



Texas Military Department

FY2017 Annual Internal Audit Plan

As Prepared by
McConnell & Jones LLP

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August 31, 2016

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Internal Audit Coordinator, State Auditor's Office

Dear Ladies and Gentlemen:

Attached is the FY2017 Annual Internal Audit Plan for the Texas Military Department (TMD). This annual audit plan was discussed with the Texas Adjutant General and TMD's leadership team and received approval from TMD's State Internal Audit Board (SIAB) on August 24, 2016. The annual audit plan will enable the TMD to comply with the Texas Internal Auditing Act, Texas Government Code Chapter 2102 as amended by House Bill 2485 during the 78th Legislature and House Bill 16 during the 83rd Legislature. This annual audit plan will be executed by McConnell & Jones LLP (MJ) in accordance with The Texas Internal Auditing Act, The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, and Generally Accepted Government Auditing Standards (GAGAS).

Please contact Odysseus Lanier at 713.968.1603 or Bill Wilson at 512.782.5142 if you should have any questions about this audit plan.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Odysseus Lanier'.

Odysseus Lanier, CPA

Partner

1.0 COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports to the agency's internet website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, MJ will provide the required internal audit plan, internal audit annual report and any other required internal audit information to the Texas Military Department's (TMD) Executive Director who will ensure the information is posted to the TMD's website.

2.0 PURPOSE

The purpose of this report is to communicate the annual risk-based audit plan as approved by TMD's State Internal Audit Board on August 24, 2016, the methodology used to develop the annual audit plan, the timing and resource requirements necessary to complete the audit plan, and the communication of audit results and any significant interim changes to the annual audit plan.

The annual audit plan was developed based on a prioritization of the audit universe using the results of the risk assessment and input from the TMD's leadership. Using our risk assessment framework, we identified the organizational sources for potential engagements and auditable activities; examined organizational risk factors, using a weighted average risk measurement scoring system; evaluated the proposed engagements; and prioritized the audits based on the risk measurement score. The audit activities selected were based on the quantified risk priorities and the organization's risk strategy.

3.0 RISK ASSESSMENT

Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. An organization's risk exposure is determined through the identification of risks and evaluating the impact on operations and likelihood of occurrence.

Risk assessments identify an organization's exposure to business disruptions and barriers to achieving the organization's strategic goals. They serve as a tool to focus limited resources to perform evaluations of controls that are in place to limit the exposure.

In accordance with The Institute of Internal Auditors (IIA) Standard 2010.A1, this internal audit plan is based on a documented risk assessment and input from members of the TMD's leadership team. Our assessment evaluated risk exposures relating to the TMD's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and

efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts. We have also included consideration of contract management and information technology risks.

The types of risk exposure relevant to the TMD are:

- *Financial Exposure:* Financial exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.
- *Compliance Exposure:* Compliance exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.
- *Information Exposure:* An information exposure exists whenever there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.
- *Efficiency Exposure:* An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.
- *Human Resource Exposure:* A human resource exposure exists whenever an area is managing human resources in a way that is contrary to agency policy.
- *Environmental Exposure:* An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:
 - Recent changes in key personnel
 - Changing economic conditions
 - Time elapsed since last audit
 - Pressures on management to meet objectives
 - Past audit findings and quality of internal control
- *Public Service Exposure:* A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.

4.0 FY2017 ANNUAL AUDIT PLAN

MJ will conduct ten audits, follow-up on prior audit findings, update the risk assessment, prepare the fiscal year 2018 annual audit plan and prepare the fiscal year 2017 annual audit report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **1,406 hours**, for a total annual budget not to exceed \$157,074. The planned audits, timing and estimated hours are summarized in the chart below.

FY2017 Annual Internal Audit Plan

Audit	Risk Rating	Timing	Estimated Hours
SB20 – Contract Management	Compliance	September - October 2016	129
State Organization Staffing Levels by Function	Advisory – High Impact on Budget and Mission	September - November 2016	162
Military Museum Revenue and Asset Recording & Reporting	Advisory – Internal Control Risk	October - November 2016	73
Crisis Management Plan	Advisory – Mission and Reputational Risks	December 2016	65
TMD Internal State Policy Making Structure and Process (Including the Strategic Initiative Group (SIG) and Public Input)	Medium	January - March 2017	88
CAPPS Implementation Follow-Up	High	March – June 2017	171
Financial Reporting Process	Advisory – Infrastructure & Process Assistance	March – June 2017	211
Budgeting Process	Advisory – Cash Flow and Planning Risk	June – July 2017	166
General Officer’s Travel	Compliance	July 2017	101
General Officer’s Time & Attendance	Compliance	July 2017	66
Follow-Up on Open Audit Findings	Compliance	On-Going	64
Update Annual Risk Assessment & Audit Plan			41
Annual Audit Report			17
Audit Communications, Project Management			52
Total			1,406

5.0 SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to TMD executive management and present these changes to the TMD's SIAB for review and approval. Notification of significant changes to the Internal Audit Plan approved by the SIAB will be submitted to the State Auditor's Office.