

Summary of Request:

The Texas Internal Audit Act (Act) requires a state agency that receives over \$10 million or more in revenue and has more than 100 employees must comply with the Texas Government Code, Section 2102.005 and conduct a program of internal auditing that includes an annual internal audit plan.

Historical Perspective:

Prior to the 2012/2013 biennium, the Texas Board of Nursing (BON) was required to complete an annual risk assessment and file the form with the Office of the State Auditor. The BON in previous fiscal years, employed Larry Vinyard to conduct various audits that the agency considered high risk. In the 82nd Legislative session, the Texas Board of Nursing received additional appropriations and staff. The BON will now have over \$15,000,000 in annual revenue and will have the ability to hire up to 107.7 full time staff. The Board voted in their January, 2012 meeting to secure the services of Rupert & Associates as the agency internal auditor.

Pros: The Board of Nursing will be in compliance with the Texas Internal Audit Act.

Cons: None.

Staff Recommendation:

Board Action: Move to accept the internal audit plan as prepared by Rupert & Associates for fiscal year 2012.



BOARD OF NURSING

INTERNAL AUDIT PLAN

Fiscal Year 2012

Prepared by:
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Certified Public Accountants
Austin, Texas

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March 8, 2012

Board Members
Board of Nursing (BON)

The following document presents the proposed fiscal year 2012 Internal Audit Plan for the Board of Nursing, in accordance with the Texas Internal Auditing Act.

Chapter 2102 of the Government Code requires that the internal audit plan be risk-based and include areas identified through a risk assessment process. This document presents the internal audit guidelines, risk assessment results, the proposed audit plan, and a summary of the internal audits performed in recent years at BON.

The FY 2012 Internal Audit Plan that follows is submitted for your review and approval.

Respectfully,

Rupert & Associates, PC

Certified Public Accountants
Austin, Texas

The Texas Internal Auditing Act

The Texas Internal Auditing Act (Texas Government Code, Chapter 2102) requires all state agencies receiving appropriations or pass-through funds of \$10 million or more or those agencies with more than 100 employees to conduct a program of internal auditing. The internal audit function must conform to the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing*, the Government Accountability Office's (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act. The Act requires that the internal audit function includes:

- An annual audit plan that is prepared using risk assessment techniques and that identifies the individual audits to be conducted during the year; and
- Periodic audits of the agency's major systems and controls, including
 - accounting systems and controls,
 - administrative systems and controls, and
 - electronic data processing systems and controls.

This act requires the governing board of the state agency to appoint an internal auditor. The act further states that the internal auditor shall:

1. Report directly to the state agency's governing board;
2. Develop an annual audit plan;
3. Conduct audits as specified in the audit plan and document deviations;
4. Prepare audit reports;
5. Conduct quality assurance reviews in accordance with professional standards and periodically take part in a comprehensive external peer review; and
6. Conduct economy and efficiency audits and program results audits as directed by the state agency's governing board.

The program of internal auditing conducted by a state agency must provide for the auditor to have access to the administrator and be free of all operational and management responsibilities that would impair the auditor's ability to review independently all aspects of the state agency's operation.

The annual audit plan developed by the internal auditor must be approved by the state agency's governing board or its designee, or by the administrator of a state agency without a governing board.

The internal auditor will prepare reports of audits conducted and include management's responses to audit recommendations. The state agency's governing board and the administrator must review those audit reports. The auditor submits a copy of each report reviewed by the agency's governing body to the Budget Division of the Governor's Office, the State Auditor, the Legislative Budget Board, and the Sunset Commission. Each report is filed no later than the 30th day after the date the report is submitted to the state agency's governing body.

In addition to individual audit reports, the auditor will prepare an annual report that summarizes agency internal audit activities for the year. The auditor must submit the report before November 1st of each year to the governor, the Legislative Budget Board, the Sunset Advisory Commission, the state auditor, the state agency's governing board, and the administrator. The state auditor prescribes the form and content of the report, subject to the approval of the legislative audit committee.

Internal Auditing Professional Standards

In addition to the Texas Internal Auditing Act requirements, the *International Standards for the Professional Practice of Internal Auditing* requires the internal audit activity to evaluate the effectiveness and contribute to the improvement of risk management processes. The internal audit activity must evaluate risk exposures, including the potential for the occurrence of fraud and how it is managed. The auditor assists the organization in maintaining effective controls by evaluating the effectiveness and efficiency of the risk management process and by promoting continuous improvement. Specifically, the internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization'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.

Internal auditors are required to ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished.

The internal audit activity also must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization,
- Ensuring effective organizational performance management and accountability,
- Communicating risk and control information to appropriate areas of the organization,
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

Internal auditors must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

The internal audit activities and the internal audit plan for the Board of Nursing are designed to meet the guidelines for the internal audit function as stated above.

Risk Assessment Methodology

The Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing requires that internal auditors develop an audit plan based on the assignment of risk. The Audit Universe is a subjective assessment of auditable areas within the Texas Board of Nursing (BON). To identify the Audit Universe at BON, we reviewed the agency’s current risk assessment. The following auditable areas are listed in order of priority to the achievement of BON’s goals and objectives:

1. Enforcement
2. Human Resource Management
3. Information Technology
4. Finance and Accounting
5. Purchasing
6. Education Program Approval
7. Licensing

Purpose

A risk assessment provides management and board members with a prioritized list of risks associated with the activities of the agency. From these risks, a management strategy is developed. The risk assessment allows the Board to identify the risks being monitored by management and evaluate the effectiveness of controls and responses to those risks. The risk assessment provides a foundation from which policies and procedures and the annual internal audit plan are built.

Concepts of Risk

Risk is defined as the level of exposure to uncertainties that an agency must comprehend and manage to effectively and efficiently achieve its objectives and execute its strategies.

Methodology

The Board of Nursing’s risk assessment process includes three parts: (1) identifying agency activities; (2) identifying and rating risks for each activity; and (3) identifying actions taken to mitigate those risks. The annual risk assessment update contemplates additional risks to be added and considers additional controls put in place. The resulting risk assessment footprint is used to identify the highest risk areas for audit planning.

Risk Footprint

The risk assessment footprint in Exhibit 2 reflects the current risks as identified and ranked during the risk assessment process. Each risk identified in the matrix is assigned two risk factors of High, Medium, or Low. The two assigned factors are based on 1) the impact the risk would have on the agency if it occurred and 2) the probability of occurrence. By combining these measures the agency develops a priority ranking for each risk factor. The following key provides the level of risk management that should be employed for each potential risk factor ranking:

- HH, HM – Extensive Risk Management that includes monitoring by management and an internal audit.
- HL, MH – Considerable Risk Management that includes monitoring by management and a less in depth audit.
- MM, ML, LH – Manage and monitor the risk
- LM, LL – Monitor or accept the risk

Results

The results of the risk assessment shown in the agency's 'risk footprint' (Exhibit 2) illustrate the prioritization and organization of consolidated activities and risk factors assigned in the risk assessment process. The risk assessment was performed by the Board of Nursing management team and an audit plan was developed to address risk factors that might inhibit the agency's ability to meet its mission, strategic plan, goals and objectives.

The red areas on the risk matrix represent the highest rated risks at the agency. Risks in the red area require monitoring and oversight controls by division directors and executive management to ensure that the supervisory and execution level controls are working. Because these areas are within the highest risk category requiring extensive risk management, an internal audit should also be performed on these areas.

The yellow category of risk requires that division directors or a designee perform oversight controls to ensure that supervisory and monitoring controls are working. If internal audit provides services in this area, it is to ensure that oversight of the supervisory controls are appropriate and are being performed.

For risks falling within the green category, unit heads reporting to division directors should provide oversight to ensure that the supervisory controls and operating controls are working. Department managers report to the executive management on the condition of these risks.

Gray risk areas represent low risk areas. Unit heads should ensure they are using supervisory controls to monitor the execution controls in these areas.

Internal Audit Plan for Fiscal Year 2012

The areas of concern identified by the agency for inclusion in the FY-2012 internal audit plan are:

1. Audit existing performance measures for the Texas Peer Assistance Program for Nurses (TPAPN);
2. Review, analyze and report findings on the TPAPN third party financial audit;
3. Audit BON Enforcement procedures with respect to disciplined, new and accepted nurse students;
4. Report to the BON for evaluation of any other program areas of concern.

The audit methodology includes analysis, review, evaluation and/or testing of:

1. Organizational structure and responsibilities
2. Written policies and procedures
3. Control activities related to the audit area
4. Oversight functions in the audit area

As part of our audit activities we will:

1. Obtain an understanding of the processes in place by conducting interviews and requesting background information;
2. Identify the criteria needed to evaluate matters subject to the audit;
3. Identify potential sources of data to be used as audit evidence;
4. Consider the results of any previous audits or attest engagements;
5. Meet with management to establish audit objectives;
6. Plan, implement, and report on audit activities and make recommendations.

The Internal Audit annual activities include a follow-up review of the current status of any prior year internal audit recommendations that have not been completed or implemented.

Exhibit 1: Risk Assessment Footprint

Report Distribution Page

Board Members

Kristin K. Benton, MSN, RN – President, Board of Nursing
Tamara Cowen, MSN, RN – Designated Board Liaison to Internal Audit

Board of Nursing

Katherine Thomas, MN, RN, Executive Director
Mark Majek, Director of Operations

Oversight Agencies

Governor’s Office of Budget, Planning, and Policy
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