

**Summary of Request:**

The Texas Internal Audit 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 and report. Attached is a report on the outcomes of the annual internal audit conducted by Jaye Stepp, CPA.

**Historical Perspective:**

The Board voted at the October, 2016 board meeting to approve the Internal Audit Plan for fiscal year 2017 which included a Human Resource Audit and Ethics Evaluation.

**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 annual internal audit report as prepared for fiscal year 2017.



# **TEXAS BOARD OF NURSING**

**Fiscal Year 2017**

## **INTERNAL AUDIT ANNUAL REPORT**

Prepared by:  
**E. J. Stepp, CPA**  
Internal Auditor  
Austin, Texas

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**E. J. STEPP, CPA**

305 CARGILL DRIVE, SPICEWOOD, TEXAS 78669-2450

October 26, 2017

Executive Committee Members  
Texas Board of Nursing

Internal Audit is pleased to submit the Internal Audit Annual Report of the Texas Board of Nursing for the year ended August 31, 2017 in accordance with *Texas Government Code, Section 2102.009* and specific guidelines established by the Texas State Auditor's Office.

This report provides information on the assurance services, consulting services, and other activities of the internal audit function at the Board of Nursing during the 2017 fiscal year.

Respectfully,

*Jaye Stepp*

E. Jaye Stepp, CPA, CIA, CGAP, CRMA  
Internal Auditor for Texas Board of Nursing  
Austin, Texas

EC: Governor's Office of Budget, Planning, and Policy  
State Auditor's Office  
Legislative Budget Board  
Sunset Advisory Commission

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The Texas Internal Auditing Act requires agencies to submit an internal audit annual report each year to the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor's Office (SAO), and the agency's governing board and chief executives.

The Internal Audit Annual Report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, the annual internal audit report is due by November 1 of each year. The following information is reported in the format prescribed by the SAO.

### **I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Website**

TGC 2102.015 requires state agencies to post certain information on their Internet websites. At the time and in the manner provided by the state auditor, a state agency shall post the following information on its Internet website:

- (1) The approved internal audit plan, as required by TGC §2102.008.
- (2) The internal audit annual report required by TGC §2102.009

The above reports are considered to be approved if they are approved by the agency's governing board.

TGC 2102.015 also requires entities to update the posting described above to include the following information on the website:

- A 'detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns, if any, raised by the audit plan or annual report.'
- A 'summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report.'

BON complies by posting the approved Internal Audit Plan and Annual Internal Audit Report on the BON website within 30 days after review and approval by the Board. No additional weaknesses or concerns resulting from the audit plan or annual report were identified for posting on the BON's Internet website. The following link is provided to the reports: [http://www.bon.texas.gov/about\\_publications.asp](http://www.bon.texas.gov/about_publications.asp)

Individual audits in 2017 resulted in three recommendations from the Human Resources Management Audit. Management has already implemented additional training on risk awareness offered to staff online and management is monitoring participation rates. A recommendation regarding completeness of documentation is being addressed, and the

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consideration of additional resources directed toward the HR function is also being considered. All other prior year audit recommendations have been implemented. Internal Audit also conducted an advisory service by

### **II. Internal Audit Plan for Fiscal Year 2017**

The FY-2017 audit plan was completed as proposed with no deviations from the audit plan as submitted in the FY-2016 Annual Internal Audit Report. Audit Reports presented to the Board and provided to the oversight agencies upon approval included:

#2017-1 Human Resources audit to assess the effectiveness of the Human Resources function and to ensure regulatory compliance resulted in three audit recommendations related to additional training for staff, closer scrutiny of required documents in personnel files, and increased resources for the human resources function. Management agreed with and has acted upon the recommendations made.

### **III. Consulting Services and Non-Audit Services Completed**

The Internal Auditor performed one advisory project which would be considered a consulting engagement, as defined in *The International Standards for the Professional Practice of Internal Auditing*, and non-audit services, as defined in *Government Auditing Standards, 2011 Revision*, Sections 3.33 – 3.58.

An Ethics Evaluation (Report #2017-2) was conducted as an advisory project in FY-2017, ensuring compliance with the IIA Standard 2110.A1 which provides, “the internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.” The evaluation used the IIA Maturity Model. The project evaluation of the design, implementation, and effectiveness of the BON’s ethics-related objectives, programs, and activities supports an overall maturity rating of “Repeatable” (Level 2). This level of maturity includes compliance and ethics practices established with some policy structure, but high reliance on existing personnel creates exposure to change. In some areas BON activities support a “Defined” (Level 3) maturity rating. This level encompasses ethics awareness and overall compliance, where gaps are detected and remediated timely. The BON can mature its Ethics Program with suggestions in the report.

### **IV. External Quality Assurance Review (Peer Review)**

The Texas Board of Nursing had their first external Quality Assurance Review in FY-2015, in accordance with professional standards and the Internal Auditing Act. The External Quality Assurance Review was performed by a qualified, independent internal audit consultant and was completed in May of 2015. The overall opinion of ‘generally

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conforms', which is the highest of three possible ratings, was reported to the Board at their July 2015 meeting.

The agency will undergo an external Quality Assurance Review in this fiscal year to comply with the Internal Auditing Act, and the more restrictive guidance of the Government Auditing Standards, rather than the five-year requirement of the IIA. All suggested actions from the 2015 QAR have been implemented by the Internal Auditor, as reported previously.

**V. Internal Audit Plan for Fiscal Year 2018**

The fiscal year 2018 Internal Audit Plan is being presented at the October 2018 Board meeting for approval. The areas of concern identified in the annual risk assessment update, and included in the proposed internal audit plan are:

1. An audit of the processes and controls around Licensing activities. In the aftermath of Hurricane Harvey the BON has seen increased requests for temporary licenses and other changes that increase risk around this process. This area has not been previously audited at BON.
2. An external Quality Assurance Review (QAR or peer review) of the internal audit activity at the Board of Nursing, as required by *Standards* and due in this fiscal year.
3. Follow up on prior audit recommendations implementation status.

The available time for all internal audit activities is approximately 192 hours. My estimate of how these hours translate into specific activities follows:

- Risk Assessment Update & Annual Audit Plan 15 hrs.
- Other Required Reports – Annual, QAIP, ARTS 16 hrs.
- Engagement Planning, Performance, and Reporting 150 hrs.
- Admin & Quality Control Procedures 7 hrs.
- Board Meetings 4 hrs.

The risk footprint, which is included as an exhibit in the annual Internal Audit Plan, shows any additional audit risks ranked as “high” that are not included in the fiscal year 2018 Internal Audit Plan. The risk assessment methodology consists of an annual meeting with or survey of management to update the risk assessment footprint and control tables. Input is also solicited from the State Auditor’s Office and Board liaisons. The risk footprint is updated and used to guide the selection of specific audit areas for the current year. The risk assessment methodology is described in greater detail in the Internal Audit Plan document that is provided to management, the Board, oversight agencies, and posted on the agency website.

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**VI. External Audit Services Procured in Fiscal Year 2017**

External audit services procured in fiscal year 2017 consisted of the internal audit function.

**VII. Reporting Suspected Fraud and Abuse**

In accordance with the fraud reporting requirements of Section 7.09, page IX-39, the General Appropriations Act (84th Legislature), and Texas Government Code, Section 321.022, the Texas Board of Nursing has posted information on how to report suspected fraud, waste or abuse of state funds on their website. This link will take you to the fraud reporting information: [http://www.bon.texas.gov/about\\_rpt-fraud.asp](http://www.bon.texas.gov/about_rpt-fraud.asp)

The BON also includes information on the prevention and detection of fraud in their Fraud Policy which is available in the human resource manual which is distributed to all staff.

TGC 321.022, Coordination of Investigations, is also addressed in BON's Fraud Policy, which states:

“If the Executive Director determines that: (a) the findings warrant referral to outside enforcement and/or prosecutorial agencies, of (b) money received from the state by the BON may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operations of the BON, then Mark Majek or the Executive Director, where appropriate, will contact such agencies, including the State Auditor's Office, and fully cooperate with them.”

This concludes the Annual Internal Audit Report for the Board of Nursing for FY-2017.

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**Report Distribution Page**

**Texas Board of Nursing**

Kathy Shipp, MSN, RN, FNP, Board President  
Deborah Bell, CLU, ChFC, Board Liaison for Internal Audit

Katherine Thomas, MN, RN, FAAN, Executive Director  
Mr. Mark Majek, Director of Operations

**Oversight Agencies**

Governor's Office of Budget, Planning, and Policy  
[budgetandpolicyreports@gov.texas.gov](mailto:budgetandpolicyreports@gov.texas.gov)

Legislative Budget Board  
[audit@lbb.state.tx.us](mailto:audit@lbb.state.tx.us)

State Auditor's Office  
[iacoordinator@sao.texas.gov](mailto:iacoordinator@sao.texas.gov)

Sunset Advisory Commission  
[sunset@sunset.texas.gov](mailto:sunset@sunset.texas.gov)