



# **TEXAS MEDICAL BOARD**

## **INTERNAL AUDIT PLAN**

**Fiscal Year 2014**

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## Table of Contents

Transmittal Letter to Board.....	1
Texas Internal Auditing Act.....	2
Internal Auditing Professional Standards .....	3
Risk Assessment Methodology.....	4
Internal Audit Plan & Time Budget.....	6
 EXHIBITS:	
Exhibit 1: Risk Assessment Footprint.....	7
Exhibit 2: Inventory of TMB Internal Audits .....	9
 Report Distribution Page.....	 10



October 18, 2013

Board Members  
Texas Medical Board (TMB)

The following document presents the proposed fiscal year 2014 Internal Audit Plan for the Texas Medical Board, 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, the risk footprint, and a summary of the internal audits performed in recent years at TMB.

The FY 2014 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 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, and the Legislative Budget Board. Each report is filed no later than the 30th day after the date the report is submitted to the state agency's governing body.

**TEXAS MEDICAL BOARD (TMB)**  
Internal Audit Plan – FY-2014

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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 1<sup>st</sup> 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 Texas Medical Board 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 Medical Board (TMB). To identify the Audit Universe, we reviewed prior audit plans, prior risk assessments, and the current risk assessment. The auditable areas were broken down into the following categories, listed in order of priority to the achievement of TMB’s goals and objectives:

1. Licensing
2. Investigations
3. Litigation
4. Compliance
5. Finance
6. Information Resources
7. Human Resources
8. General Counsel
9. Executive
10. Special Projects
11. Public Information

### 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 Texas Medical Board’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 also considers additional controls put in place. The resulting risk assessment footprint is used to identify the highest risk areas for the current year’s audit plan.

## TEXAS MEDICAL BOARD (TMB)

### Internal Audit Plan – FY-2014

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## Risk Footprint

The risk assessment footprint that follows reflects the current risks as identified and ranked by the risk assessment process. Each risk identified in the matrix is assigned two risk factors of High, Medium, or Low 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

A risk assessment update was performed in September of 2013 with members of the Texas Medical Board's management team. They were asked to identify changes in controls, risks and risk rankings based on changes in processes, systems, environment, key personnel, etc. Risks factors are anything that might inhibit the agency's ability to meet its mission, strategic plan, goals and objectives. The results of the risk assessment update are shown in the agency's 'risk footprint' (Exhibit 1). The footprint illustrates the prioritization and organization of consolidated activities and the risk factors assigned to each in the risk assessment process. The updated risk assessment was used for planning the Internal Audit Plan.

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 department heads 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 2014**

The proposed audit area is the processes and controls around Mail Processing and Cash Receipts Controls, areas under the Finance division that ranked high on the agency risk footprint. A review of the processes and controls over activities in these areas will evaluate the effectiveness and efficiency of those procedures and make recommendations for improvement. This audit will concurrently satisfy the requirement for the internal audit activity to perform periodic audits of the agency's major systems and controls, including accounting systems and controls.

Audit objectives include analysis, review, evaluation and/or testing of:

1. Organizational structure and responsibilities
2. Written policies and procedures
3. Controls 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 Plan concludes with a follow-up review of the current status of any prior year internal audit recommendations that have not been completed.

The internal audit budget allows for approximately 190 hours of work. The estimated time budgets for internal audit activities at the TMB for FY-2014 are:

- Risk Assessment Update & Annual Audit Plan 20 hrs
- Activity Reporting – Periodic, Annual, QA 20 hrs
- Audit Planning, Performance, and Reporting 120 hrs
- Follow Up on PY Recommendations 10 hrs
- Quality Control Procedures 8 hrs
- Management Meetings 8 hrs
- Board Meetings 4 hrs



**TEXAS MEDICAL BOARD (TMB)**  
Internal Audit Plan – FY-2014

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Exhibit 2: History of Internal Audits at TMB

2013	Governance
2012	Human Resources Data Security
2011	Public Outreach and Communications Options
2010	Information Resources: Laserfiche Audit
2009	Purchasing: Accounts Payable & Encumbrances
2008	Information Resources Infrastructure
2007	Executive / All Departments - Communications to outside entities
2006	Finance Division: Organization & Staffing
2005	Review of Electronic Data Processing Systems Workflow Analysis Report
2004	No audits performed
2003	Best Practices: Efficiency of Operations

**TEXAS MEDICAL BOARD (TMB)**  
**ANNUAL INTERNAL AUDIT REPORT – FY-2013**

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**Report Distribution Page**

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