

**TEXAS STATE LIBRARY & ARCHIVES COMMISSION**  
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2014



**TEXAS STATE LIBRARY & ARCHIVES COMMISSION**  
Austin, Texas

Annual Internal Audit Report

Fiscal Year 2014

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# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

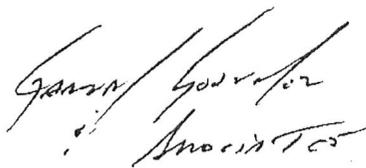
Audit Committee and Commissioners  
Texas State Library & Archives Commission  
Austin, Texas

For the year ended August 31, 2014 we performed the following Internal Audits for the Texas State Library & Archives Commission (TSLAC) and have issued Internal Audit reports as follows:

- Information Resources Technologies Division dated March 17, 2014
- Fixed Assets Management area dated April 17, 2014
- Record Center Services/Document Imaging Services dated June 30, 2014
- Grants Management dated July 31, 2014

We also performed a follow-up of prior year internal audits for TSLAC; the report that accompanies this letter reflects the implementation status of those matters, and includes all information required for the Annual Internal Audit Report.

We have discussed these comments, recommendations, and implementation status with various TSLAC personnel and we will be pleased to discuss them in further detail; to perform an additional study of these matters; or, to assist you in implementing the recommendations.



July 31, 2014

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### INTRODUCTION

The Texas State Library and Historical Commission was created in 1909 and in 1979, it was renamed Texas State Library and Archives Commission (TSLAC). TSLAC's mission is to safeguard significant resources, provide information services that inspire and support research, education and reading, and enhance the capacity for achievement of current and future generations. To accomplish this, TSLAC—

- Preserves the records of government for public scrutiny,
- Secures and makes accessible historically significant records and other valuable resources both for print and electronic documents,
- Meets the reading needs of Texans with disabilities,
- Builds and sustains statewide partnerships to improve library programs and services; and
- Enhances the capacity for achievement of individuals and institutions with whom it works.

There are a number of statutes and administrative rules that govern TSLAC's scope and functions. However, Chapter 441 of the Texas Government Code establishes TSLAC and its responsibilities; and Title 13, Chapter 2, of the Texas Administrative Code provides the applicable rules and regulations for the administration of TSLAC and its programs.

The "Texas State Library and Archives Commission" (Commission) is both the official name of the agency and the name of its governing board. The 7 members of the Commission are appointed by the Governor, who also designates a chair, and are confirmed by the Texas Senate. Duties of the Commission include:

- Appointment and supervision of TSLAC's Director and Librarian;
- Review and approval of TSLAC's strategic plans, appropriations requests, internal audit documents, employment and management policies, and the like; and
- Review and adoption of rules for administering TSLAC's legislative mandates - for example, grant programs, standards for library accreditation, records management rules and schedules, and customer service policies.

The Commission works with the following advisory boards and committees to help meet its mission: Texas Historical Records Advisory Board; Records Management Interagency Coordinating Council; Library Systems Act Advisory Board; and TexShare Advisory Board.

The Director and Librarian is responsible for agency-wide policy development and dissemination. TSLAC is organized into 4 program divisions: (1) Archives and Information Services, (2) Library Development and Networking, (3) Talking Book Program, (4) State and Local Records Management; and three indirect administration divisions: (5) Executive, (6) Administrative Services, and (7) Information Resources Technologies.

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### INTERNAL AUDIT OBJECTIVES

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope encompassed the examination and evaluation of the adequacy and effectiveness of the audit area's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope includes the following objectives:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Policies, Procedures, Laws, Regulations, and Contracts** – Review the systems established to ensure compliance with those policies, procedures, laws, regulations, and contracts that could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

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### **I. Compliance with House Bill 16 (Texas Government Code, Section 2102.015): Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on TSLAC's website**

To comply with the provisions of House Bill 16, within 30 days of approval by TSLAC's Board, TSLAC will post the following information in its website:

- An approved fiscal year 2015 audit plan, as provided by Texas Government Code, Section 2012.008.
- A fiscal year 2014 internal audit annual report, as required by Texas Government Code, Section 2012.009.

### **II. Internal Audit Plan for Fiscal Year 2014**

The Internal Audit Plan (Plan) includes 3 audits to be performed for the 2014 fiscal year. The Plan also includes grants management as other activities to be performed by the Internal Auditor on an annual basis; a follow-up of the prior year audit recommendations; any other tasks that may be assigned by the Commissioners, Audit Committee, or management during the year; and preparation of the Annual Internal Audit Report for fiscal year 2014.

#### **Risk Assessment**

Utilizing information obtained through the inquiries and background information reviewed, 17 audit areas were identified as potential audit topics. A risk analysis utilizing our 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

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Following are the results of the risk assessment performed for the 17 potential audit topics identified:

<b>HIGH RISK</b>	<b>MODERATE RISK</b>	<b>LOW RISK</b>
Record Center Services/ Document Imaging Services	Circulation (Talking Book Program)	Mail Room/Print Shop Performance Measures
Fixed Assets	Human Resources/Payroll	Production (Talking Book Program)
Sam Houston Research Center	Information Services/Cataloguing	Accounting
	Information Resources Technologies	Purchasing
	Library Resource Sharing Library Development	Archives
		Reading Services (Talking Book Program)
		Records Management Assistance

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The Grants Management area will be assessed separately to determine the annual audit and review procedures necessary to ensure compliance with state, federal and TSLAC requirements.

The areas recommended for internal audit and other functions to be performed for fiscal year 2014 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>
1.	Fixed Assets Management
2.	Information Resource Technologies
3.	Record Center Services/Document Imaging Services
4.	Other Activities- Grants Management
	Follow-up of Prior Year Audits
	Other Tasks Assigned by the Commissioners, Audit Committee, or management

In the prior 3 years, internal audits were performed in the following areas:

### Fiscal Year 2013:

- Information Resources Technologies Division
- Administrative Services
  - Vendor Contracting Process
  - Travel Expenditures
  - Accuracy of Employee Data Reporting
- Grants Management
  - Central Texas Library System
  - Houston Community College System
  - Dallas Public Library
  - Schulenburg Public Library
- Follow-up to the Internal Audit of the Sam Houston Regional Library & Research Center

### Fiscal Year 2012:

- Information Resources Technologies Division
- State and Local Record Management
- Grants Management Policies and Procedures
- Grants to North Texas Library Partners
- Grants to the City of San Antonio, San Antonio Public Library
- Follow-up to the SAO July 2010 Audit Report
- Grants Management Desk Reviews
  - Brownsville Public Library
  - Gateway to Libraries
  - Smithville Public Library
  - Arlington Public Library

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- Weatherford Public Library
- Georgetown Public Library
- El Paso Community College
- Texas Archive of the Moving Image

Fiscal Year 2011:

- Information Resources Technologies Division
- Sam Houston Regional Library and Research Center
- Grants Management
  - Grants to the City of Houston, Houston Public Library
  - Grants to the City of Amarillo, Amarillo Public Library
  - Desk review of “other grant recipients” who received less than 3 percent of all grant funds individually but collectively received 35 percent of all grant funds.

List of Audits Completed by High Level Audit Objectives

Report No.	Report Date	Name of Report	High Level Audit Objectives
1	4/17/2014	Fixed Assets Management	The objective of the audit was to determine whether the processes and controls in place over the Fixed Assets Management area are adequate to compile data needed to accurately report information in the SPA system and ensure compliance with applicable State guidelines and established policies and procedures.
2	3/17/2014	Information Resource Technologies Division	The objective of our audit was to determine if TSLAC’s established policies, procedures, and processes in place, as applicable to the IRT Division, are sufficient to ensure compliance with the most significant requirements of TAC Rule 202.21 and to follow-up on prior year TAC 202 findings.
3	6/30/14	Record Center Services/ Document Imaging Services	The objective of our audit was to gain an understanding of the processes in place at the State Records Center and to determine compliance with applicable sections of the Texas Government Code and TSLAC’s policies, procedures, and current practices.
4	7/31/14	Grants Management	The objective of our audit was to gain an understanding of the Grants Management Area’s practices and processes in place to ensure compliance with established policies and procedures; and applicable Federal and State laws and regulations.

**III. Consulting and Nonaudit Services Completed**

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Audit Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards, December 2011 Revision*, Sections 3.33-3.58.

**IV. External Quality Assurance Review**

The internal audit department's most recent *System Review Report*, dated October 26, 2012, indicates that its system of quality control has been suitably designed and conforms with the applicable professional standards in all material respects.

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**V. Follow up on prior years Findings & Recommendations**

Report No.	Report Date	Name of Report	Findings/Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
	8/31/13	Performance Audit Report on the Internal Audit of Limited Scope Desk Reviews of Selected Grantees	<p><u>Follow-Up of Prior Year Audits</u></p> <p>Following is the status of the recommendations made in previous fiscal years that had not been fully implemented.</p> <p><b>1. Financial Reporting (Financial Status Report (FSR))</b></p> <p>There are 3 grantees which have similar open comments related to providing accurate and timely financial data to support the FSRs as determined by the prior auditors:</p> <ul style="list-style-type: none"> <li>• <b>Central Texas Library System</b> The grant agreement between TSLAC and the Central Texas Library System (CTLS) requires CTLS to submit reports that are timely, accurate and consistent with definitions. The Financial Status Reports (FSRs) submitted contained variances between the FSR and the supporting general ledger (GL). However, the aggregate variance was a \$190.02 understatement in expenses reported.</li> <li>• <b>Houston Community College System</b> Houston Community College System (HCCS) did not submit on a timely basis a quarterly FSR to Texas State Library and Archives Commission (TSLAC). The report was 3 months late.</li> <li>• <b>Smithville Public Library</b> The Smithville Public Library inadvertently understated the expense reported in its first quarter (Q1) Financial Status Report (FSR) by \$900. The error occurred because the library lacked adequate procedures to reconcile the FSR to accounting records and supporting documentation at the end of each reporting period.</li> </ul> <p>Grantees should enhance the processes and procedures for preparing and reviewing quarterly FSRs to ensure expenses reported agree to the reimbursement requests submitted and the supporting grantee general ledger to ensure timely and accurate reports.</p>	<b>Fully Implemented</b> FSR reporting from sub-recipients are accurate and timely; however, sub recipient monitoring requirements are a continuing compliance requirement.	Improved Sub-recipient Monitoring

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	8/31/13	Performance Audit Report on the Internal Audit of Limited Scope Desk Reviews of Selected Grantees	<p><b>2. Programmatic and Performance Reporting</b></p> <p>There are 6 grantees which have similar open comments related to providing accurate and timely data for purposes of programmatic and performance measure reporting requirements:</p> <ul style="list-style-type: none"> <li>• Dallas Public Library The Dallas Public Library reported certain measures inaccurately for the Special Projects grant and the Impact Grant. Two of the inaccuracies were minor. For Q1, the library reported 23 librarians trained or assisted compared to the documented number of 22. For Q2, the library reported 2,989 books and other materials provided to local libraries compared to the documented number of 2,982. For Q2 of the Special Projects grant, the library reported 19 librarians trained or assisted (defined to include all library staff) compared to documentation which showed the correct number to be 36. The library reported only librarians and did not include other library staff as defined in the instructions. For the Impact Grant, the library reported 602 persons provided grant-funded programs or services in Period One. Documentation showed the actual number to be 580 persons. The variance was due to minor timing errors. The number of librarians trained or assisted was reported as 14 compared to the documented number of 24. This error was due to reporting a unique count rather than a non-unique count.</li> <li>• Central Texas Library System The Central Texas Library System (CTLS) over reported materials provided to local libraries by 25 items based on the support provided. In addition CTLS over reported the number of librarians trained or assisted. For Q1, CTLS reported 48 librarians trained or assisted compared to documentation that 30 librarians were trained or assisted.</li> <li>• Houston Community College System The Houston Community College System (HCCS) underreported the number of persons attending Cooperation grant funded programs for Q2 by 23 people.</li> <li>• Schulenburg Public Library The Schulenburg Public Library under reported the Q1 performance measure by 37 people receiving library sponsored services. In addition, the Q1 performance measure was under reported by 49 people. Based on review of the documentation the discrepancy was mainly caused by omitting three weeks of activity.</li> </ul>	<b>Substantially Implemented</b> Sub recipients tested were compliant except that HCCS provided incomplete supporting documentation.	Improved Sub-recipient Monitoring

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	8/31/13	Performance Audit Report on the Internal Audit of Limited Scope Desk Reviews of Selected Grantees	<ul style="list-style-type: none"> <li>• Gateway to Libraries Gateway to Libraries (GtL) underreported the number of person provided library project sponsored services in the Q1 and Q2 performance reports for SFY2012 by 33 and 6 persons respectively. Additionally, GtL under reported the number of librarians trained or assisted in the Q1 and Q2 performance reports by 99 and 4 librarians trained or assisted respectively.</li> <li>• El Paso Community College El Paso Community College (EPCC) over reported its Q1 and Q2 performance reports for performance measure 2, (the number of persons provided library project-sponsored services) by 51 and 143 persons, respectively. The counts were later supported by letters from certain participating organizations however the support provided was not timely or compiled on a contemporaneous basis.</li> </ul> <p>Libraries receiving grant funds from TSLAC should use a tracking mechanism to ensure the accuracy of their performance status reports. Adequate, verifiable documentation must be available to support all performance measures reported to TSLAC.</p> <p>Contemporaneous attendance logs, rosters, sign-in sheets, surveys or similar documents are acceptable to document programmatic and performance reporting requirements.</p> <p><b>3. Reporting Requirements Instruction and Guidance from Texas State Library &amp; Archives Commission</b></p> <p>TSLAC could enhance guidance provided to libraries related to the performance measure reporting requirements. The official definition of the performance measure for "Librarians Trained and Assisted" includes librarians and non-librarians in the count. Certain projects included librarians only in the count, while others included non-librarians. In addition, some projects counted only individuals trained while others included both trained and assisted individuals in the count.</p> <p>The data gathered could vary by project however the guidance referred to the measure by title only. Providing more detailed guidance would help ensure that counts are consistent among all grantees.</p>	Fully Implemented	Improved sub-recipient monitoring

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	8/31/13	Performance Audit Report on the Internal Audit of Limited Scope Desk Reviews of Selected Grantees	TSLAC should review and consider clarifying performance reporting guidance provided to grantees. We also recommend that TSLAC provide additional guidance regarding documentation expectations. For example, are sign-in sheets required at events? Are headcounts acceptable in lieu of rosters or sign-in sheets? If head counts are acceptable, what documentation should be prepared and retained? In addition to name of event, date, location, number of people counted, name and title of person counting, TSLAC should consider requiring that two people perform the headcounts and sign off on the documentation.		
	5/29/13	Report on Internal Audit of Travel Expenditures	<p><b>4. Travel</b></p> <p>The Administrative Services internal audit performed in FY 2013 resulted in the following recommendations:</p> <ul style="list-style-type: none"> <li>• TSLAC management should revise travel guidelines to clarify that either the employee's supervisor or Division Director may approve Travel Authorization Requests and travel vouchers, i.e., that both signatures are not required.</li> <li>• TSLAC management should consider requiring approval of travel vouchers submitted by the State Librarian.</li> </ul>	<b>Fully Implemented</b>	Efficiency of Administrative Operations and Enhanced Internal Control

**VI. Proposed Internal Audit Plan for Fiscal Year 2015**

The risk assessment performed during the 2014 fiscal year was used to identify the following *proposed* areas and functions that are recommended for inclusion in the internal audit plan for fiscal year 2015. The Internal Audit Plan for fiscal year 2015 will be developed and presented to the Commissioners at a meeting to be determined at a later date.

- Information Resources Technologies Division
- Grants – Sub-recipient Monitoring Follow-up
- Library Resource Sharing
- Information Services/Cataloging
- Sam Houston Research Center Follow-up
- Other Tasks Assigned by the Commissioners, Audit Committee, or management

**VII. External Audit Services Procured in Fiscal Year 2014**

TSLAC procured the internal audit services documented in the Internal Audit Plan for fiscal year 2014.

**VIII. Reporting Suspected Fraud and Abuse**

TSLAC has provided information on its home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. TSLAC has also developed a Fraud Policy that provides information on how to report suspected fraud, waste, and abuse to the SAO.

**IX. Organizational Chart**

