

Internal Audit Plan
Fiscal Years 2020 – 2021
Texas Commission on the Arts

As approved by the Commissioners
On
June 11, 2020



MONDAY RUFUS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

TEXAS COMMISSION ON THE ARTS
Internal Audit Plan – Fiscal Years 2020 - 2021

MONDAY RUFUS & CO., P.C.
Certified Public Accountants & Advisors
Member: American Institute of Certified Public Accountants

May 27, 2020

The Commissioners
Texas Commission on the Arts
Austin, Texas

Dear Commissioners:

As required by the Internal Auditing Act (Texas Government Code, Section 2102.008), we have prepared the internal audit plan for fiscal years 2020 and 2021.

We prepared a risk assessment to determine the areas in the Texas Commission On The Arts that should be considered for audit. Based on that risk assessment, the following areas are recommended for audit in Fiscal Years 2020 and 2021, respectively:

Fiscal Year 2020

Human Resource Management

Fiscal Year 2021

Grant Management

Your approval of the areas above will enable us to commence internal audit activities for fiscal years 2020 and 2021.

Sincerely,



Monday N. Rufus, CISA, CPA, Ph.D.
Audit Director
MONDAY RUFUS & CO., P.C., CPAs

CC: 1. Gary Gibbs, Ph.D., Executive Director
 2. Amber Rhodes, Director of Finance
 3. Laura Wiegand, Director of Programs & Technology

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I. Purpose

The Purpose of this internal audit plan is to document the development, risk assessment, scope of assignments and implementation timetable for fiscal years 2020 and 2021 internal audit activities. This document will serve as a primary tool to carry out internal audit responsibilities in an efficient manner and prioritize the audit areas based on risk assessments agreed to by the Board members of the Texas Commission on the Arts (TCA). Due to the nature, scope and timing of audit procedures contemplated here, planning for specific aspects of the audits is a continuing process. Accordingly, the plan will be revised as necessary and reviewed at least annually.

This plan has been prepared to meet planning guidelines as required by both generally accepted governmental auditing standards and conforms to the *International Standards for the Professional Practice of Internal Auditing* as determined by the Institute of Internal Auditors, Inc.

II. Background Information

Texas Commission on the Arts was created by the Texas Legislature in 1965, and operates under the statutory authority of V.T.C.A. Government Code Chapter 444.

The TCA's Mission

The mission of the TCA is to advance our state economically and culturally by investing in a creative Texas. TCA supports a diverse and innovative arts community in Texas, throughout the nation and internationally by providing resources to enhance economic development, arts education, cultural tourism and artist sustainability initiatives.

The TCA is guided by the following:

Core values:

- Accountability for public investment
- Efficiency in the delivery of core functions and services
- Effective and accessible programs available to the diverse population and geography of Texas
- Excellent customer service for all constituents
- Transparency in all agency operations

Goals:

1. Building the economy and creative industries
2. Enhancing education through arts and culture
3. Growing cultural tourism opportunities
4. Advancing leadership in arts and culture in the state and nation

To carry out its mission, the TCA has appropriations approval to hire 14 positions. The Commission is composed of nine members appointed by the Governor with the advice and consent of the senate. Members must represent a diverse cross-section of the fields of the arts and be widely known for their professional competence and experience in connection with the arts. At least two members must be residents of a county with a population of less than 50,000. Members of the Commission serve

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staggered terms of six years. The Chair of the Commission is appointed by the Governor. Commission officers are elected by Commission members and serve at the pleasure of their peers.

TCA's operating budget is prepared and approved by the Commissioners on an annual basis, whereas the State legislative appropriation request is determined every two years. Both the budget and appropriations are reviewed and approved by the State Legislature. The Commission's departments consist of the Executive, Programs & Technology, and Finance. Each department head reports to the Executive Director.

A. Executive

The executive director reports to the board of Commissioners and manages a full-time staff of thirteen, including an executive assistant. In consultation with the Commission, the director sets and makes long and short-term plans for implementing commission policies and goals; with the board chair, prepares agendas for the Commission meetings; establishes effective channels for communication throughout the Commission; and brings community, state and federal developments and trends to the attention of the Commission. The director oversees legislative relations and is responsible for supervising the preparation of the Commission's biennial Legislative Appropriations Request; the development and implementation of a long-range financial strategy that guarantees sufficient flow of funds; oversight and planning of all programs and special initiatives; oversees general operations, grants disbursements and grants program evaluation. The executive director also serves as Chief Administrative Officer for the Board of Commissioners and its various committees, and as a national and regional liaison with the National Endowment for the Arts and the Mid-America Arts Alliance.

B. Finance

The fiscal office consists of the director of finance and a finance assistant. The responsibilities of the director of finance includes formulating and implementing policies and procedures for financial activities to ensure compliance with state and federal laws, rules, and regulations concerning the fiscal management of government funds and resources. In consultation with the executive director, the director of finance is responsible for the preparation of the Commission's biennial Legislative Appropriations Request and development and implementation of a long-range financial strategy that guarantees sufficient flow of funds. The fiscal office division is also responsible for creating and overseeing the agency operating budget, general accounting, payroll, procurement, travel policies and travel reimbursement processing, and financial reporting (state and federal). The director of finance oversees staff services activities, including employee benefits, facilities management, human resources, staff training, and risk management. The director of finance acts as a primary intergovernmental relations liaison to the legislature, the Governor's Office, the State Auditor's Office, the Legislative Budget Board, the Comptroller.

C. Programs and Technology

Programs- The grants program team consists of 9 staff: The director of programs and technology, the deputy director, the director of communications, three program administrators and three program assistants. Under the supervision of the director of programs and technology, the program staff members are responsible for assisting and advising grant applicants, managing the grants process and awards, monitoring grant contract compliance, and providing technical expertise to the field. The agency reviews and processes around 1,500-2,000 applications per year. Applications are submitted

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through TCA's online grants management system. The agency holds grant review panels with outside experts in the field to review and evaluate the applications. The agency's governing body is ultimately responsible for the final approval and awarding of these grants.

Technology- Also under the supervision of the director of programs and technology, TCA has one full-time systems administrator and contracts with an outside Information Technology company for work related to TCA's online grants management system.

TCA's initial appropriations (General Revenue Fund and Appropriated Receipts) for the fiscal year 2020 and 2021 are as follows:

	<u>For the Year Ending</u> <u>August 31, 2020</u>	<u>For the Year Ending</u> <u>August 31, 2021</u>
Salaries and Wages	\$ 883,041	\$ 883,041
Other Personnel Costs	25,160	26,140
Professional Fees and Services	5,050	5,050
Consumable Supplies	5,000	5,000
Utilities	7,200	7,200
Travel	33,873	33,873
Rent – Building	4,240	4,240
Rent – Machine and Other	6,000	6,000
Other Operating Expense	125,136	174,156
Grants	<u>15,348,338</u>	<u>10,348,338</u>
Total Appropriated Budget	<u>\$16,443,038</u>	<u>\$11,493,038</u>
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III. Internal Audit Plan Methodology

This section summarizes the methodology used in preparing the internal audit plan. In order to understand the TCA and develop our risk assessment process, we reviewed the TCA's:

- Enabling Legislation
- Strategic plan
- Legislative appropriations request/operating budget
- Reports from the State Auditor's Office
- Sunset Advisory Commission Report
- Other documents obtained from the TCA

We made inquiries of key personnel of the TCA and Commissioners. The main purpose of our inquiries was to obtain a generalized overview of how each department fits financially and non-financially into the framework of the TCA. One of the major factors in performing our inquiries, rather than relying solely on the amounts budgeted to each program or function in determining risk assessment, was to identify how much effect one program or function has on another programs or functions, thereby identifying the total impact that a particular department or division has on the TCA. These inquiries were standardized to achieve responses to basic questions concerning each department, function, or overall activities of the TCA. Questions asked related to

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business objectives, inputs, outputs, systems, critical factors, fraud, abuse, process activities and business risks and controls. An assessment of the function's risk was also included, based on our inquiries.

In planning internal audit procedures, financial, operational, as well as compliance issues are considered in determining processes/systems of interest. Functional areas that cross many departments and the interaction between departments are key criteria in the process of identifying areas of interest. TCA's financial reports, planning documents, laws, rules, and regulations, in addition to soliciting input from management, were all considered in developing the list of areas of interest. Upon completion of this list, each area was subjected to our risk analysis process.

The following TCA processes/systems have been considered during the development of the areas of interest list:

Information Resource Systems & Controls
Performance Measures Reporting
Finance and Accounting
Cash Disbursements
Human Resource Management
Grant Management
Open Records Requests

There are numerous other areas that may be identified during the process of performing internal audit procedures during the fiscal year. Continuing input from both the TCA commissioners and management will be essential in identifying additional or new areas of risk that should be considered in the future.

Our risk assessment was performed through the consideration of various factors, including:

1. Exposure Level
2. Complexity of Unit
3. Budgeted Revenues and Expenditures
4. Results of Last Audit
5. Extent of other Coverage or Oversight
6. Quality of Internal Controls/Adherence to Laws
7. Changes in Systems and Processes
8. Normal Audit Interval

Although all the above factors were considered in the assessment of risk for each process/system, some of the factors were weighed more heavily and considered to be more critical to the TCA's internal control structure. The following critical factors were weighted more heavily in our risk assessment.

- Exposure Level
- Quality of Internal Controls/Adherence to Laws
- Changes in Systems and Processes

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The other factors noted are not considered to be as critical to the internal control structure of the TCA. However, all factors were considered in assessing risk and were taken into consideration for each process/system as to their impact on the TCA. Once each area of interest was evaluated, it was assigned a risk factor of high, moderate or low. The following is the result of our risk assessment process.

Processes Identified as High Overall Risk

Human Resource Management
Grant Management
Information Resource System & Controls
Cash Disbursements (including Travel and Payroll)

Processes Identified as Moderate Overall Risk

Performance Measures Reporting
Finance and Accounting

Processes Identified as Low Overall Risk

Open Records Requests

IV. Internal Audit Plan

The internal audit plan is designed to provide a review of all areas considered to be of higher risk. Although the plan is structured in this manner, it should not prevent the review of areas on a more frequent basis, in the case of future restructuring or development of new processes/systems. Also, special reviews might be added in the future as requested by the TCA Commissioners or when deemed necessary by the internal audit function after performance of in-depth review of the specific divisions/systems.

Internal audit activities will be primarily concerned with documenting, testing and evaluating each department or system's internal control policies and procedures and the quality of performance in carrying them out. This will include reporting conditions and suggestions to management and evaluating management's response and plans for corrective actions. Opportunities for improved efficiency identified as a result of performing internal audit activities will be communicated to management and the Commissioners as part of the reporting process.

Internal Audit activities for the fiscal years ending 2020 – 2021 are planned for the following processes/systems, respectively:

Fiscal Year 2020

Human Resource Management

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Fiscal Year 2021

Grant Management

The audits for fiscal year 2020 will take place between June 2020 and August 2020 with final reporting occurring in September 2020. The audits for fiscal year 2021 will take place between September 2020 and December 2020 with final reporting occurring in January 2021. The above plan does not preclude the internal audit function from identifying and assessing risk relating to new departments or systems added to the TCA.

These processes/systems were identified for review through risk assessment methodology. As discussed above, this methodology included inquiries of key personnel of the TCA, identifying financial and non-financial risks, identifying interaction of departments amongst each other, identifying rules and regulations the various functions must comply with, identifying the volume of transactions and personnel involved within each function.

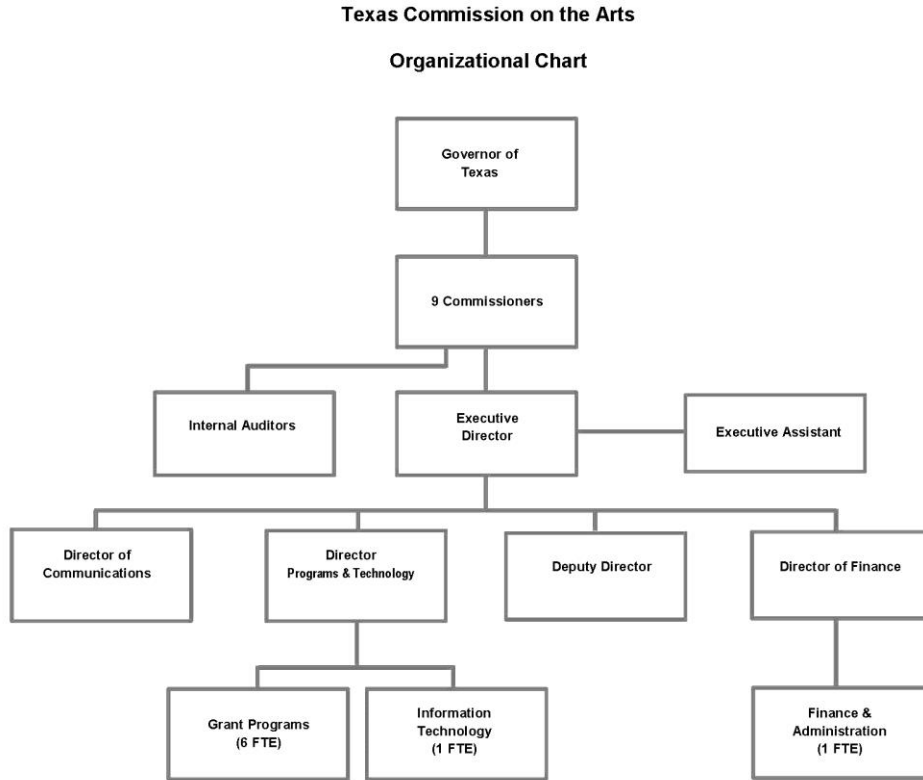
V. Reporting

In compliance with the Texas Internal Auditing Act, the annual internal audit report will be filed with the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor, the Commissioners of the TCA and the TCA's Executive Director by November 1, 2020 and 2021, respectively. The annual internal audit report will be in the form specified by the State Auditor and will include all relevant items noted in the Texas Internal Auditing Act.

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Appendix A: Organizational Chart



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Appendix B: Risk Assessment Summary

High = 38 and up
Moderate = 30-37
Low = less than 30

	<u>Weighted Risk Rank</u>
Human Resource Management	40
Grant Management	40
Information Resources Systems & Controls	38
Cash Disbursements (including Travel & Payroll)	38
Performance Measures Reporting	34
Finance and Accounting	34
Open Records Requests	28