



TEXAS BOARD OF NURSING

Internal Audit Report #2019-1

Purchasing, Contracts, and Financial Reporting Follow-up Audit

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Acronyms and Abbreviations

- AFR Annual Financial Report
- BON Board of Nursing
- CAFR Comprehensive Annual Financial Report, Statewide
- CAPPS Centralized Accounting & Payroll/Personnel System
- CMBL Centralized Master Bidders List
- CPA Comptroller of Public Accounts
- CTP Certified Texas Purchaser
- CTCM Certified Texas Contract Manager
- ESBD Electronic Services Business Daily
- HUB Historically Underutilized Business
- IA Internal Audit
- IIA Institute of Internal Auditors
- IPPF International Professional Practices Framework, IIA’s
- LBB Legislative Budget Board, Texas
- OI Opportunity for Improvement
- PCMG Procurement and Contract Management Guide, Texas
- SAO State Auditor’s Office
- SPA State Property Accounting System
- SPD State Procurement Division, CPA
- USAS Uniform Statewide Accounting System
- VPT Vendor Performance Tracking

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Internal Audit Report

June 19, 2019

Texas Board of Nursing

The following report provides the results of the internal audit's follow up of the prior audit recommendations in Purchasing, Contract Management and Financial Reporting. The agency's guidance and practices were compared to the Texas Procurement and Contract Management Manual for evaluating compliance. Prior internal and external audit report recommendations were reviewed to evaluate effectiveness of implementation.

We conducted this audit in accordance with *Generally Accepted Government Auditing Standards* and the *International Professional Practices Framework* of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Overall, based on the results of our review and testing, controls in place at BON provide reasonable assurance of compliance and effective methods of implementation of state laws. There were five findings from this project; several of them are repeat items. Audit recommendations are included within the report.

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Executive Summary

Audit Purpose

The Annual Internal Audit Plan for the BON identified areas for audit and review by evaluating their annual risk assessment update. The Internal Auditing Act, Texas Government Code §2102.005, requires periodic audits of the agency's major systems and controls, including accounting systems and controls. An identified need to follow up on prior internal and external audits of the Finance and Accounting section allows the BON to simultaneously satisfy the Act's requirement.

The specific topics identified for audit in the FY-2019 BON Internal Audit Plan included three areas for review: 1) Purchasing, 2) Contract Management, and 3) Financial Reporting. Primary responsibility for performance in each of these areas falls to the Finance and Accounting division of the agency, supervised by the Director of Operations.

Internal Audit at the BON previously audited the Finance area in 2015, with a scope limited to contracts. In 2016, the BON's financial processes were audited by the Office of the State Auditor. Also, in 2016, the Comptroller's office performed a Post-Payment audit at the BON, which covered Purchasing, Revenue, Payroll, Travel, Fixed Assets, internal control structure, and security. Each of these reports were reviewed and a list of recommendations to the agency was compiled.

The overall purpose of this audit is to follow-up on the Finance and Accounting Division's processes and controls over purchasing, contracts, and financial reporting activities. Objectives for each area were to determine if prior audit recommendations have been implemented and are effective; if processes comply with guidance; and if accurate information is submitted timely, with appropriate oversight.

Overall Conclusion

Documented procedures are in place, providing internal guidance on the activities under audit. Our audit findings related to gaps in procedures: missing approvals on payments, missing documentation for purchases, and inconsistent external reporting on contracts. Most of these findings are repeat findings and could be eliminated with enhanced written procedures to guide consistent performance.

Significant improvements were noted since the prior audits, but there are still opportunities for strengthening agency guidance through procedures. The issues noted did not impact the accuracy of the financial statements but represent weaknesses in processes that allowed gaps in performance.

Objectives, Scope, and Methodology

The following audit objectives were developed and agreed-upon by the auditor and the client.

Audit Objective A – Purchasing Controls: Evaluate the controls over activities related to Purchasing at BON based on identified criteria.

Audit Objective B – Purchasing Reporting and Communications: Review and evaluate the processes for communications and reporting to management and the board on matters related to purchasing.

Audit Objective C – Contract Management. Evaluate the controls over the contracting activity, including formation, monitoring, and reporting on contracts, to ensure recommendations from prior audits have been implemented.

Audit Objective D – Internal Controls over Financial Reporting. Evaluate the controls over the annual financial reporting activity, including documented procedures and approvals prior to release of the annual financial report.

Scope:

The scope of the audit was limited to activities and data from FY-2018 and FY-2019 year-to-date. Processes and controls under review are those that were in place at that time of sampled items. USAS is the agency's system of record for the audit and the recommendations we are following up on. The agency is currently migrating to the CAPPS system, but those processes were not reviewed for this audit.

Methodology:

Meetings were held with the Accounting Supervisor, the agency Purchaser, the agency's contract liaison from the Legal division, the Accounts Payable staff, and others responsible for purchasing, contracts, and reporting at the BON. We discussed the processes, controls, and responsibilities around these activities at the BON. We requested and reviewed documents including written policies, procedures, and reporting documents and performed test of details on samples from purchasing transactions and from agency contracts and solicitations.

Resources and Criteria:

- Texas Procurement and Contract Management Guide (PCMG)
- Texas State Property Accounting (SPA) Process User's Guide
- Prior Audit Reports:
 - Comptroller's Post-Payment Audit Report, dated 11/28/16
 - SAO Audit of Financial Processes at the BON, #16-022, April 2016
 - BON's Internal Audit Report on Contract Management, #2015-1, 7/2015

Background

The Accounting department at the BON consists of six staff. An Accounting Supervisor, two accountants, one purchaser, and two mailroom clerks. The Legal department has one contract attorney that reviews all contracts prior to execution and works with Accounting staff on developing agency contracts. The Director of Operations provides oversight for the Accounting Department.

Most of the transactions for purchasing and contracts are handled by the same few people, so they are very familiar with the typical agency transactions and controls. We randomly sampled 10% of the total 2018 vouchers for this follow-up. Of those, over half fell into three categories: copies; witnesses; and refunds. Most of the remainder were blanket orders for recurring goods or services, such as office supplies and technology purchases.

Audit Results and Recommendations

The results and recommendations presented in this section represent the conclusions of the internal audit program which was developed based on audit objectives established and agreed upon with the BON management.

Audit Objective A – Purchasing Controls

Evaluate the controls over activities related to Purchasing at BON based on criteria.

Procedures:

Using a random sample of transactions during the scope period, we compared processes and supporting documentation to identified requirements and best practices, along with the BON's policies and procedures. We identified control steps to include in our evaluation of the effectiveness of purchasing processes. We also followed-up on recommendations noted in prior internal and external audits and reviews of agency purchasing procedures.

Results and Conclusions:

Although general controls over procurement processes at the BON are in place, as discussed below, there is room for improvement in several areas. Most of our recommendations fall under a common umbrella of improving the agency's documented procedures. General controls reviewed at the BON include:

- Professional certification and training of staff. The Purchaser at the BON holds appropriate certifications for purchasing and contract management at the BON. Recent training has been focused on migrating to CAPPS.

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- Conflict of Interest statements are filed annually by the Purchaser and now the new staff attorney involved with contracts at the BON.
- Documented policies and agency-specific procedures related to Purchasing, Contract Management and Annual Financial Reporting were provided for the audit. The documented procedures offer opportunities for improvement in that they are not organized in a systematic way with review dates and numbered sections. Thus, dates of implementation or periodic reviews are not verifiable. In addition, some procedures do not identify responsible persons, include all relevant steps, or oversight functions.

The need for improved written documentation in procedures has been a repeat issue at the BON, but it should be noted that there has been significant improvement, especially with the Contract Management Handbook that has been put in place. However, there are opportunities to improve their effectiveness. A standardized procedures system ensures a user can find information without having to scan every page and heading. A process to ensure timely review and update of procedures, evidenced by dates of review and/or update would ensure the procedures remain consistent and timely with changing technologies and complete information on steps to be taken.

Texas Government Code §2261.56(b) provides that each state agency must develop and comply with a purchasing accountability and risk analysis procedure. As part of this, each state agency must publish a contract management handbook that establishes consistent contracting policies and practices to be followed by the agency and that is consistent with the Guide. The BON's Contract Management Handbook was updated in July of 2018 and is posted on the BON website. It has been filed with the Comptroller's office, as required, where a link to the BON's Handbook is available from their website. The BON Handbook is consistent with the Guide.

Texas Government Code §2161.22(a) requires each agency to maintain and compile monthly information relating to the agency's use of historically underutilized businesses (HUBs). Each agency must submit, not later than March 15 of each year regarding the previous six-month period and on September 15 of each year regarding the preceding fiscal year, the total dollar amount of HUB and non-HUB contracting participation in all of the agency's contracts. A visit to the Comptroller's site confirmed the filing of HUB data with the Comptroller's office for FY-2018. The BON reported that HUB expenditures accounted for approximately 23% of commodity purchasing at the agency. BON's reporting on HUBs meets state requirements.

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Compliance issues were noted in the following areas:

Texas Administrative Code, Section 5.51(e)(2)-(3) requires a three-way match to be performed on the purchase order, invoice and receiving report to ensure the description, quantity and pricing information agree. Missing support documentation was mostly in the form of approvals to pay, receiving reports, and requisitions.

Texas Government Code §2155.132(c); 34 TAC §20.132(b) provides that each agency must complete an agency procurement plan that identifies its management controls and purchasing oversight authority in accordance with the policy guidance contained in the PCMG. Agencies must email a current procurement plan to SPD annually by November 30. The BON's Procurement plans have not been filed for FY-18 or FY-19.

Follow-Up on Prior Reports

External audits conducted in recent years by the Comptroller of Public Accounts (CPA) and the State Auditor's Office (SAO) identified weaknesses in processes at the BON. Results from our tests of transactions showed some areas where we did not find the same issues, while other areas exhibited continued deficits:

Issue / Finding	Comptroller 11/28/16	SAO 16-022 04/30/16	BON #2019-1 06/19/19
Incorrect amounts paid	X		
PO's created after invoice	X		
Incorrect procurement process	X		
Missing procurement documentation: CMBL listings	X	X	X
Inconsistently follow P/P re approvals		X	X
Incorrect coding of assets in USAS		X	
Payments that exceeded total contract		X	
Following the proper bidding process		X	
Revenue: segregation; 3-day deposit		X	X
Internal controls, systems access	X		OI

The Centralized Accounting and Payroll/Personnel System (CAPPS) integrates uniform statewide accounting in Texas agencies. The CAPPS system is being implemented by the BON as this audit was being conducted. CAPPS will address the missing documentation to a great extent. Agencies using CAPPS are required to provide information related to solicitation and contracting according to requirements adopted in rule by the Comptroller. The system requires appropriate

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documentation to be in place prior to processing payments, including the 3-way match documents. CAPPs will require –

- Requisitions prior to purchase orders
- Departmental approvals prior to payment
- Receiving documents / acknowledgments

Recommendations, Objective A:

Recommendation #2019-1-01: Written Procedures Formalized *Medium impact*
Written procedures were provided for Purchasing, Contracts, Travel, and the AFR preparation. The procedures were not numbered or dated, so we were unable to determine how old they were, or if they had been reviewed or updated at any point. With the implementation of CAPPs, all procedures will need to be reviewed and updated to reflect new processes, including new control steps.

Management Response: #2019-1-01: Written Procedures Formalized

Responsible Manager: Director of Operations & Accounting Manager

Target Implementation Date: February 28, 2020

Action Plan: Agency internal procedures will be formalized. With the implementation of CAPPs, our processes and controls will need to be updated. Procedures will include systematic organization and revision dates so that changes can be tracked. Agency personnel will work with a contractor to review and update the agency internal written procedures.

An updated Contract Procurement and Management Policy and Procedure Handbook will be developed to ensure consistency in the contract procurement process. Board Staff will also include dates and version numbers in this new policy.

Recommendation #2019-1-02: Prior Recommendation Follow-Up *Low Impact*

- SAO-16 Deposits not made timely – some deposits are still not made timely. The delay has to do with reviewing receipts prior to deposit.
- Missing support documents – CAPPs will require prior to payment
- Security access weakness – set up DAFR 9840 Risky Docs report

Management Response: #2019-1-02: Prior Recommendation Follow-Up

Responsible Manager: Accounting Manager

Target Implementation Date: February 10, 2020 for deposits, CAPPs has already addressed other issues.

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Action Plan: Our new licensing system, ORBS, will be implemented in February 2020. All renewals and other fees will be paid online. This will reduce the in-house payments received and therefore resolve the issue with deposits not made timely, while having to review receipts before deposit.

CAPPS processes require a requisition and purchase order prior to making a voucher payment. Internally we require other supporting documentation such as order forms, receiving/packing slips, and approvals prior to making payment.

CAPPS security does not allow any one person to enter a payment and then release that payment. These controls are already set up in CAPPS and are more stringent than USAS security controls. However, with the limited personnel in the Accounting area, it makes it more difficult for separation of duties at times.

Recommendation #2019-1-03: Prompt Payment Interest *Low Impact*

Prompt payment interest is being incurred due to untimely receipt of invoices and receiving documents in Accounting. Review and improve the process for Enforcement / Licensing staff to review receipts, identify / classify, and communicate to Accounting.

Management Response: #2019-1-03: Prompt Payment Interest

Responsible Manager: Accounting Manager

Target Implementation Date: September 1, 2019

Action Plan: The agency has already begun to request that vendors send invoices to our Accounting group email. Most vendors do send their invoice this way. Accounting is then aware that an invoice has been received. We will then follow up with agency approvers if we have not received within 2 weeks of the due date. The agency has only incurred 15 cents of interest in FY 2018 and \$16.31 in FY 2019. The increase in FY 2019 is mainly due to learning the new aspects of getting vouchers through CAPPS approval workflow and ready for payment.

Audit Objective B – Reporting and Communications

Review and evaluate the processes for communications to management and the board on matters related to purchasing. Evaluate reporting processes for required reports to external agencies (SPA, Vendor Performance, etc).

Results and Conclusions:

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Internal expenditure reports are regularly presented to the Board by the Director of Operations. We were able to pull reports from the BON website for comparison to supporting documents. We were provided with underlying reports that fully supported the samples pulled. These reports are system generated and there were no issues identified in the preparation of quarterly expenditure reports.

External reports on expenditures include the following:

1. SPA - State Property Accounting

The Property Manager certifies the SPA inventory as correct annually, through an online submission. The Property Manager and the IT Network Specialist perform the agency's duties related to capital asset inventory, tracking, and reporting to the State Property Accounting (SPA) system.

The Comptroller provides specific comp objects for assets identified for both capitalization and expensing. SPA calculates depreciation and amortization expense and accumulated depreciation amortization for all assets that are depreciable and meet the capitalization thresholds.

The agency's capital expenditures are usually made at the end of the fiscal year, so the final adjusting entry to SPA is usually made after fiscal year-end. However, the FY-18 asset adjustment entry to SPA was not made until February of 2019. Similarly, FY-17 assets received in October of 2017 were not added to the SPA system until October of 2018. The missing entry was noted during the AFR preparation process and corrected at that time.

Agency level SPA procedures should ensure SPA entries are made within a reasonable time frame from receipt of the asset to ensure accurate SPA data. A complete physical inventory should take place annually to ensure assets are accurately reported. Capital expenditures are limited at the BON and generally IT-related. Timely reporting to SPA as part of the year-end closing process could eliminate these late adjustments. A SPA procedure documenting coordinated responsibilities between the IT staff and others with the property manager would help.

A comparison of the SPA controlled inventory report at 8/31/18 to the 2017 asset disposal list found at least 25 asset numbers listed in both reports. Some of the assets on the disposal list did not include an asset number so we were unable to verify those specific assets. The disposed items are held in the IT offices, waiting for state specified vendors to pick them up, resulting in valuable workspace being occupied as storage areas for surplus property.

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Because these controlled items are expensed as purchased, it does not impact the financial balances reported in the agency's AFR. Capital expenditures reported in Note 2 of the AFR shows an increase in capital expenditures of \$70,501. We were able to verify the total reported as additions to capital expenditures and the reclassification adjustment.

2. Vendor Performance Tracking System reporting

TGC §2155.089 requires agencies to report vendor performance for purchases over \$25,000 from contracts administered by the CPA or any other purchase over \$25,000 made through delegated authority granted by CPA. Agencies are also encouraged to report vendor performance on purchases under \$25,000 and associated with purchase orders issued throughout the life of a contract, not just at its conclusion.

We looked at the BON's reporting on vendor performance under both the purchasing reporting objective and at the contracts follow-up objective of this audit. Reporting for both was found to be inconsistent and incomplete. Agency development of expanded procedures with identification, reporting triggers, and adequate oversight to ensure these reporting procedures are part of the process.

3. Historically Underutilized Business (HUB) Reporting

HUB reporting is required twice a year, based on expenditures. The Purchaser reports on the HUB activity, through the Comptroller's portal. We went to the Comptroller's website to obtain information to verify that the BON's reports have been filed. The agency is listed as a participant and the report dated 10/24/2018 was available on the web. There were no issues with the HUB reporting.

Recommendation, Objective B:

Recommendation #2019-1-04: Procedures SPA *Medium Impact*

The BON should develop internal procedures for SPA communications, reporting, and oversight to avoid delays in reporting asset acquisitions to SPA. Discrepancies between assets listed on the BON inventory and asset numbers listed in the 2017 Asset Disposal list suggest an inventory and reconciliation of controlled assets at BON. A step to have the Accounting Supervisor review asset data prior to SPA certification would provide better oversight.

Management Response: #2019-1-04: Procedures SPA

Responsible Manager: Director of Operations/Accounting Manager/Property Manager

Target Implementation Date: October 1, 2019

Action Plan: Agency internal SPA procedures will be formalized. As a starting point, BON internal listing of controlled assets will be compared with SPA listing and reconciling entries made in the appropriate system. With the implementation of CAPPs, capitalized and controlled assets can be coded accordingly and will be fed into the Asset Management module. Entries into the AM module of CAPPs can be uploaded into SPA through batch processes.

Audit Objective C – Contracts Management

We conducted a follow-up to the IA 2015 Contracts Management and the external reports mentioned previously to determine if recommendations had been implemented. The objective was to evaluate controls over the contracting activity, including formation, monitoring, and reporting on contracts to ensure controls are in place and recommendations from prior audits have been implemented.

Procedures:

We gained an understanding of the key components of the BON's contract management process and collected necessary information to determine the effectiveness of their activities. We obtained a complete listing of contracts entered during FY18 and selected a random sample from list provided. We tested for compliance with required supporting documentation for contracts and solicitations.

Results and Conclusions:

A "Contract" is defined by the State of Texas Contract Management Guide as, "A written agreement where a contractor provides goods or services and the agency pays for such goods and services in accordance with the established price, terms and conditions." In CAPPs, a contract record can be created as a Purchase Order record, a Procurement Contract record or a mixture of both.

The following chart shows original recommendations or findings from prior audits and the results of our follow-up work in these areas. An "X" indicates a weakness or finding from prior and current work. A blank field indicates we did not find the same condition in this audit as identified in the prior audits.

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Recommendation	BON IA #2015-1 Contracts 07/10/15	SAO #16-022 04/30/16	BON IA #2019-1 Follow- Up 06/19/19
Centralized location for all contracts	X		
Accounting should track all contract budgets	X		
COI filed annually by CTP / CTCM / Legal	X		
Vendor Performance reporting to CPA	X	X	X
Contract reporting requirements to LBB	X		X
Consistent treatment of contracts	X		
Contract template's required clauses	X	X	
Contract payments exceed contract limits		X	
Maintaining documentation for evaluation and selection of contractors		X	X

Contracts are maintained electronically by the Legal division and are shared with the Accounting division staff, based on need. All contracts are monitored budgetarily through the agency accounting systems. The centralized location of the contracts in shared files and the monitoring methods used by Accounting appropriately address prior findings at the BON. CAPPs will provide built-in controls over contract formation and monitoring.

The Purchaser holds Certified Texas Contract Developer (CTCD) and Certified Texas Contract Management (CTCM) certifications. His conflict of interest filings for the last three years were verified. The attorney assigned to contracts at the BON has also signed a conflict of interest statement for her work related to contracts and procurement.

TGC §2155.089 requires agencies to report vendor performance for purchases over \$25,000 from contracts administered by the CPA or any other purchase over \$25,000 made through delegated authority granted by CPA. Agencies are encouraged to report vendor performance on purchases under \$25,000 and associated with purchase orders issued throughout the life of a contract, not just at its conclusion. Agencies are to report using the Vendor Performance Tracking System (VPTS) at the CPA Portal. Accurately reporting contractor performance allows agencies to share vendor information and facilitates better oversight of state contracts (e.g., aid in identifying vendors that have exceptional performance, protect the State from vendors with unethical business practices).

Agencies are also required to report contracts that exceed certain thresholds to the LBB Contracts Database. Relevant to the BON, the rule includes professional or consulting services exceeding \$14,000 and contracts over \$50,000. Contracts are to be entered into the LBB database within 10-30 days of contract award. The

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submission must include any required documentation such as the solicitation documents, contract documents, and attestation letters. These reporting requirements are fulfilled through the LBB Contracts Database located on the LBB website. The database provides transparency to the public in the procurement process.

Per the PCMG, agencies must post contracts that are not posted to the LBB on their agency websites. The posting is to include the contract, until it expires or is completed, the authority under which a contract is not competitively bid; and the Request for Proposal (RFP) related to a competitively bid contract. The BON has posted contract templates for these positions rather than an RFP. BON should review their contracts to ensure all posting requirements are met.

The BON's Contract Procurement and Management Handbook covers both VPT reporting and LBB reporting requirements, so the reporting requirements are already documented in procedure. Our tests of details found two contracts greater than \$50,000 that were not reported to VPTS. Similarly, we found several contracts that were not reported to the LBB database. The most recent entry to the LBB was in March of 2018. BON's Procedures need to be followed and should include an oversight function.

This is a repeat finding from the 2015 Contracts audit, although the BON did report to the LBB in 2016, 2017, and the beginning of 2018, there have been no entries since March of 2018.

The new contract management handbook at the BON provides adequately for risk assessments in the contracting process. Risks are considered based on several factors, including total value of the contract, type of work to be performed, and past performance.

The small size of the agency means that the same staff are handling all purchases and contracts. They work together, with approvals required at various stages to help ensure consistent handling of contracts. At the BON, 37% of the contracts are for Expert Witnesses, 20% for professional services contracts, 18% for interagency cooperative contracts, 14% for IT, with the remaining 11% made up of other contracts.

Our test of details on the contract files found that the contracts include relevant required and recommended clauses, as applicable to the various types of contracts reviewed. The contract template provides comprehensive coverage of the clauses as outlined in the PCMG.

Solicitation documentation was reviewed for two contracts to determine if sufficient documentation is maintained to support appropriate performance in the solicitation

process. Different types of contracts will have different supporting documentation and approvals. We reviewed a DIR contract for IT staffing services and a solicitation for performance audit services for TPAPN. Both folders contained appropriate documentation, although the CMBL listing wasn't evident. The 'Legal Review' document included with the DIR contract is a great tool for showing due diligence.

Recommendation, Objective C:

Recommendation #2019-1-05: Contracts Reporting *Medium Impact*

The CTCM is responsible for filing the various reports, with oversight from the Legal division. Vendor Performance and LBB database reporting are repeat issues from the 2015 Internal Audit. Improved contract management procedures include a database of contracts at the BON. Enhancements to that database to include fields to identify reporting requirements and trigger a report to meet reporting requirements and include an oversight function to verify submissions are complete.

Management Response: #2019-1-05: Contracts Reporting

Responsible Manager: Contract Manager & Contract Attorney

Target Implementation Date: September 1, 2019

Action Plan: The Contract Attorney maintains the contract database which contains fields for LBB Database reporting and Vendor Performance reporting. These fields help identify reporting requirements on necessary contracts. Agency internal communication will need to be strengthened so that the Contract Manager will know when to report these contracts and feedback should be given from the agency personnel that oversee the contracts so that vendor performance can be accurately reported.

The Contract Attorney provided the following:

- The Board's Contract Management Database identifies which contracts are subject to the Vendor Performance Tracking System as well as those that are required to be reported to the Legislative Budget Board's database.
- Board Staff posts all contracts that are required by law to be posted on the Board's website. If a contract is posted on the LBB's website, it is also posted on the Board's website.
- Contract posting and procurement requirements differ. As such, some contracts that are posted on the Board's website were not required to be competitively bid. For contracts that were required to be competitively bid, the solicitations are included with their corresponding contracts.

Audit Objective D – Financial Reporting

SAO's Report #16-022 found that BON generally had processes and related controls in place "to ensure it administered financial transactions in accordance with applicable statutes, rules, and Board policies and procedures." However, the auditors noted:

The Board should improve certain financial reporting controls. The Board had informal procedures that followed the Office of the Comptroller of Public Accounts' reporting requirements, and it complied with all due dates for submission of its financial information.

However, the Board did not have internal policies and procedures and a documented review and approval process for the preparation of its annual financial report. Establishing policies, procedures, and a review process would help to ensure that the Board's annual financial reports are complete and accurate.

Procedures

Our objectives as a follow-up audit were to collect adequate information to determine the effectiveness of actions taken to address weaknesses identified in the SAO audit of 2016. We interviewed staff and reviewed criteria, procedures and supporting documentation to assess the BON's procedures for financial reporting.

Results and Conclusions

The BON uses the Comptroller's simplified reporting method for their AFR. They make all entries for the AFR, following a checklist on the CPA's website for required reports. Notes to the Financials are based on templates provided by the Comptroller's office, customized to reflect agency circumstances. If something is missing from the submission the Financial Reporting Section of the Comptroller's Office will notify the agency for corrective action.

AFR Procedures are documented at the BON. The BON's procedure references the reader to the Comptroller's reporting requirements and identifies the due date as 10/1 of each year. AFR submission requires entries into various web applications, as applicable to each agency. The BON has developed a checklist of those applications which apply to the BON, and for which entries, reviews, and approvals must be made prior to agency submission of the AFR. Once approved the AFR web application is released to the CPA's financial reporting section and hard copies are distributed accordingly. BON's AFR Procedure calls for review and approval of the AFR prior to submission:

"Before the final AFR is submitted, a review checklist, along with the hard copy of the AFR, will be given to the Director of Operations and the

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Executive Director for review and approval. Once approved the AFR submission package will be submitted to the Comptroller of Public Accounts Financial Reporting Section. Hard copies of the AFR will be submitted to the required oversight agencies as listed in the Comptroller Reporting Requirements.”

The FY-2018 Annual Financial Report for the BON was provided for this audit, along with the web-applications signed approval sheet for the FY18 report and copies of the related web pages as provided to management for review and approval, prior to the report’s submission. The auditor was able to tie the FY-18 AFR financials and notes to the financials presented in the Comptroller’s submissions.

Issues with the underlying supporting data in SPA identified in the previous objective did not impact the accuracy of the AFR at the BON.

Recommendation	SAO #16-022 04/30/16	BON IA #2019-1 Follow-Up 06/19/19
Improve accounting for capital assets	X	X
Develop P/P for preparation of the AFR	X	OI
Improve accounting for construction	X	

CONCLUSION:

Written procedures are in place for the Annual Financial Reporting process that includes internal controls over the financial reporting process. Like other procedures at the BON, a more formal approach to procedures would include systematic numbering and a process to ensure periodic reviews and updates, with archived older editions. The AFR procedures were effective and operational at the BON.

No recommendations specific to this section.

Acknowledgements

The BON Finance and Accounting division staff are experienced in working within the limitations of a small agency with limited personnel. They are knowledgeable in their performance and provided requested audit information, documents, and responses to inquiries in a timely manner. Their input and assistance provided during the audit process is greatly appreciated. It has been a pleasure to work with this team of professionals.

Report Distribution Page

Texas Board of Nursing

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