



***Texas Military Department***

***2015 Internal Audit Plan***

As Prepared by  
McConnell & Jones LLP

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October 30, 2014

The Honorable Rick Perry, Governor  
Members of the Legislative Budget Board  
Members of the Sunset Advisory Commission  
Mr. John Keel, CPA, State Auditor

Dear Ladies and Gentlemen:

Attached is the approved 2015 Internal Audit Plan for the Texas Military Department (TMD). This annual audit plan was approved by the TMD's Internal Audit Steering Committee (IASC) on October 28, 2014. 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 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 Duane Waddill at 512.782.5142 if you should have any questions about this audit plan.

Sincerely,

Odysseus Lanier, CPA  
Partner

## 1.0 COMPLIANCE WITH HOUSE BILL 16: PUBLICATION OF AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

House Bill 16 amended the Texas Internal Auditing Act to require state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans and internal audit annual reports to the agency's Internet website within 30 days of approval. House Bill 16 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 House Bill 16, 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 the TMD's Internal Audit Steering Committee (IASC) on October 28, 2014, 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 IASC and TMD 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 of senior management of the TMD. 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, which 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.

MJ discussed the risk assessment methodology and risk exposures with the TMD IASC. We identified, analyzed, and prioritized risks by customizing risk factors and weighting system to the TMD's major systems, organizational objectives, structure, balance sheet, and business processes. We further conducted interviews with the TMD leadership and administered a survey modeled after the Texas State Auditor's Office *Assessing Risk in Key Accountability Control Systems* document. The survey was deployed to the TMD staff and results were incorporated into the risk assessment.

## 4.0 2015 ANNUAL AUDIT PLAN

MJ will conduct five audits, one consulting/advisory activity, follow-up on prior audit findings, update the risk assessment, prepare the 2016 annual audit plan and prepare the 2015 annual audit report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **1,524 hours** for a total annual budget not to exceed \$154,830. The planned audits, timing and estimated hours are summarized in the chart below.

### 2015 Annual Audit Plan Activities

Audit #	Audit	Risk Rating	Timing	Hours
1	Unit Funds	Compliance	October – November 2014	200
2	Human Resources	Advisory	December 2014 – February 2015	280
3	Mental Illness Funds	Medium	February – March 2015	136
4	Interagency Transfer Vouchers * (Border Star and Border Security)	Compliance	March – May 2015	288
5	Master Cooperative Agreement Carswell Appendix 21 – Facilities O&M**	Compliance	May – July 2015	160
6	General Officer's Time & Attendance	Compliance	On-Going	112
	Follow-Up on Open Audit Findings**	Compliance	On-Going	96
	IEMS Purchasing System Controls	Medium	TBD	80
	Update Annual Risk Assessment & Audit Plan	Compliance	July – August 2015	65
	Annual Audit Report	Compliance	August 2015	25
	Audit Communications, Project Management	Project Management	On-Going	82
	<b>Total</b>			<b>1,524</b>

\*State Auditor Office (SAO) Guidelines for the fiscal year 2015 internal audit report have been updated to request information related to audit work conducted on these limitations.

\*\* Audit activities will be performed in conjunction with USPFO Internal Review

## 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 IASC for review and approval. Notification of significant changes to the Internal Audit Plan approved by the IASC will be submitted to the State Auditor's Office.