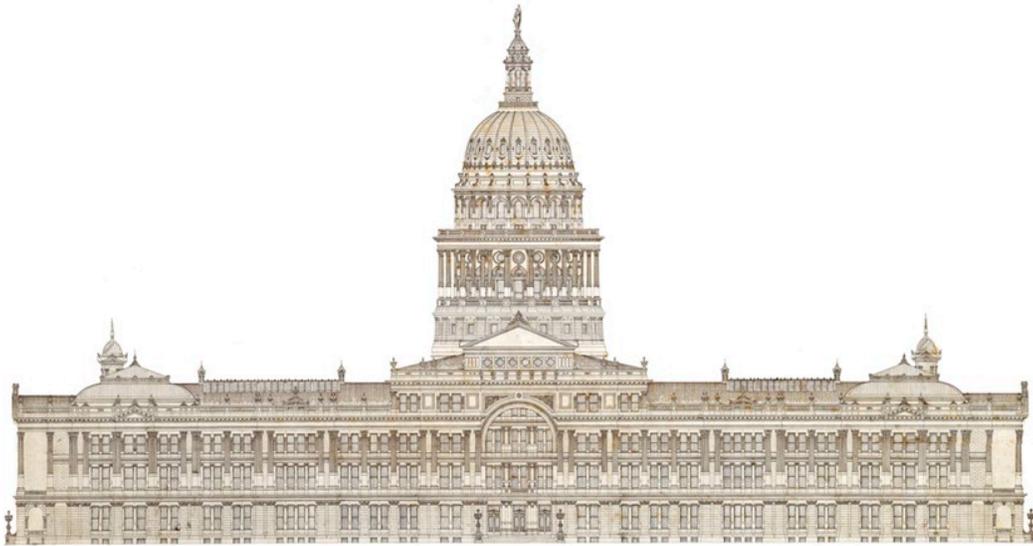


# State Preservation Board



## Annual Report of Internal Audit Activities Fiscal Year 2022

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, 2022**



## **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 1, 2022

Sarah Hicks, Governor's Office - Budget and Policy Division  
Christopher Mattsson, Legislative Budget Board  
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 2022 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, Internal Audit Annual Report, and Other Audit Information on Internet Website**

In order 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 2022 Audit Plan, as provided by Texas Government Code, Section 2102.008. The Fiscal Year 2022 Audit Plan was approved by the Board and posted on the Agency's Internet Web site on December 14, 2021.
- A FY 2021 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 2022.

## **II. Internal Audit Plan for Fiscal Year 2022**

This section of the report contains the FY 2022 Internal Audit Plan.

The FY 2022 Audit Plan included closeout of FY 2021 projects and contract monitoring. During FY 2022, Internal Audit substantially completed all projects on the Audit Plan.

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.

The Internal Auditor also attended meetings of the State Agency Internal Audit Forum (SAIAF). Hours were included on the 2022 Audit Plan for these activities.

**STATE PRESERVATION BOARD  
FISCAL YEAR 2022 INTERNAL AUDIT PLAN**  
For the Period September 2021 – August 2022

	Initial Allocated Hours
<b><u>Internal Audit Assurance and Consulting/Advisory Activities</u></b>	
1. Closeout of Fiscal Year 2021 Projects .....	40
2. Contract Monitoring Process.....	600
3. Review Project: Retail Functions Including Price Adjustments and Returns .....	180
4. Review Project: TSHM Concessions .....	80
5. Reserved for Special Requests .....	358
<b><i>SUBTOTAL</i></b>	<b><i>1,258</i></b>
<b><u>Auditing Standards and Statutorily Required Internal Audit Activities</u></b>	
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
<b><i>SUBTOTAL</i></b>	<b><i>360</i></b>
<b><u>Administrative Internal Audit Activities</u></b>	
10. Administration of the Internal Audit Function.....	120
<b><i>SUBTOTAL</i></b>	<b><i>120</i></b>
 <b>Fiscal Year 2022 TOTAL BUDGETED HOURS</b>	 <b>1,738</b>

**AUDIT STAFF/  
RESOURCES  
AVAILABLE**

For FY 2022, there were 1,738 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.

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**RISK ASSESSMENT  
PROCESS FOR  
FY 2022**

The FY 2022 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 2022, and developed the FY 2022 Internal Audit Plan, which included input from the Executive Director and agency management team. Internal Audit also determined that on-going review and special projects would provide efficient use of resources for risk coverage in conjunction with traditional audits.

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**DEVIATIONS FROM  
THE FISCAL YEAR  
2022 AUDIT PLAN**

There were no deviations from the FY 2022 Audit Plan. The Contract Monitoring Process project was substantially completed during FY 2022 but the report review and release will occurred in FY 2023.

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**COMPLIANCE WITH  
CONTRACT  
PROCESS AND  
CONTROLS FOR  
MONITORING  
AGENCY  
CONTRACTS**

The FY 2022 Internal Audit Plan included a review of contract monitoring including the Board's methods for ensuring compliance with contract processes and controls, and for monitoring contractor performance.

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**SPECIAL PROJECTS**

Orientation and Transition of New Internal Auditor and Review of Internal Audit Policies and Procedures

Review and Update of Internal Audit Quality Assurance and Improvement Program

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**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.

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**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*, 2018 Revision, Sections 4.16 - 4.24, as applicable.

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 Institute of Internal Auditors and served as Committee Chair of the Academic Relations Committee. This provided an opportunity to remain current on topics in the fraud, government accounting, and audit professions and network with other audit professionals.

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### 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"> <li>• Fully Implemented</li> <li>• Substantially Implemented</li> <li>• Incomplete/Ongoing</li> <li>• Not Implemented</li> </ul>
22-201	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.	N/A
22-202	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.	N/A
22-203	N/A	Various Management Requests	Completed. Management brought several issues to the Internal Auditor during FY 2022, and these issues were resolved or further research was performed. A report was not issued.	Not Applicable	N/A
22-204	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.	N/A
22-205	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.	N/A
22-405	Pending Approval by the Board. Approved by Executive Director.	Fiscal Year 2023 Internal Audit Plan	Completed. Annual Risk Assessment and Internal Audit Plan development for FY 2023. The Executive Director approved the FY 2023 Audit Plan and the Board will discuss the FY 2023 Audit Plan at an upcoming Board meeting. The date for this meeting has not been determined.	Not Applicable	N/A

FY 2022 SPB Internal Audit Annual Report

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Report No.	Report Date	Report Title	Findings	Recommendations	Status of Recommendations <ul style="list-style-type: none"> <li>• Fully Implemented</li> <li>• Substantially Implemented</li> <li>• Incomplete/Ongoing</li> <li>• Not Implemented</li> </ul>
22-101	Pending	Contract Monitoring Processes	Substantially Completed. The report will be issued at the beginning of FY 2023.		

### III. Consulting Services and Non-audit Services Completed

During FY 2022, 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)

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#### 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.

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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.

  
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Sonya Etheridge, CPA  
Director of Internal Audit  
Texas Facilities Commission

## V. Internal Audit Plan for Fiscal Year 2023

The purpose of the Internal Audit Plan is to identify audits and other activities that will be conducted during FY 2023. 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 Executive Director approved the FY 2023 Audit Plan and the Board will discuss the Audit Plan at the next Board meeting. The date for this meeting has not been determined.

The FY 2023 Internal Audit Plan was developed from the results of a risk assessment performed on the auditable units of the SPB. 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.

<b>FY 2022 INTERNAL AUDIT PLAN</b>			
<b>Audit Project</b>	<b>Risk Category</b>	<b>Program Area / Division</b>	<b>Project Type</b>
Closeout of FY 2022 Projects	General	Administration	Various
Information Technology and Cybersecurity	Information Resources	Information Technology	Assurance
Review Project: Contract Management and Monitoring Processes	Finance & Administration	Facilities and General Operations	Consulting/Advisory
Review Project: Retail Sales Functions and Financial Controls	Retail Operations	Gift Shops and Capitol Complex Parking	Consulting/Advisory
Review Project: Texas State History Museum	Museum Operations	TSHM - Concessions and Parking	Consulting/Advisory
Management Assistance & Other Special Projects	General	Various	Management Requests

INTERNAL AUDIT ADMINISTRATION	
Statutorily Required Activities and Internal Audit Administration	Program Area / Division
Annual Risk Assessment and Internal Audit Planning	Internal Audit
Annual Report of Internal Audit Activities (SAO)	Internal Audit
Internal Audit Quality Assurance Review	Internal Audit
Administration of the Internal Audit Function	Internal Audit
Liaison for External Audits and Oversight Entities	Internal Audit
Internal Audit Professional Organization Activities	Internal Audit
Continuing Professional Education	Internal Audit

## VI. External Audit Services Procured in Fiscal Year 2022

During Fiscal Year 2022, the following External Audit Services were procured or were ongoing.

Texas State Auditor's Office: An Audit Report on Performance Measures at the Texas State Preservation Board (Report was finalized in September 2021).

## 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-37, the General Appropriations Act (86th Legislature), and the Texas Government Code, Section 321.022.

**Fraud reporting per Section 7.09, page IX-37, the General Appropriations Act (86th 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>. 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 was completed during FY 2022.

**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 2022, 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.