

Texas Medical Board

IA# 2021-01 Internal Audit Report over Revenue Report

Date: February 23, 2021

Issued: February 25, 2021

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This report presents the results of the internal audit procedures performed for Texas Medical Board (TMB) during the period of October 1, 2020, through February 23, 2021, relating to the revenue processes of the agency.

The objectives of the internal audit were to evaluate the design and effectiveness of Texas Medical Board's revenue process as follows:

- Determine whether internal controls over revenue processes are in place to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.
- Verify that controls over critical revenue processes are operating effectively and according to Texas law and TMB policy.
- Verify access controls within the systems used for revenue processes ensure that access is restricted to appropriate individuals.

To accomplish these objectives, we conducted interviews with personnel responsible for the Revenue process. We also reviewed documentation and performed specific testing procedures to assess controls. Procedures were performed remotely and were completed on February 23, 2021.

The following report summarizes the findings identified, risks to the organization, recommendations for improvement and management's responses.

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February 23, 2021

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Background

The Texas Medical Board (TMB or the Board), its four affiliated boards, and two advisory committees, are responsible for regulating the practice of medicine in Texas in order to protect the public's safety and welfare. The Board collects revenue for license renewals, registrations, disciplinary fees, and jurisprudence examinations for licensed practitioners in the State of Texas. The Automated Budget and Evaluation System of Texas (ABEST) reported a total projected budget of \$27.9 million in revenue for 2020 from TMB's general revenue fund, \$27.3 million projected from medical exams and registration fees; \$616,150 from health related professional fees.

The Texas Occupations Code (TOC) Sec. 153.051 establishes the maximum fees that TMB may collect for various revenue streams including licenses, registration permits, temporary licenses, renewals, physician-in-training permits, and other areas. This section of the TOC also establishes the requirement of TMB to define, in rule, reasonable and necessary fees in the amounts sufficient to cover the cost of administering the program established in the subtitle. Chapter 175, title 22, part 9 of the Texas Administrative Code (TAC) establishes these rules, and provides a framework for the fees that TMB collects. This chapter (TAC) includes the following parts: application and administrative fees, registration and renewal fees, penalties, fee exemption for military service member, military veteran, or military spouse, and payment of fees or penalties.

Revenue is predominantly collected through TMB's website and routed directly to the Comptroller of Public Accounts (CPA). The Information Technology Department at TMB follows procedures established by the Texas Department of Information Services (DIR) to create Uniform Statewide Accounting System (USAS) coding blocks from TMB hosted applications and work directly with DIR to test the configuration of coding blocks.

Coding blocks facilitate revenue transactions on TMB's website including the collection of payments and routing of revenue to the CPA. Revenue collected on TMB's website is automatically input into USAS by the CPA approximately 3 days after the payment is collected. As part of this process, daily batches are generated by TMB into the licensure systems for registration and renewals payments, and the respective departments work these queues on a daily basis. TMB Finance and Information Technology Departments ensure that agency object codes, compt. object, program cost account, and appropriation numbers are correct within coding blocks, and verify with DIR that revenue transactions are rolling-up appropriately into USAS.

Revenue is also collected via a manual process by which checks are mailed directly to TMB and a Revenue Analyst from the Finance Department inputs the transaction directly in to the Centralized Accounting and Payroll/Personnel System (CAPPS). Deposits are prepared every three business days, reviewed by the Finance Manager, and then dispatched via courier to the CPA. These payments include hard copy renewals from individuals who prefer to *not* make their payments online, late fees for licensee types not in the AMS Licensure System, and payments from Pain Management Clinics.

Sanctions and remedial plans (i.e. disciplinary fines) are another source of revenue at TMB, and the authority to collect these fees is outlined in the Texas Administrative Code Rule §190.14, and Texas Occupations Code Sec. 164.0015. Sanctions are determined by examining information obtained after a full investigation of a complaint was presented by litigation staff at an informal settlement conference (ISC).

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If a settlement is recommended and offered to the physician an agreed order is drafted that can include a sanction. If a recommended settlement offer is declined then the case is taken to State Office of Administrative Hearings (SOAH) and a trial is conducted. After the trial, a proposal for decision (PFD) and findings of fact and conclusions of law are prepared by SOAH. Sanction determinations are made by TMB, but any sanction must be made with consideration for the Findings of Fact and Conclusions of Law in the PFD.

Fees, penalties, and fine amounts are regulated by the TOC and TAC and do not change frequently. Recent changes include the implementation of CAPPs and the transfer of Occupational Programs from the Department of State Health Services (S.B. 202). The financial implementation of CAPPs required agencies to change program cost accounts (PCAs) used by DIR, and since PCAs are imbedded in coding blocks USAS testing was required. Additionally, coding blocks were configured and tested with DIR for S.B. 202 regulatory programs (Medical Physicists, Medical Radiologic Technologists, Perfusionists, and Respiratory Care Practitioners) once these programs were transferred to TMB in 2015.

Audit Objective and Scope

The audit focused on the processes in place over the receipt, recording, and tracking of revenue at the Texas Medical Board (TMB). We reviewed the procedures in place for appropriate risk and regulatory coverage, compliance, and to ensure efficient and effective processes. Key functions and sub-processes within the Revenue process reviewed included:

- License/Registration/Health Related Profession/Pain Management Clinic Fees
- Penalties and Fines
- Material Purchases (rules/books)/Records (Data store)

The scope of this engagement did not include:

- Legislative Appropriations Requests / General Appropriations Act
- Payment Processing
- Cash Management
- Budget and Planning

Our procedures were designed to ensure relevant risks were covered and we verified the following:

License/Registration/Health Related Profession/Pain Management Clinic Fees

- Fees were periodically evaluated for appropriateness
 - Fees were authorized by the appropriate personnel
 - Fees were configured accurately in licensing systems
 - Access to modify fees was appropriately restricted
 - Discounts and fee waivers were reviewed and approved
 - Fees were recorded to the correct license and licensee
 - Fees were recorded accurately and completely
 - Fees were recorded in the proper period
 - All appropriate fees were collected
 - Revenue was reconciled on a periodic basis
-

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Penalties and Fines

- Penalties and fines were periodically evaluated for appropriateness
- Penalties and fines were authorized by the appropriate personnel
- Penalty and fine adjustments or waivers were authorized by appropriate personnel
- Penalties and fines were recorded to the correct license and licensee
- Penalties and fines were recorded accurately and completely
- Penalties and fines were recorded in the proper period
- All penalties and fines were collected
- Revenue was reconciled on a periodic basis

Material Purchases (rules/books)/Records (Datastore)

- Prices were periodically evaluated for appropriateness
- Prices were authorized by the appropriate personnel
- Prices were configured accurately in licensing systems
- Access to modify prices are appropriately restricted
- All revenue is collected
- All sales have correct price
- Revenue is reconciled on a periodic basis

Executive Summary

Through our interviews, evaluation of internal control design, and testing of transactions we identified three findings. The listing of findings include those items that have been identified and are considered to be non-compliance issues with documented Texas Medical Board policies and procedures, rules and regulations required by law, or where there is a lack of procedures or internal controls in place to cover risks to the Texas Medical Board. These issues could have significant financial or operational implications.

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A summary of our results, by audit objective, is provided in the table below. See the Appendix for an overview of the Assessment and Risk Ratings.

Overall Assessment		Satisfactory
Scope Area	Result	Rating
<p>Objective A: Determine whether internal controls over revenue processes are in place to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.</p>	<p>We identified 15 controls to be in place within the Revenue process. However, there are opportunities to strengthen the processes and control environment by:</p> <ul style="list-style-type: none"> • Implementing procedures for reconciling revenue between CAPPs, USAS, and TMB Licensure Systems. • Test USAS coding blocks when transaction amounts are changed as per the CPA requirement. • Periodically evaluate fees every four years as required by the Administrative Procedures Act. • Retain Daily Activity Financial Report (DAFR) documentation to substantiate work performed, managerial review, and audit purposes. 	Satisfactory
<p>Objective B: Verify that controls over critical revenue processes are operating effectively and according to Texas law and TMB policy.</p>	<p>Controls over Revenue processes are in place to mitigate relevant risks associated with revenue processes.</p>	Strong
<p>Objective C: Verify access controls within the systems used for revenue processes ensure that access is restricted to appropriate individuals.</p>	<p>Access to all TMB's key applications for revenue processes appear to be appropriately restricted.</p>	Strong

Two other opportunities for improvement were identified through our interviews, evaluation of internal control design, and transactional testing. These observations are not considered to be a non-compliance issue with documented agency policies and procedures. These are considered process improvement observations and the intent for the recommendations is to strengthen current agency processes and controls. These observations were provided to management separately.

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Conclusion

Based on our evaluation, the Finance and Information Technology Departments have procedures and controls in place to effectively manage the significant revenue processes within TMB. However, opportunities exist to improve the effectiveness of the controls within the Revenue processes.

Specifically, TMB should implement procedures to reconcile revenue between CAPPs/USAS and licensure systems to ensure accuracy and reporting of revenue. Additionally, TMB should retain the support for the USAS DAFR reconciliations that are performed.

TMB should implement procedures to formally review fee amounts every four years, as required by the Administrative Procedures Act.

Follow-up procedures to validate remediation efforts will be performed as part of the fiscal year 2022 internal audit plan.

**Detailed Procedures Performed, Findings,
Recommendations and Management
Response**

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Detailed Procedures Performed, Findings, Recommendations and Management Response

Our procedures included interviewing key personnel within the Finance Department to gain an understanding of the current processes in place, examining existing documentation, evaluating the internal controls over the process, and testing the effectiveness of the controls in place. We evaluated the existing policies, procedures and processes in their current state.

Objective A: Control Design

Determine whether internal controls over revenue processes are in place to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.

Procedures Performed: We gained an understanding of current Revenue processes by conducting interviews and walkthroughs with key personnel, reviewing existing policies, procedures, and sample documents used by Revenue personnel, and assessing TMB's operating procedures to identify key controls. We examined key controls over the following sub-processes:

- License / License Renewal Fees
- Penalties and Fines
- Materials Purchases (JP exam)

We evaluated the controls identified against expected controls to determine whether the identified Revenue processes and internal controls are sufficiently designed to mitigate the critical risks associated with the Revenue processes. We identified any unacceptable risk exposures due to gaps in the existing control structure as well as opportunities to strengthen the effectiveness and efficiency of the existing procedures.

Results: We identified 15 controls in place over the significant activities within Revenue. We identified three findings where improvements in the process can be made.

Process Area	Control Coverage	Findings / Observations
Revenue Process		
License / License Renewal Fees	7	Finding 1 Finding 2 Finding 3
Penalties and Fines	4	
Material Purchases (JP exam)	4	
Total	15*	3

***Duplicate Control:** The total number of controls identified was 7. However, based on their design, controls address risks in multiple processes. We have mapped 7 unique controls to the processes in which they mitigate the risks.

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Finding 1 – Low – Daily Activity Financial Report (DAFR) Documentation:

TMB did not retain documentation from USAS for DAFR reports from fiscal year 2020 and as a result, Weaver was unable to verify that the Finance Department performed the required reconciliations. DAFR supporting documentation for suspense/default fund adjustments was removed from the Uniform Statewide Accounting System (USAS) at the end of the fiscal year (September 30, 2020) by the CPA, and TMB did not retain supporting documentation.

On a monthly basis, the CPA moves revenue transactions in to suspense accounts if they encounter errors in the transaction processing; credit card charge backs and data entry errors are examples that trigger a transaction to be moved into suspense. TMB Finance balances these revenue accounts by querying the State Internet Reporting System (SIRS), and generates reports from the Uniform Statewide Accounting System (USAS) to identify transactions in suspense. TMB Finance resolves the report errors from the SIRS query by reviewing the transaction detail in USAS or by cross-functional analysis with IT, registration, and the licensure departments.

We verified no outstanding items were present in the system for 2021, but were unable to view the data from 2020 as it was cleared from USAS at the end of the fiscal year.

Recommendation: TMB management should revise procedures to include maintaining documentation that supports the reconciliations performed to clear suspense/default accounts. This should include sufficient detail such as the cause of the error and the actions taken to remediate. Additionally, a review of the DAFR reporting adjustments should be performed by the department manager.

Management's Response: We agree with the condition identified. Due to unanticipated personnel changes in the CFO position during the course of the audit cycle, we will work with the new CFO to develop a plan to address the finding after the position is filled on June 1, 2021.

Responsible Party: TMB CFO

Implementation Date: August 31st, 2021

Finding 2 – Moderate – CAPPs/USAS Reconciliation

TMB does not perform a reconciliation of the revenue transactions between CAPPs and USAS to verify that the total amount of revenue reported from the CPA in CAPPs/USAS matched the revenue in the licensure systems.

Recommendation: TMB management should implement procedures to perform a monthly revenue reconciliation between USAS, CAPPs, and Licensure systems. This reconciliation should also include adjustments necessary for revenue recognition to ensure that all revenue is reported in the correct period.

Management's Response: We agree with the condition identified. Due to unanticipated personnel changes in the CFO position during the course of the audit cycle, we will work with the new CFO to develop a plan to address the finding after the position is filled on June 1, 2021.

Responsible Party: TMB CFO

Implementation Date: August 31st, 2021

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Finding 3 – Low – Periodic Fee Evaluation

TMB has not evaluated fees that are specified in rule (TAC Chapter 175) every four years as per the requirement of the Texas Occupations Code Sec. 2001.039 - Administrative Procedures Act.

Licensing fees, penalties and fines are set at a statutory maximum and do not exceed the cap set by statute (TOC 153, 164, and 165 respectively). Section 153 also grants TMB the authority to set reasonable and necessary fees or penalties in amounts sufficient to cover the cost of administering the subtitle. Fees that are established in rule are detailed in the Texas Administrative Code, Chapter 175 below:

§175.1 - Application and Administrative Fees

§175.2 - Registration and Renewal Fees

§175.3 - Penalties

§175.4 - Fee Exemption for Military Service Member, Military Veteran, or Military Spouse

§175.5 - Payment of Fees or Penalties

As per the Administrative Procedures Act (TOC Sec. 2001.039), state agencies are required to review rules every four years.

Recommendation: TMB should implement procedures to review established fees in accordance with the Administrative Procedures Act. Fees could be evaluated against the current statutes and then presented to agency management or the Board, once the review is complete.

Management's Response: The review of the fees are currently done after each legislative session "as needed" based bills passed. An example is the assessment of PMP fee to physicians and PAs as result of funding mandate that TMB pay a certain portion of the PMP costs to the Pharmacy Board. TMB will continue to review fees after each legislative session. The General Counsel's office is aware of the need for a review every four (4) years under the APA. GC has already planned to review all rules before the end of FY 22, including Rule 175 related to fees. Once the comprehensive review is completed GC will implement a review system to ensure a 4-year cycle is undertaken as required.

Responsible Party: Scott Freshour, TMB GC

Implementation Date: August 31st, 2021

Objective B: Control Testing

Verify that controls over critical revenue processes are operating effectively and according to Texas law and TMB policy.

1. **Procedures Performed:** One coding block change was implemented and tested by TMB and the CPA during the scope period (March 1, 2019, through August 31, 2020). This coding block change was the result of the 84th Regular Legislative Session, HB7, which repealed Texas Occupations Code 153.053, and this repeal resulted in a fee change of \$400 for the physician renewals. We reviewed the process and verified the following:

- The nature of the change was driven by the Legislature, board approval, and/or a Rule change.
- The fee amount was consistent with applicable regulatory guidance (Texas Occupations Code & Texas Administrative Code).

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- TMB submitted the coding block change to TX.gov for review and approval including the three days of error-free processing.
- Licensure system fees were updated and included the new charge.

Results: No findings identified.

2. **Procedures Performed:** We judgmentally selected a sample of five Administrative Penalties that were assessed during the scope period (March 1, 2019, through August 31, 2020), and interviewed TMB General Counsel to gain an understanding of existing processes and controls related to the assessment and collection of fees. Additionally, we tested these samples and verified the following:

- Physician sanction information was available on TMB's website for each selection.
- Administrative penalty amounts were included on the Final Order or Agreed Order from TMB's website.
- The fee amount that was determined by TMB aligned with the sanction fee guidelines as per 22 TAC 190.14.
- The administrative penalty amount that was collected, per the licensure system, matched the Agreed Order or Final Order.

Results: No findings identified.

3. **Procedures Performed:** We randomly selected 25 of 889 refunds that were issued during the scope period (March 1, 2019, through August 31, 2020), and verified the following:

- A Refund Request Form was completed for the applicant/licensee.
- The Refund Request Form was approved by TMB Management.
- The refund amount per the Refund Request Form was accurate and matched the licensure system.

Results: No findings identified.

Objective C: User Access Testing

Verify access controls within the systems used for Revenue processes ensure that access is restricted to appropriate individuals.

1. **Procedures Performed:** We obtained listings of personnel with access systems to update or modify revenue data and a current listing of all TMB active employees. We evaluated the level of user access within each system to verify the user's access is reasonable and appropriate based on their current job function.

We also verified whether user access is reviewed periodically to ensure user access rights for active users are appropriate.

Results: No findings identified.

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The appendix defines the approach and classifications utilized by Internal Audit to assess the residual risk of the area under review, the priority of the findings identified, and the overall assessment of the procedures performed.

Report Ratings

The report rating encompasses the entire scope of the engagement and expresses the aggregate impact of the exceptions identified during our test work on one or more of the following objectives:

- Operating or program objectives and goals conform with those of Texas Medical Board
- Texas Medical Board objectives and goals are being met
- The activity under review is functioning in a manner which ensures:
 - Reliability and integrity of financial and operational information
 - Effectiveness and efficiency of operations and programs
 - Safeguarding of assets
 - Compliance with laws, regulations, policies, procedures and contracts

The following ratings are used to articulate the overall magnitude of the impact on the established criteria:

Strong

The area under review meets the expected level. No high risk rated findings and only a few moderate or low findings were identified.

Satisfactory

The area under review does not consistently meet the expected level. Several findings were identified and require routine efforts to correct, but do not significantly impair the control environment.

Unsatisfactory

The area under review is weak and frequently falls below expected levels. Numerous findings were identified that require substantial effort to correct.

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Risk Ratings

Residual risk is the risk derived from the environment after considering the mitigating effect of internal controls. The area under audit has been assessed from a residual risk level utilizing the following risk management classification system.

High

High risk findings have qualitative factors that include, but are not limited to:

- Events that threaten TMB's achievement of strategic objectives or continued existence
- Impact of the finding could be felt outside of TMB or beyond a single function or department
- Potential material impact to operations or TMB's finances
- Remediation requires significant involvement from senior TMB management

Moderate

Moderate risk findings have qualitative factors that include, but are not limited to:

- Events that could threaten financial or operational objectives of TMB
- Impact could be felt outside of TMB or across more than one function of TMB
- Noticeable and possibly material impact to the operations or finances of TMB
- Remediation efforts that will require the direct involvement of functional leader(s)
- May require senior TMB management to be updated

Low

Low risk findings have qualitative factors that include, but are not limited to:

- Events that do not directly threaten TMB's strategic priorities
- Impact is limited to a single function within TMB
- Minimal financial or operational impact to the organization
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk