

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 audit plan, and
- periodic audits of the agency's major systems and controls.

The Act requires the governing board to appoint an Internal Auditor who shall:

- report directly to the state agency's governing board;
- develop an annual audit plan;
- conduct audits as specified in the audit plan;
- prepare audit reports;
- conduct quality assurance reviews; and,
- conduct economy and efficiency audits.

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. This now places the BON in the position of formally appointing an internal auditor and filing an annual audit plan. The agency staff has conducted an informal search and received the attached response from Rupert & Associates for your review.

Pros: Rupert & Associates has over ten years of internal audit experience with state agencies and specifically with a health licensing agency. They also have staff with certification in internal auditing.

Cons: None.

Staff Recommendation:

Board Action: Move to appoint Rupert & Associates as the designated internal auditor for the Texas Board of Nursing for fiscal years 2012 and 2013.

Board Action: Recommend that the Board direct Rupert & Associates to begin implementing the work plan as stated on page 5 of the attached response to the BON request for Quote.



RUPERT & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Mark Majek
Texas Board of Nursing
333 Guadalupe, Suite 3-460
Austin, TX 78701

Please find the following documents presented to you as our response to your request for a quote for internal audit services at the Texas Board of Nursing for fiscal year 2012.

Rupert & Associates Proposal for Internal Audit Services
Rupert & Associates Cost Proposal

If you have any questions about our submission please give me a call at the number shown below.

Thank you for your consideration of our offer, and I hope that we can provide this service to your agency.

Respectfully,



Jaye Stepp, CPA, CIA, CGAP
Audit Partner
Rupert & Associates, PC

1. Proposer's Information:

Company Name: Rupert & Associates, P.C.
Certified Public Accountants

Business Address: 10616 Manchaca Road
Austin, Texas 78748

Contact Person: E. Jaye Stepp, CPA, CIA, CGAP
Audit Partner

Telephone No.: (512) 282-2301

Facsimile No.: (512) 280-6626

Email Address: jstepp@dercpa.com

2. Objectives, Goals and Tasks:

The Texas Internal Audit Act (Texas Government Code, Chapter 2102) describes its purpose as: “to establish guidelines for a program of internal auditing to assist agency administrators and governing boards by furnishing independent analyses, appraisals, and recommendations about the adequacy and effectiveness of a state agency’s systems of internal control policies and procedures and the quality of performance in carrying out assigned responsibilities. Internal auditing is defined as an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

All state agencies receiving appropriations or pass-through funds of \$10 million or more or those agencies with more than 100 employees must comply with §2102.005 of the Internal Auditing Act. The Act requires the agency to conduct a program of internal auditing that 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.

The Act requires the governing board of the state agency to appoint an Internal Auditor who 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 any deviations from the plan;
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.

The Internal Auditor will prepare reports of audits conducted, including management's response to audit recommendations. The state agency's governing board and the administrator must review those audit reports. The Internal Auditor will submit a copy of each report to the budget division of the Governor's Office, the State Auditor, the Legislative Budget Board and the Sunset Commission no later than the 30th day after the date the report is submitted to the Board of Trustees.

The Internal Auditor shall prepare an Annual Report and submit the report before November 1st of each year to the Governor's Office, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor, the state agency's governing board, and the administrator. The State Auditor shall prescribe the form and content of the report, subject to the approval of the legislative audit committee.

The internal audit function shall 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.

In addition to the Texas Internal Audit Act, the *International Standards for the Professional Practice of Internal Auditing* provides a framework of authoritative guidance for conformance with the *Standards*. The Professional Practices Framework 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 and programs,

- Safeguarding of assets, and
- Compliance with laws, regulations, policies, procedures, 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 plan and activities are designed to meet the guidelines for the internal audit function as stated above.

3. Deliverables

Deliverables under the Internal Audit Act include the following documents and reports:

- a. Internal Audit Charter - The *Standards for the Professional Practice of Internal Auditing* state that a formal Internal Audit Charter should define the purpose, authority, and responsibility of the internal audit activity, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The Internal Audit Charter is an agreement between the Texas Board of Nursing's governing body and the Internal Auditor that establishes the guidelines for an effective internal auditing program.
- b. Individual Internal Audit Reports – at the conclusion of each individual audit program a report will be delivered to the agency's governing board or audit committee, reporting on the audit objectives, scope, methodology, conclusions and recommendations.
- c. Audit Recommendation Tracking – a periodic report is presented to the governing body (at least annually) on the current status of prior audit recommendations.
- d. Annual Internal Audit Report – an Annual Internal Audit Report is required to be submitted prior to November first of each year, in a format prescribed by the State Auditor's office. The report provides a summary of all internal audit activity for each fiscal year.

- e. Risk Assessment and Internal Audit Plan – an annual risk assessment is facilitated by the internal auditor and used to develop and annual Internal Audit Plan. The Plan is presented to the governing body for approval annually, prior to implementation.

4. Background and Experience

Rupert & Associates has been providing internal audit services to State agencies since 2001. Some of the agencies that we currently and previously have contracted with to perform the internal audit function include:

- Texas Medical Board (2006 to current year)
- Texas Historical Commission (2008 to current year)
- Texas Council for Developmental Disabilities (2001 to current year)
- State Office of Risk Management (2003 to 2006)
- Texas Commission on Law Enforcement Officer Standards & Education (2002 – 2008)
- State Board of Educator Certification (2001-2004)

In addition to internal audit, our office specializes in providing services to State agencies. Three of the partners in our firm are prior state agency employees, with eight to ten years experience each in state service. Two of the partners worked for the State Auditor’s Office in prior years. Our prior State experience gives us a unique advantage in understanding state systems and processes.

Personnel involved in the project will be:

Jaye Stepp, Audit Partner – Jaye holds the Certified Internal Auditor (CIA) and Certified Government Audit Professional (CGAP) certifications in addition to her Certified Public Accountant (CPA) credentials. Jaye is the primary contact on all internal audit contracts and has been performing internal audit services since 2001.

Cecilia Webb, Auditor – Cecilia has over five years of experience in the audit arena, primarily working on financial audits, including Single Audits, for local governments and non-profit organizations. Cecilia helps with test work and information gathering for internal audits.

Darrell Rupert, Managing Partner – Darrell provides an independent oversight function for the internal audit activities at Rupert and Associates. Darrell holds several certifications, including Certified Public Accountant (CPA), Personal Financial Specialist (PFS), and Certified Financial Planner (CFP). Darrell has been in business with Rupert & Associates since 1985.

Rupert & Associates promotes training that enhances and maintains staff proficiencies. Professional certifications require various levels of continuing education in technical and non-technical areas, as well as ethics. All CPA’s are required to obtain 40 hours of continuing education per year, and our professionals typically exceed those minimum requirements.

5. Work Plan

In the initial year of the contract the auditor will perform audit work on the areas identified in the Texas Board of Nursing’s Request for Quote and based on management’s assessment of risk. In subsequent years the internal audit function would facilitate and agency-wide risk assessment from which an annual internal audit plan will be developed. The areas identified for the first year includes three audits:

1. Audit of 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 of BON Enforcement procedures with respect to disciplined, new and accepted nurse students.

For each audit engagement the work plan will proceed as follows.

- A. The Internal Auditor will meet with the appropriate management of the audit area to develop and agree upon objectives to achieve the audit goals. This is accomplished by conducting an entrance conference prior to beginning each audit.
- B. The Internal Auditor will develop a written audit program based on the stated objectives. After performing the audit program, the auditor will conclude on the results of the audit and issue a draft report to the affected management staff. The Internal Auditor will conduct an exit conference with the appropriate staff, at which time issues noted during the course of the audit will be discussed.
- C. The Internal Auditor will add management responses to any recommendations to the body of the report and issue a final report to management and submit the report for presentation at the next meeting of the governing body. Upon presentation to and acceptance of the report by the governing body, the Internal Auditor will provide copies to all required oversight agencies.

In addition to individual audit engagements and reports, we will also prepare and submit the Annual Internal Audit Report in electronic format at the time prescribed by the State Auditor’s Office to the oversight agencies.

Personnel working on the projects will include Jaye Stepp, who will be the primary contact and will perform the bulk of the work. Cecilia Webb will assist with test work and report writing. Darrell Rupert will provide oversight and final report review. The estimated hours assigned to each individual involved in the project are as follows:

| | | |
|-----------------|-----------|--|
| Background Work | 24 hours | Jaye Stepp |
| Planning | 30 hours | Jaye Stepp |
| Performance | 150 hours | Jaye Stepp and Cecilia Webb |
| Reporting | 30 hours | Jaye Stepp and Cecilia Webb |
| Quality Control | 12 hours | Jaye Stepp, Cecilia Webb, Darrell Rupert |

6. Auditee Participation

The auditee is responsible for making all records and information related to our audit objectives available to us and for the accuracy and completeness of that information. The auditee is also responsible for disclosing any known instances of non-attainment of goals, objectives and program results, operational or process inefficiencies, inaccurate reporting, non-compliance, fraud or abuse, poor customer services, areas of concern, or control weaknesses. Any conflicts of interest should be disclosed, as well as any misstatements of accounting, financial, and operational records, statements and reports. Any planned and on-going initiatives, improvements and enhancements and noted accomplishments should be disclosed. The full cooperation of BON staff is necessary to achieve an effective and efficient audit process.

7. Forms and Documents Required under Informal Solicitation

None required.

8. Signature Authority

Respondent represents and warrants that the individual signing this Proposal is authorized to sign this document on behalf of Respondent and to bind Respondent under any contract resulting from this Proposal.



Jaye Stepp, CPA, CIA, CGAP
Audit Partner
Rupert & Associates, PC
Certified Public Accountants

12/14/11

Date



RUPERT & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Texas Board of Nursing
 ATTN: Mark Majek
Mark.Majek@bon.texas.gov

The cost proposal below reflects our estimated annual cost for performing the internal audit function at the Texas Board of Nursing in conjunction with our response to the TBON request for quotes.

Texas Board of Nursing FY-2012 Internal Audit Cost Proposal

| Tasks | Est Hrs | Est Cost | Personnel |
|-------------|---------|--------------|-----------|
| Background | 24 | \$ 2,412.31 | EJS |
| Planning | 30 | 3,015.38 | EJS |
| Performance | 150 | 15,076.92 | EJS/CW |
| Reports | 30 | 3,015.38 | EJS/CW |
| QC | 12 | 1,206.15 | CW/EJS/DR |
| | 246 | \$ 24,726.15 | |

Respondent represents and warrants that the individual signing this Proposal is authorized to sign this document on behalf of Respondent and to bind Respondent under any contract resulting from this Proposal.



Jaye Stepp, CPA, CIA, CGAP
 Audit Partner
 Rupert & Associates, PC
 Certified Public Accountants

12/14/11

Date