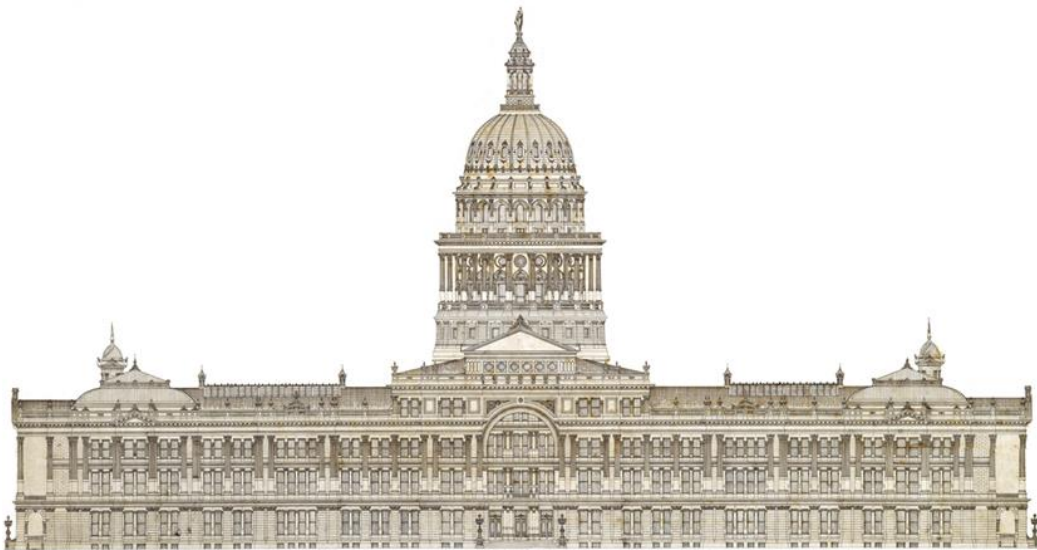


State Preservation Board



Annual Report of Internal Audit Activities Fiscal Year 2023

The Honorable Greg Abbott
The Honorable Dan Patrick
The Honorable Dade Phelan
The Honorable Charles Schwertner
The Honorable Will Metcalf
Alethea Swann Bugg, Citizen Board Member
Rod Welsh, Executive Director

November 1, 2023



STATE PRESERVATION BOARD

The Honorable Greg Abbott, Governor, Chairman
The Honorable Dan Patrick, Lieutenant Governor, Co-Vice Chairman
The Honorable Dade Phelan, Speaker of the House, Co-Vice Chairman
The Honorable Charles Schwertner, Texas Senate
The Honorable Will Metcalf, Texas House of Representatives
Alethea Swann Bugg, Citizen Board Member
Rod Welsh, Executive Director

November 16, 2023

Sarah Hicks, Governor's Office - Budget and Policy Division
Christopher Mattsson, Legislative Budget Board
Internal Audit Coordinator, State Auditor's Office

I am pleased to submit the Annual Report of Internal Audit Activities for the State Preservation Board for Fiscal Year 2023 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,

R. Eric Ramos, CIA, CFE
Internal Auditor

cc: The Honorable Greg Abbott, Governor, Chairman
The Honorable Dan Patrick, Lieutenant Governor, Co-Vice Chairman
The Honorable Dade Phelan, Speaker of the House, Co-Vice Chairman
The Honorable Charles Schwertner, Texas Senate
The Honorable Will Metcalf, Texas House of Representatives
Alethea Swann Bugg, Citizen Board Member
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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
- SPB Board Members
- SPB Executive Director

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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan and Internal Audit Annual Report on Agency Website

To comply with the provisions of Texas Government Code, Section 2102.015, the SPB Internal Auditor will, within 30 days of approval, post the following information on the Agency's Internet website:

- An approved FY 2023 Audit Plan, as provided by Texas Government Code, Section 2102.008. The Fiscal Year 2023 Audit Plan was approved by the Board and posted on the Agency's Internet Web site on April 21, 2023.
- A FY 2022 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 II, Internal Audit Plan for FY 2023.

II. Internal Audit Plan for Fiscal Year 2023

In April 2023, the SPB Board approved the Internal Audit Plan for FY 2023, which included planned audit activities and other required projects for the fiscal year.

Review projects consisted of cash counts at the gift shops, physical counts of concession items at the TSHM IMAX concession area and observation of the end of the year physical count at various SPB Retail locations. In addition, Internal Audit reviewed Retail price adjustments and returns, and TSHM concessions returns.

As noted below in the FY 2023 Internal Audit Plan, the processes for the risk assessment and audit project development are a continuous process. As a result, the audit plan was flexible, and deviations were anticipated due to shifts in risk and other organizational priorities.

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.

The Internal Auditor also attended meetings of the State Agency Internal Audit Forum (SAIAF) and performed the administrative duties for the internal audit function.

The following tables include the list of FY 2023 planned internal audit activities and the status of audit activities at the end of the fiscal year. In summary, Internal Audit substantially completed all projects on the Audit Plan with finalized audit reports in FY 2024. The Information Technology and Cybersecurity was postponed due to availability of staff and IT management vacancy. The audit reporting for Contract Management and Retail Sales Functions projects will occur in FY 2024.

**STATE PRESERVATION BOARD
FISCAL YEAR 2023 INTERNAL AUDIT PLAN**
For the Period September 2022 – August 2023

	Initial Allocated Hours
<u>Internal Audit Assurance and Consulting/Advisory Activities</u>	
1. Closeout of Fiscal Year 2022 Projects	250
2. Contract Management and Monitoring Processes.....	300
3. Retail Sales Functions and Financial Controls.....	300
4. Information Technology and Cybersecurity.....	117
5. Reserved for Special Requests	297
<i>SUBTOTAL</i>	<i>1,258</i>
<u>Auditing Standards and Statutorily Required Internal Audit Activities</u>	
6. Continuing Professional Education.....	40
7. Internal Audit Annual Report.....	80
8. Peer Review Coordination/SAIAF Activities	80
9. Annual Risk Assessment Process for 2023	160
<i>SUBTOTAL</i>	<i>360</i>
<u>Administrative Internal Audit Activities</u>	
10. Administration of the Internal Audit Function.....	122
<i>SUBTOTAL</i>	<i>122</i>
 Fiscal Year 2023 TOTAL BUDGETED HOURS	 1,746

FY 23 Internal Audit Plan – Status of Audit Activities

Report No.	Report Date	Report Title	Findings	Recommendations
23-201	N/A	Cash Counts	Reviewed safe counts and deposit information throughout the year and was part of any discrepancy discussions. This was a review project with no findings. No report was issued.	No issues noted.
23-202	N/A	Inventory and Ornament Counts	Completed. Reviewed the end of year physical count at all four retail locations. This was a review project. No report was issued.	No issues noted.
23-203	N/A	Various Management Requests	Completed. Management brought several issues to the Internal Auditor during FY 2023 and these issues were resolved, or further research was performed. A report was not issued.	Not Applicable
23-204	N/A	Review of the Retail Function Including Voids and Returns	Completed. The Internal Auditor routinely provided information to the Director of Retail. This was a review project with no findings. No report was issued.	No issues noted.
23-205	N/A	Review of TSHM Concessions	Completed. Reviewed multiple concessions inventory cycle counts and reviewed the end of year physical count. This was a review project with no findings. No report was issued.	No issues noted.
23-401	Approved by SPB Board	Fiscal Year 2024 Internal Audit Plan	Completed. Annual Risk Assessment and Internal Audit Plan development for FY 2024. The SPB Board approved the FY 2024 Audit Plan on 11/13/2023.	Not Applicable
22-101	Pending	Contract Management and Monitoring Processes	Ongoing/Carry-Over	The report will be issued in FY 2024.
23-101	Pending	Review of Retail Cash Sales Functions and Financial Controls	Ongoing/Carry-Over	The report will be issued in FY 2024.

III. Consulting Services and Non-audit Services Completed

During FY 2023, 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, 2018 Revision, Sections 3.64 - 3.106*, as applicable.

IV. External Quality Assurance Review (Peer Review)

REVIEW RESULTS

The SPB Internal Audit function's External Quality Assurance Review was begun during Fiscal Year 2021 and completed in September 2021. The Texas State Preservation Board Internal Audit Department received a rating of **Pass/Generally Conforms**.

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 at 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 (*Government Auditing Standards, 2011 Revision, Sections 3.96 - 3.97*, or *Government Auditing Standards, 2018 Revision, Sections 5.60 and 5.84*, as applicable.) After the issuance of the review, a subsequent external quality control review should occur once every three years.

The next review is due September 2024.

9/7/2021

Dale Hernandez
Director of Internal Audit
Texas State Preservation Board

Dear Ms. Hernandez:


We have completed the peer review of the Texas State Preservation Board Internal Audit Department for the period 5/1/2018-5/31/2021. In conducting our review, we followed the standards and guidelines contained in the Peer Review Manual published by the State Agency Internal Audit Forum (SAIAF).

The Institute of Internal Auditors (IIA) *International Standards for the Professional Practices of Internal Auditing and Code of Ethics*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102) require that internal audit functions obtain external quality assurance reviews (peer reviews) to assess compliance with standards and with the Act and to appraise the quality of their operations.

We reviewed the internal quality control system and conducted tests to determine if the internal quality control system operated to provide reasonable assurance of conformance with the IIA *Standards*, the GAO *Standards*, and the Texas Internal Auditing Act. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case but does imply adherence in most situations. Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas State Preservation Board Internal Audit Department receives a rating of **Pass/Generally Conforms**.

"Pass/Generally Conforms" means that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity in all material respects with applicable professional standards (International Standards for the Professional Practices of Internal Auditing and Code of Ethics, U.S. Government Accountability Office Government Auditing Standards, and the Texas Internal Auditing Act). There may be opportunities for improvement, but these should not present situations where the audit organization has not implemented the professional standards and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation or most successful practice, etc. "Pass/Generally Conforms" is the highest of three possible ratings that can be achieved.

We have provided comments in a separate communication to management. The Texas State Preservation Board Internal Audit Department has reviewed the results of the work performed by the peer review team and accepted them to be an accurate representation of operations. To the extent it is lawful, the Texas State Preservation Board Internal Audit Department agrees to hold SAIAF and its officers and representatives harmless of any liability arising from the actions of the peer review team or issues resulting from the peer review.



Sonya Etheridge, CPA
Director of Internal Audit
Texas Facilities Commission

V. Internal Audit Plan for Fiscal Year 2024

The purpose of the Internal Audit Plan is to identify audits and other activities that will be conducted during FY 2024. 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.

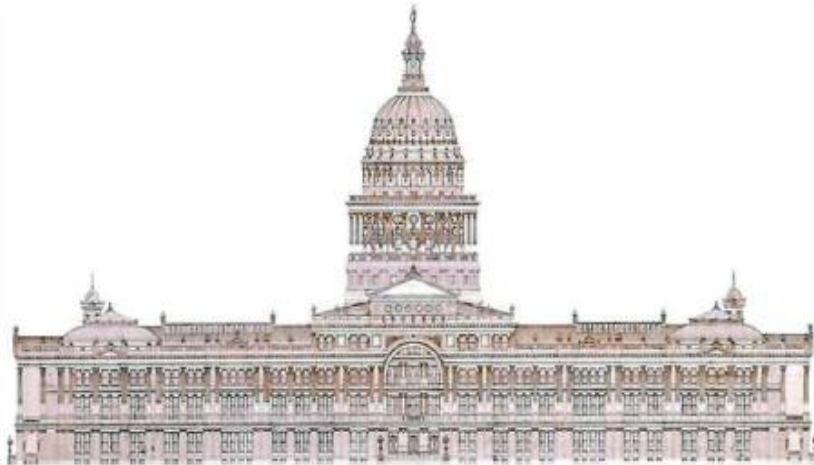
The FY 2024 Internal Audit Plan was developed from the results of a risk assessment performed on the auditable units of the SPB. Auditable units are key activities and processes performed by the agency and were determined by reviewing the agency's Strategic Plan, financial information, organization charts, applicable governing statutes, and rules, and by interviewing key personnel. Internal Audit also determined that ongoing review and special projects would provide efficient use of resources for risk coverage in conjunction with traditional audits.

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.

The FY 2024 Internal Audit Plan was approved by the State Preservation Board at a board meeting held on November 13, 2023. The following figures on subsequent pages are the specific pages from the approved audit plan to include the approval of FY 2024 planned audit activities.

**Fiscal Year 2024
Internal Audit Plan**

State Preservation Board



This Internal Audit Plan was prepared by the Internal Auditor and presented to the Texas State Preservation Board.

R. Eric Ramos
R. Eric Ramos
Internal Auditor

9/1/2023
Date

This Internal Audit Plan was approved by the Texas State Preservation Board.

[Signature]
Chairman

11/13/2023
Date

[Signature]
Executive Director

11/13/2023
Date

Figure 1 - FY 2024 Internal Audit Plan - Approval Page

Discussion of Proposed Engagements, Initiatives, and Activities

NOTE: The below represents an initial discussion and some preliminary scoping of proposed Internal Audit projects for Fiscal Year 2024. However, the actual scope will be determined at the time the planned project commences, and may differ from the discussion below based on an assessment of risk at that time.

Internal Audit Assurance and Consulting/Advisory Activities

- 1. Asset Management and Surplus Property Management:** State agencies are required to conduct an annual physical inventory of the trust, capitalized and controlled personal property in the agency's possession at a time of its own choosing during each fiscal year. Property that government owns but has no use for is considered surplus property. Internal Audit will review the agency's management of property and the equipment that becomes obsolete or is no longer needed.
- 2. Retail Sales and Financial Controls:** Financial controls and processes are critical to the backbone of an organization. Internal Audit reviews and considers the risks related to financial controls and processes in most audit activities. Internal Audit will perform reviews of various retail and concession functions, including price adjustments and returns recorded in the Retail Point of Sale system. Internal Audit will also observe or review inventory counts to verify that inventory and cash management controls are operating as intended.
- 3. Contract Compliance and Monitoring Processes:** The Texas Internal Auditing Act requires internal audit functions to consider methods for ensuring compliance with contract processes and controls and for monitoring agency contracts. State contract management and administration practices will continue to be of interest to state leadership and oversight agencies. Internal Audit will continue to review contract monitoring processes and other contracting activities.
- 4. Texas State History Museum:** Museum operations remain mission-based and are supported primarily through revenue streams, grants, and donations. Internal Audit intends to focus efforts on reviewing museum functions and strategies in meeting its critical goals and objectives.
- 5. Special Requests:** Audit time is allocated for unanticipated requests for Internal Audit assistance that arise throughout the year so that the division can be responsive to the immediate needs of the Board and management.

Auditing Standards and Statutorily Required Internal Audit Activities

- 6. Annual Risk Assessment and Audit Plan for Fiscal Year 2025:** Internal Audit will continue to assess risks and any additional information provided by management on agency risks and risk mitigation. Internal Audit will notify the Board of any risk accepted by management which may be unacceptable. The Internal Auditor will also communicate any emerging risks or trends. We will also prepare a risk-based audit plan for FY 2025 to ensure compliance with requirements set forth by the Texas Internal Auditing Act and professional audit standards.
- 7. External Audits and Other Activities:** The Internal Audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. As part of the Internal Auditor's commitment to stay abreast of developments in its profession and its commitment to progressive auditing, the Internal Auditor will continue to contribute to the internal audit community, including representing the agency at the State Agency Internal Audit Forum (SAIAF) meetings.
- 8. Internal Audit Reporting and Quality Control Assessment:** Internal Audit is also required by law and auditing standards to conduct certain activities on an annual and/or periodic basis, such

Figure 2 - FY 2024 Internal Audit Plan, pg. 3 - Audit Activities

Texas State Preservation Board
Internal Audit
Fiscal Year 2024 Internal Audit Plan

as an internal quality control assessment, an annual audit report, and an external peer review. Those required activities are also included in the audit plan. In addition, we will perform routine administrative activities that contribute to the effectiveness of the internal audit function and enables us to meet our goals and objectives.

Figure 3 - FY 2024 Internal Audit Plan, pg. 4 - Audit Activities

VI. External Audit Services Procured in Fiscal Year 2023

No external audit services were procured or were ongoing during Fiscal Year 2023.

VII. Reporting Suspected Fraud and Abuse

The SPB has developed several mechanisms for reporting fraud to the State Auditor's Office. These mechanisms satisfy the requirements of Section 7.09, page IX-38, the General Appropriations Act (87th Legislature), and the Texas Government Code, Section 321.022.

Fraud reporting per Section 7.09, page IX-38, the General Appropriations Act (87th Legislature).

The SPB has a link for reporting fraud, waste, and abuse to the State Auditor's Office on the Agency's website at <http://www.tspb.texas.gov> and intranet website for employee reference. 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.

Compliance with Texas Government Code, Section 321.022

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

During FY 2023, 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.