

TEXAS COMMISSION ON THE ARTS

FISCAL YEAR 2020 INTERNAL AUDIT ANNUAL REPORT

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Texas Commission on the Arts
Austin, Texas
Internal Audit Annual Report
Fiscal Year 2020

I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site.

Within 30 days of approval, the Texas Commission on the Arts should post the following information on its Internet Web site:

- An approved fiscal year 2021 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2020 internal audit annual report, as required by Texas Government Code, Section 2102.009.

II. Internal Audit Plan for Fiscal Year 2020

The Commission approved the following audits for fiscal year 2020:

- Human Resource Management (**Report No. TCA 020-001 Dated: August 24, 2020**).

III. Consulting Services and Non-audit Services Completed

The Internal Auditor did not perform any services which would be considered consulting engagements, as defined in the *Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing*, and no non-audit services, as defined in *Government Auditing Standards, 2011 Revision*, Sections 3.33 – 3.58, or *Government Auditing Standards, 2018 Revision*, Sections 3.64 – 3.106, as applicable, during fiscal year 2020.

IV. External Quality Assurance Review (Peer Review)

The Texas Commission on the Arts established an internal audit function in Fiscal Year 2020; and will not be eligible for an External Quality Assurance Review until after Fiscal Year 2022.

V. INTERNAL AUDIT PLAN FOR FISCAL YEAR 2021

○ Grant Management	Total Hours	<u>Budgeted Hours</u>
		<u>120</u>
		120

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

1. Exposure Level
2. Complexity of Unit
3. Materiality of 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 of 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 Agency's internal control structure. The following critical factors were weighted more heavily in our assessment.

- Exposure Level
- Quality of Controls
- Changes in Systems and Processes

VI. External Audit Services Procured in Fiscal Year 2020

There were no External Audit Services for the fiscal year 2020 other than Internal Audit Services.

VII. Reporting Suspected Fraud and Abuse

In accordance with the requirements of Section 7.09, page IX-37, the General Appropriations Act (86th Legislature, and Texas Government Code, Section 321.022, the Texas Commission on the Arts has posted information on how to report suspected fraud, waste or abuse of state funds on their website

VIII. Report Distribution

As required by Government Code Section 2102.0091 copies of this report should be filed with the following:

Governor's Office of Budget and Planning

Attn: Sarah Hicks
Phone: (512) 463-1778
Budgetandpolicyreports@governor.state.tx.us

Legislative Budget Board

Attn: Christopher Mattsson
Phone: (512) 463-1200
Audit@lbb.state.tx.us

State Auditor's Office

Attn: Internal Audit Coordinator
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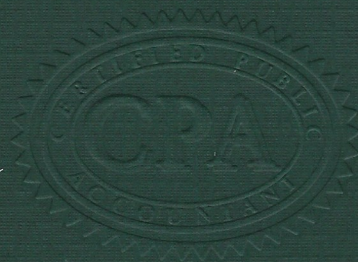
Sunset Advisory Commission

Attn: Jennifer Jones
Phone: (512) 463-1300
sunset@sunset.state.tx.us

**INTERNAL AUDIT OF
HUMAN RESOURCE MANAGEMENT
AS OF AUGUST 24, 2020**

AT THE

**TEXAS COMMISSION ON THE ARTS
(REPORT NO. TCA 020-001)**



MONDAY RUFUS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS



MONDAY RUFUS & CO., P.C.
Certified Public Accountants & Advisors

Commissioners
Texas Commission On The Arts
Temple, Texas

We have conducted an internal audit (audit) of the Human Resource Management at the Texas Commission On the Arts (TCA) as of August 24, 2020. Our objectives were to determine the reliability and integrity of information, compliance with policies, procedures, laws, and regulations, efficiency and effectiveness of operating procedures, and safeguarding of assets. The results of our audit disclosed that the TCA has procedures and controls in place to ensure reliability and integrity of information compliance related to the Human Resource Management. However, we noted an opportunity for enhancing the controls in place in the Human Resource Management.

The report that accompanies this letter summarizes our comments and recommendations.

We appreciate the courtesy and cooperation shown by the management of the TCA during the course of the audit engagement.

Monday Rufus & Co., P.C.

August 24, 2020
Austin, Texas

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Executive Summary

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 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.

For fiscal years 2020 and 2021 the General Appropriations Act authorized a budget of \$16,443,038 and \$11,493,038, respectively, with 14 full-time equivalent (FTEs) employees for each year. The 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.

At the time of the audit engagement the TCA had 14 full-time employees.

A nine-member Commission governs the TCA agency. The Commissioners are 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 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.

The Commissioners appoint an Executive Director who supervises the TCA's activities.

The TCA is divided into two divisions reporting directly to the Executive Director: Finance and Programs and Technology.

The Finance Department is responsible for the human resource management functions for the TCA. The Director of Finance who reports to the Executive Director oversees the payroll and personnel functions.

The Executive Director is the final authority regarding personnel matters of the Agency, except for actions related to that office.

Summary of Internal Audit Results

The TCA has controls over human resource management to provide reasonable assurance that the TCA is in adherence and compliance with state and federal payroll and personnel requirements. Clear policies and procedures have been established and implemented for Personnel functions. Some of these procedures include adequate support for the personnel actions, Equal Employment Opportunity training, timely performance evaluation, verification of a job applicant's higher education degree, and evidence of job description for every employee.

The TCA can enhance its personnel processes by performing background checks on all new employees hired.

Summary of Management's Response

The TCA appreciates your recommendation on how to improve our hiring processes. While the Agency is not required by law to conduct criminal background checks on new employees, we will re-evaluate our processes and consult with our Attorney regarding your finding. If we believe that it is necessary to make any changes, including the implementation of conducting criminal background checks, we will do so.

Objectives, Detailed Issues, Recommendations, and Management's Response

The primary objectives of the internal audit were:

1. Reliability and Integrity of Information
2. Compliance with Policies, Procedures, Laws, and Regulations
3. Efficiency and Effectiveness of Operating Procedures
4. Safeguarding of Assets

RESULTS AND RECOMMENDATIONS

Internal Audit Objective 1: Reliability and Integrity of Information

All personnel action forms are approved and signed by executive management.

Employee accrued annual leave and sick leave balances are monitored monthly by Personnel management to ensure maximum total legislative hour limits are not exceeded and the employees are aware of hours which may be lost if not taken.

Internal Audit Objective 2: Compliance with Policies, Procedures, Laws, and Regulations

The TCA has developed policies and procedures for the Personnel Processes.

All new employees have access to the Employee Handbook and acknowledgement is documented in each employee's file.

Employees' performance evaluations are conducted timely.

The TCA is in compliance with employee Equal Employment Opportunity (EEO) Standards Training required under Texas Labor Code, Section 21.010 (c)); and Texas Administrative Code, Title 40, Section 819.24. The training certificates are filed in each employee personnel file.

The TCA is in compliance with the Immigration Reform and Control Act of 1986 which requires that employers must complete and retain a Form I-9 (Employment Eligibility Verification for every new employee they hire after November 6, 1986).

Internal Audit Objective 3: Efficiency and Effectiveness of Operating Procedures

TCA employees involved in the personnel processing and related payroll functions have experience and are knowledgeable regarding state personnel requirements.

Employee files and supporting documents were well organized and consistent.

Finding: Background Checks are Not Being Conducted on New Employees.

Criteria:

One significant means of finding out more about an applicant for employment is to request permission to perform a background check.

Condition:

Currently background checks are not being conducted on new employees hired by the TCA.

Cause:

The TCA's established policies and procedures for hiring employees do not require performing background checks prior to making an offer of employment.

Effect:

Hiring employees has become increasingly challenging partly due to the lack of valid references from previous employers of new employee applicants. Employers typically only provide verification of the person's title and the duration of the employee's term of employment. As a result, heavy reliance is placed on the accuracy of the individual's application or resume to supplement the comments of the individual during the interview. Background checks are useful in getting more information about the prospect being considered for employment. Since the TCA does not conduct background checks on new employees, there is an increased risk that staff may not be suitable for the position they are applying to fill.

Recommendation:

The TCA should consider conducting background checks on new applicants prior to hiring them, or make the employment offer with the Agency contingent upon the results of the background checks. We recommend the TCA re-evaluate its hiring practice and consider implementing conducting background checks of new employees. We recommend consulting with the TCA's Attorney for guidance prior to implementation.

Management's Response:

The TCA appreciates your recommendation on how to improve our hiring processes. While the Agency is not required by law to conduct criminal background checks on new employees, we will re-evaluate our processes and consult with our Attorney regarding your finding. If we believe that it is necessary to make any changes, including the implementation of conducting criminal background checks, we will do so.

Internal Audit Objective 4: Safeguarding of Assets

There is adequate segregation of duties among the Fiscal and Human Resources Department related to personnel processes.

The TCA has a process in place to ensure that accessibility to the agency's computer systems and other assets is eliminated as soon as an employee terminates employment with the agency, and that all terminated employees are appropriately deleted from the payroll records.

Appendix 1

Objective and Scope

Objective

The primary objectives of the internal audit were to determine the following:

- *Reliability and Integrity of Information*
- *Compliance with Policies, Procedures, Laws, and Regulations*
- *Efficiency and Effectiveness of Operating Procedures*
- *Safeguarding of Assets*

Scope

The scope of the internal audit (audit) included ensuring compliance with the Texas Labor Law, Government Code, and TCA operating policies and procedures. The scope included interviews with the appropriate staff of the TCA. Employee personnel files, agency employee handbook, human resource forms, and other pertinent reports and documents were tested for accuracy and compliance.

Methodology

Our procedures included collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating the results of the tests; reviewing operating policies and procedures, laws, and regulations, conducting interviews with the appropriate TCA staff, testing for compliance with policies, procedures and laws, and review of other pertinent reports and documentation.

Data Reliability and Completeness

We obtained an understanding of the payroll and personnel processes. To ensure reliability, validity, and completeness of the data, we gained an understanding of logical access and general controls and tested those controls as appropriate.

Sampling Methodology

We selected random samples of employees and payroll records for testing. Those sample sizes were not necessarily representative of the population as the intent was not to project test results to the population.

Information collected and reviewed included the following:

- List of Agency employees with job titles and dates of employment
- List of TCA staff involved in personnel processing and payroll functions

- Agency policies and procedures manual (Employee Handbook)
- List of training conducted for employees in fiscal year 2019 and records of attendance
- List of terminated employees for the period from September 1, 2018 through August 31, 2019.
- Employee personnel files and monthly payroll reports.
- Texas Commission on the Arts Website
- State Auditor's Office: Texas Human Resources Management Statutes Inventory (Inventory)
- General Appropriation Act (FY 2020-2021)
- Prior Internal Audit Reports or other audit reports, as applicable

Procedures and tests conducted included the following:

- Interviewed TCA staff to obtain an understanding of the personnel and payroll functions, activities, and controls in place.
- Obtained and reviewed TCA's Employee Handbook.
- Obtained and reviewed State legislative human resources and payroll requirements.
- Tested for compliance with employee position interview requirements.
- Obtained and reviewed employee personnel files.
- Tested for proper employee job description and state payroll classification.
- Tested for accuracy and completeness of employee information in personnel files.

Criteria Used included the following:

- Government Code, Chapter 651. General Provisions
- Texas Labor Code, Chapter 21. Employment Discrimination
- State Auditor's Office: Texas Human Resources Management Statutes Inventory
- TCA Employee Handbook
- TCA Website
- Review of Other pertinent reports and documents
- Immigration Reform and Control Act of 1986

Other Information

Our audit was conducted in accordance with *generally accepted government auditing standards*. These standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our internal audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our internal audit objectives. Our internal audit also conforms with the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing*.

Appendix 2

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 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.

Appendix 3

Report Distribution

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Governor's Office of Budget and Planning

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Texas Commission on the Arts Commissioners

Dale W. Brock, Chairman

Mila Gibson, Vice-Chairman

Karen Partee

Marci Roberts

Adrian Guerra

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Mary Ann Apap Heller

Sean Payton

Texas Commission on the Arts

Gary Gibbs, Ph.D., Executive Director