARD
FISCAL YEAR 2015 INTERNAL AUDIT PLAN**

For the Period September 2014 – August 2015

	<u>Initial Allocated Hours</u>
<u>Internal Audit Assurance and Consulting/Advisory Activities</u>	
1. Closeout of Fiscal Year 2014 Projects.....	240
2. Capitol Visitors Parking Garage (Carry Over From FY 2014).....	100
3. TSHM Cash Handling Review (Carry Over From FY 2014)	80
4. SPB Cash Handling Review	80
5. Procurement Card Review	80
6. Review of Facilities Processes and Procedures	80
7. Follow-Up of TSHM Special Events and Facility Rental.....	80
8. RK Group Contract	40
9. Monitoring Project: Cash Counts.....	80
10. Monitoring Project: Inventory and Ornament Counts.....	80
11. Monitoring Project: Retail Functions Including Voids and Returns	80
12. Monitoring Project: TSHM Concessions.....	100
13. Peer Review Coordination	80
14. Reserved for Special Requests	222
<i>SUBTOTAL</i>	<i>1,422</i>
<u>Auditing Standards and Statutorily Required Internal Audit Activities</u>	
15. Continuing Professional Education.....	40
16. Internal Audit Annual Report.....	80
17. Annual Risk Assessment Process for 2016	130
<i>SUBTOTAL</i>	<i>250</i>
<u>Administrative Internal Audit Activities</u>	
18. Administration of the Internal Audit Function	90
<i>SUBTOTAL</i>	<i>90</i>
 Fiscal Year 2015 TOTAL BUDGETED HOURS	 1,762

VII. External Audit Services Procured in Fiscal Year 2014

During Fiscal Year 2014, no external audit services were procured. Status updates were provided to the State Auditor's Office on the following projects from prior years:

Texas State Auditor's Office: An Audit Report on the Bob Bullock Texas State History Museum (February 2012, Report No. 12-016).

Sunset Advisory Commission: Sunset Review, Sunset Staff Report with Commission Decisions (June 2012).

VIII. Reporting Suspected Fraud and Abuse

The State Preservation Board has developed several mechanisms for reporting fraud to the State Auditor's Office. These mechanisms satisfy the requirements of Article IX, Section 7.09, the General Appropriations Act (83rd Legislature, Conference Committee Report), and the Texas Government Code, Section 321.022.

Fraud reporting per Article IX, Section 7.09, the General Appropriations Act (83rd Legislature, Conference Committee Report).

The State Preservation Board has a link for reporting fraud, waste, and abuse to the State Auditor's Office on the Agency's website at <http://www.tspb.state.tx.us>. In addition, the SPB Human Resources Policy Manual includes information regarding internal controls, fraud investigations, employee responsibilities, complaint procedures, and reporting fraud involving state funds to the State Auditor's Office. The SPB provides fraud and ethics training to all new employees and provides refresher training every two years. This training is currently being provided to all employees, with an expected completion date of 12/31/14.

Compliance with Texas Government Code, Section 321.022

The SPB has established a fraud policy which includes a fraud reporting requirement and specific management and employee roles and responsibilities.

The SPB did not have any suspected fraud, waste or abuse to report to the SAO, as required by Texas Government Code, Section 321.022.