



An Audit Report on

Financial Processes at the Texas Board of Nursing

April 2016
Report No. 16-022



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Overall Conclusion

The Texas Board of Nursing (Board) generally had processes and related controls in fiscal year 2015 to ensure that it administered financial transactions in accordance with applicable statutes, rules, and Board policies and procedures. However, it should improve certain controls over purchases and contracting, financial reporting and asset management, payroll and travel, and revenue. It also should document and consistently follow its policies and procedures for financial processes. Specifically:

- **Purchases and contracting.** The Board generally had adequate controls over its purchasing process; however, it did not consistently (1) follow its policies and procedures related to required approvals, (2) retain required documentation to support purchases, and (3) code purchases correctly in its accounting system. Auditors also identified instances in which the Board exceeded established total contract amounts.
- **Financial reporting and asset management.** The Board had informal procedures for its financial reporting that followed the Office of the Comptroller of **Public Accounts' reporting requirements; however, the Board did not** document those procedures. It also did not document the review and approval of its annual financial report to ensure that report met all requirements and was accurate and complete. As a result, auditors **identified inaccuracies in the capital assets and depreciation in the Board's** fiscal year 2015 annual financial report. Those inaccuracies occurred because the Board did not report asset purchases in the State Property Accounting (SPA) system for more than six years (reporting that information is necessary for the Board to accurately capture capital assets and depreciation in its annual financial report).

In addition, the Board recorded a \$250,000 advance payment for future construction to its facility as an expense under repairs and maintenance in its fiscal year 2015 annual financial report. However, because the Board did not have a work plan and budget that described the work to be performed, it did not have the information necessary to determine whether it should have (1) expensed that payment or (2) processed that payment as a capital

Background Information

The Legislature established the Texas Board of Nursing (Board) in 1909. The Board regulates the practice of nursing in Texas, including licensing, enforcement, and education program approval. It is governed by a 13-member board that includes industry and consumer representatives.

In fiscal year 2014, the Board reported that there were 390,984 current nursing licenses in Texas.

For the 2016-2017 biennium, the Board received appropriations totaling \$23.8 million, which represented a 33 percent increase from the 2014-2015 biennium. The Board was authorized to have 124.7 full-time equivalent employees for the 2016-2017 biennium.

Sources: The Board and General Appropriations Acts (83rd and 84th Legislatures).

This audit was conducted in accordance with Texas Government Code, Sections 321.0131 and 321.0132.

For more information regarding this report, please contact Jim Timberlake, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

expenditure. After it determines the nature of the work to be performed, the Board should determine how to record that payment in its accounting records and work with the Office of the Comptroller of Public Accounts to determine whether it should report the improvements in SPA. That will enable the Board to ensure that it accurately reports capital assets and depreciation in its annual financial report.

- **Payroll and travel.** The Board generally had controls to ensure that it processed payroll and travel expenditures in accordance with state statutes and rules. The payroll and travel expenditures tested were generally appropriate, and the Board processed them in accordance with state requirements. However, the Board did not consistently comply with its internal policies and procedures for documenting those expenditures.
- **Revenue.** The Board had controls to deposit revenue into the State Treasury. However, it should segregate certain duties related to revenue and consistently deposit revenue into the State Treasury within the statutorily required time frame.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

| Summary of Chapters and Related Issue Ratings | | |
|---|--|---------------------------|
| Chapter | Title | Issue Rating ^a |
| 1 | The Board Should Improve Certain Controls Over Its Purchasing and Contracting Processes | Medium |
| 2 | The Board Generally Had Controls to Ensure That Financial Information Was Accurate and Complete; However, It Should Improve Controls Over Accounting for Assets | Medium |
| 3 | The Board Generally Had Processes and Related Controls for Payroll and Travel Expenditures, But It Should Consistently Comply with Its Policies and Procedures | Low |
| 4 | The Board Generally Had Controls to Deposit Revenue; However, It Should Segregate Certain Duties and Consistently Deposit Funds within the Statutorily Required Time Frame | Low |

^a A chapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect **the audited entity's ability to effectively administer the program(s)/function(s) audited**. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A chapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect **the audited entity's ability to effectively administer the program(s)/function(s) audited**. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A chapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect **the audited entity's ability to effectively administer program(s)/function(s) audited**. Action is needed to address the noted concern and reduce risks to a more desirable level.

A chapter is rated Low if the **audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited** or the issues identified do not present significant risks or effects that would negatively affect **the audited entity's ability to effectively administer the program(s)/function(s) audited**.

Auditors communicated other less significant issues related to purchasing, inventory certification, and revenue management in writing to the Board.

In addition, to minimize the risks associated with public disclosure, auditors communicated additional details about a specific records management finding and its related recommendation separately in writing to the Board.

Summary of Management's Response

At the end of each chapter in this report, auditors made recommendations to address the issues identified during this audit. The Board agreed with the recommendations in this report.

Audit Objective and Scope

The objective of this audit was to determine whether the Board has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and agency policies and procedures.

The scope of this audit covered the Board's activities related to purchasing, contracting, travel, payroll, inventory management, revenue collection, and financial reporting and the related information systems between September 1, 2014, and August 31, 2015. Additionally, auditors performed limited procedures on contracts executed between September 1, 2015, and January 14, 2016.

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Detailed Results

Chapter 1

The Board Should Improve Certain Controls Over Its Purchasing and Contracting Processes

Chapter 1
Rating:

Medium ¹

The Texas Board of Nursing (Board) generally had adequate controls over its purchasing process; however, it did not consistently (1) follow its policies and procedures related to required approvals, (2) retain required documents to support purchases, and (3) code purchases correctly in its accounting system. In addition, the Board did not document its policies and procedures for processing certain types of purchases.

While the Board took steps to correct issues and implement recommendations from a 2015 internal audit of its contracting processes, certain contracting issues remain ongoing. The Board should continue addressing issues from that internal audit report. In addition, it should consistently monitor all contract-related expenditures to ensure that those expenditures do not exceed established total contract amounts.

The Board should improve certain controls over its purchasing process.

The Board generally had adequate controls over its purchasing process to ensure that it:

- Made purchases for goods and services that were allowable.
- Followed the proper bidding process.
- Properly received the goods and services that it purchased.
- Generally coded purchases correctly in its accounting system. However, auditors identified certain capital purchases that the Board did not code correctly. The incorrect coding affected the presentation of capital assets and depreciation in the Board's financial statements. Chapter 2 contains additional information on capital assets and depreciation in the Board's financial statements.

¹ Chapter 1 is rated as Medium because it presents risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concerns and reduce risks to a more desirable level.

The Board did not consistently follow its policies and procedures requiring support for purchases and required approvals. Specifically:

- Support for purchases. For 5 (31 percent) of 16 purchases tested that required a requisition, (1) the purchase voucher did not match the information on the requisition or (2) the requisition and/or the purchase voucher was missing. When the purchase vouchers did not match the requisitions, that generally occurred because the Board increased the amount of an order during the purchasing process and did not have documentation to show that the increase went through its approval process.
- Approvals. Ten (48 percent) of 21 purchases tested were not approved in accordance with Board policies and procedures. The Board's procedures require the signature of the requestor; the approval of a department supervisor and a department director; and, as of March 2015, budget approval authorization for the purchase requisition. The Board did not have documentation showing that it obtained one or more of those required items for nine of those purchases. The remaining purchase did not have required approval for exceeding the caseload maximum, as required in the contract.

In addition, the Board's policies and procedures did not cover its processes for certain types of purchases. For example, the policies and procedures did not cover purchases made through a blanket purchase order, the purchase of temporary employment services, and purchases made through professional service contracts.

The Board should monitor contract expenditures and continue implementing recommendations from a 2015 internal audit of its contracting processes.

Auditors analyzed Board expenditures associated with 39 contracts in place from September 1, 2014, through August 31, 2015. For 3 (8 percent) of those 39 contracts, the Board made expenditures that exceeded established contract amounts. Specifically:

- The Board exceeded the maximum per case amount on an expert service contract by \$400.
- The Board's average monthly expenditures for two print contracts routinely exceeded the monthly unit costs specified in those contracts. For example, one of the print contracts had a monthly unit price of \$440. However, the Board's average monthly expenditures on that contract were \$814 in fiscal year 2015.

The Board took steps to correct issues and implement recommendations from a 2015 internal audit of its contracting processes. For example, the Board documented its contract management policies and procedures that went into effect for fiscal year 2016, created a centralized repository to capture all contracts, and designated a contract manager. However, the following contracting issues remain ongoing:

- Ensuring that the contract manager has completed required training. **The contract manager had completed two of the Texas contract manager certification courses required for that position. The Office of the Comptroller of Public Accounts' requirements for contract managers contain three levels of training and one level of formal certification.**
- Obtaining required reviews of contracts prior to execution. **Using professional judgment, auditors selected five contracts that the Board executed in fiscal year 2016; the Board did not have evidence of required reviews for those five contracts.**
- Including all essential clauses from the *State of Texas Contract Management Guide* in contracts. **Four (80 percent) of the five contracts that auditors selected using professional judgment did not have one or more of the essential clauses from the *State of Texas Contract Management Guide*.**
- Maintaining documentation for its evaluation and selection of contractors. **Two of the contracts that auditors selected using professional judgment required competitive solicitation. However, the Board did not have documentation to show how it evaluated and selected the contractor for one of those contracts (that contract had a total value of \$5,000).**
- Reporting contractor performance to the Office of the Comptroller of Public Accounts. **The Board did not report contractor performance for contracts that exceeded \$25,000 and that ended in fiscal year 2015, as required by Texas Government Code, Section 2155.089.**

Recommendations

The Board should:

- Review its classification of purchases to ensure that it codes purchases correctly.
- Maintain required supporting documents for all purchases.
- Consistently follow its policies and procedures to review and approve each purchase prior to the completion of the purchase.

- Establish, document, and implement policies and procedures for all purchase types.
- Monitor contract expenditures to ensure that they do not exceed established total contract amounts.
- Continue correcting contracting issues identified in the 2015 internal audit report.

Management's Response

The Texas Board of Nursing agrees with the recommendations and will revise purchasing policies, implement agency wide compliance training and complete implementation of recommendations from the 2015 internal audit on contracting issues.

Responsible Parties: Director of Operations, Accounting Manager and General Counsel

Implementation Date: August 31, 2016

The Board Generally Had Controls to Ensure That Financial Information Was Accurate and Complete; However, It Should Improve Controls Over Accounting for Assets

Chapter 2
Rating:
Medium ²

The Board had informal procedures for financial reporting that followed the Office of the Comptroller of Public Accounts' reporting requirements. However, the Board did not document those procedures or the review and approval of its annual financial report to ensure that report met all requirements and that it was accurate and complete. As a result, auditors identified inaccuracies in capital assets and depreciation in the Board's annual financial report for fiscal year 2015. Those inaccuracies occurred because the Board did not report asset purchases in the State Property Accounting (SPA) system.

The Board should improve its accounting for capital assets.

The Board did not record its capital asset purchases in SPA for more than six years. Therefore, any capital purchases and associated depreciation that occurred during that period would not have been reported in the Board's annual financial reports. The most recent Board entry into SPA occurred in August 2009.

Auditors identified \$50,605 in capital asset purchases and \$107,903 in controlled asset purchases that the Board made in fiscal year 2015 but did not record in SPA; as a result, the Board did not report capital assets and depreciation accurately in its fiscal year 2015 annual financial report. In addition, the Board did not code the \$50,605 in capital asset purchases correctly in its accounting system.

Auditors calculated that the Board should have, but did not, report depreciation expense and accumulated depreciation of \$4,892 for fiscal year 2015 for the \$50,605 in capital assets that auditors identified. Auditors did not calculate the total capital asset purchases for fiscal year 2010 through fiscal year 2014 because that time period was not within the scope of this audit.

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.

² Chapter 2 is rated as Medium because it presents risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concerns and reduce risks to a more desirable level.

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.

The Board should improve its accounting for construction.

On July 15, 2015, the Board entered into an interagency cooperative contract with the Texas Facilities Commission to expand the Board's assigned space in the Hobby Building in Austin. The initial contract amount was \$200,000, and the Board executed a contract amendment on August 24, 2015, to increase that amount to \$300,000.

The Board made an advance payment of \$250,000 to the Texas Facilities Commission on August 27, 2015. The Board recorded that advance payment as an expense under repairs and maintenance in its fiscal year 2015 annual financial report. However, because the Board did not have a work plan and budget that described the work to be performed, it did not have the information necessary to determine whether it should have (1) expensed that payment or (2) processed that payment as a capital expenditure. After it determines the nature of the work to be performed, the Board should determine how to record that payment in its accounting system and work with the Office of the Comptroller of Public Accounts to determine whether it should report any items in SPA. That will enable the Board to ensure that it accurately reports capital assets and depreciation in its annual financial report.

Recommendations

The Board should:

- Record capital assets, as required, in SPA.
- Develop, document, and implement policies and procedures regarding the preparation of its annual financial report and the review and approval of that report.
- After it identifies the nature of the work to be performed at its facility, determine how to record the related payments in its accounting system and work with the Office of the Comptroller of Public Accounts to determine whether it should report the improvements in SPA.

Management's Response

The Texas Board of Nursing agrees with the recommendations and will update SPA records, create formal AFR policies and procedures, and update the appropriate records once the BON is provided the floor plans and building revisions from the Texas Facilities Commission.

Responsible Parties: Director of Operations and Accounting Manager

Implementation Date: SPA records update complete. New AFR policies will be created by August 31, 2016. Update financial and SPA records for space renovation project upon completion of work by the Texas Facilities Commission.

The Board Generally Had Processes and Related Controls for Payroll and Travel Expenditures, But It Should Consistently Comply with Its Policies and Procedures

Chapter 3
Rating:
Low ³

The Board generally had processes and related controls to ensure that it made payroll and travel expenditures in accordance with state statutes and rules. However, the Board should strengthen controls to ensure compliance with its own policies and procedures and to ensure that reimbursements for meals comply with requirements.

The Board should consistently comply with payroll requirements.

The Board made approximately \$6,300,000 in payroll-related expenditures for its employees and board members during fiscal year 2015. Auditors tested 40 payroll expenditures totaling \$147,948 and 21 pay actions totaling \$46,287 and determined that the Board:

- Made all payments accurately.
- Made payments to actual employees.
- Retained required supporting documentation and approvals.

However, for 11 (31 percent) of 35 payroll expenditures tested that included leave activity, the Board did not have evidence that it documented and approved employees' annual leave in compliance with its policies and procedures and/or that it documented employees' explanations for sick leave in compliance with its *Human Resources Manual*. The Board's policies and procedures require annual leave to be requested and approved prior to an employee taking leave. In addition, the Board's policies and procedures require an explanation for all sick leave absences.

The Board should consistently comply with travel requirements.

The Board made approximately \$105,718 in travel expenditures during fiscal year 2015. Auditors tested 42 travel expenditures totaling \$17,598 and determined that the Board:

- Ensured that the associated travel was for a valid business reason.

³ Chapter 3 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

- Used the correct accounting codes in the Uniform Statewide Accounting System (USAS).
- Maintained documentation showing approval of travel vouchers.

However, for 8 (19 percent) of the 42 travel expenditures tested, the Board did not have documentation indicating that the individuals had valid reasons to obtain reimbursement for valet parking. The Board's internal travel policies and procedures state that valet parking is a nonreimbursable expense unless it is the only option available.

Additionally, 3 (7 percent) of the 42 travel expenditures tested exceeded the maximum rate for meals. Specifically:

- One travel voucher exceeded the maximum daily limit for meals.
- For two travel vouchers submitted by the same individual, the Board did not have documentation showing that the individual had valid reasons for receiving reimbursements for meal expenses incurred inside of that individual's headquarters location.

Texas Government Code, Section 660.113(c), specifies that a state agency may not reimburse a state employee for a meal expense incurred within the employee's designated headquarters unless the expense is mandatory and connected with training, a seminar, or a conference.

Recommendations

The Board should:

- Consistently follow its policies and procedures for employee leave.
- Consistently maintain documentation for exceptions to its travel policies and procedures.
- Reimburse individuals only for allowable travel expenses.

Management's Response

The Texas Board of Nursing agrees with the recommendations and will provide additional training to staff on leave policies and adherence to travel requirements.

Responsible Parties: Director of Operations and Accounting Manager

Implementation Date: August 31, 2016

The Board Generally Had Controls to Deposit Revenue; However, It Should Segregate Certain Duties and Consistently Deposit Funds within the Statutorily Required Time Frame

Chapter 4
Rating:
Low ⁴

The Board generally had processes and related controls to ensure that it accurately deposited revenues it received into the State Treasury. In addition, the revenue it received and recorded in USAS was supported by documentation and released by authorized and separate employees. However, the Board should improve segregation of certain duties related to revenue and consistently deposit revenue into the State Treasury within the statutorily required time frame.

The Board should improve segregation of certain duties for revenue.

For fiscal year 2015, the Board recorded in USAS approximately \$3,500,000 in revenue it received through its mailroom. Auditors tested 41 of the Board's revenue deposits totaling \$878,361 and determined that the Board accurately deposited the revenues into the State Treasury.

The Board adequately segregated the receipt, recording, and release of revenue that it received and that authorized employees processed in USAS. However, it did not have adequate segregation of duties for (1) opening cash receipts and (2) recording those cash receipts in its internal licensing and enforcement system. The same individual performed both of those tasks. Control weaknesses over revenue increase the risk that funds may not be adequately protected from loss, misuse, or abuse.

The Board should consistently comply with the statutorily required deposit time frame.

The Board did not consistently deposit funds into the State Treasury within three business days of receipt, as required by Texas Government Code, Section 404.094. Specifically, it did not comply with that requirement for 3 (9 percent) of 34 randomly selected deposits and 2 (29 percent) of 7 deposits selected using professional judgment. The Board made those 5 deposits from 4 to 15 business days after receipt.

⁴ Chapter 4 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Recommendations

The Board should:

- Segregate the duties of (1) opening cash receipts and (2) logging those receipts in its internal licensing and enforcement system.
- Consistently make deposits in accordance with the statutorily required time frame.

Management's Response

The Texas Board of Nursing (BON) agrees with the recommendations. The separation of duties is a top priority; however due to the mail receipt volume and limited number of Accounting staff in the mail receipt area, it is difficult to maintain the separation of duties, especially when staff members are away from the office on leave. The BON will be converting to a new licensing/receipting system in the upcoming months. This system will reduce the cash receipts received in-house and alleviate the need for separation of duties for these processes. Deposits will be made within the required time frames.

Responsible Parties: Director of Operations and Accounting Manager

Implementation Date: December 31, 2016

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Texas Board of Nursing (Board) has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and agency policies and procedures.

Scope

The scope of this audit covered the Board's activities related to purchasing, contracting, travel, payroll, inventory management, revenue collection, and financial reporting and the related information systems between September 1, 2014, and August 31, 2015. Additionally, auditors performed limited procedures on contracts executed between September 1, 2015, and January 14, 2016.

Methodology

The audit methodology included collecting information and documentation; interviewing Board staff regarding financial and operational processes; testing documentation related to purchasing, assets, payroll, contracting, travel, revenue processing, and financial reporting; and analyzing and evaluating the results of the tests.

Auditors selected nonstatistical, random samples of transactions and expenditures related to purchasing, travel, revenue processing, payroll, pay actions, and inventory management. Those samples were designed to be representative of the population and results may be extrapolated to the population, but the accuracy of the extrapolation cannot be measured.

For contract management, inventory management, purchasing, and travel expenditures, auditors used professional judgement to select additional items for testing. Those sample items generally were not representative of the population; therefore, it would not be appropriate to extrapolate those results to the population.

In addition, auditors tested 100 percent of procurement card transactions.

Data Reliability

Auditors used expenditure information in the Uniform Statewide Accounting System (USAS) and relied on previous State Auditor's Office audit work on USAS to determine that data was sufficiently reliable for the purposes of this audit.

To determine the reliability of payroll data from the Uniform Statewide Payroll/Personnel System (USPS), auditors reviewed the data for accuracy and completeness by (1) reviewing data query language, (2) comparing USAS and USPS expenditure amounts, and (3) tracing a sample of selected detailed transactions from the data to source documents. Auditors determined that payroll data was sufficiently reliable for the purposes of this audit.

Auditors also used the Board's travel and purchase order manual tracking logs. To determine the reliability of the Board's travel log and purchase order logs, auditors reviewed the data for accuracy and completeness by comparing the data to USAS expenditure amounts. Auditors determined that the travel and purchase order logs were sufficiently reliable to help auditors identify travel vouchers and procurement card purchases.

Information collected and reviewed included the following:

- Board policies, procedures, and guidelines.
- Fee collection and deposit documentation.
- Expenditure data from USAS.
- Invoices and supporting documentation for Board expenditures.
- Employee payroll and leave information from USPS.
- Employee personnel files, time sheets, and leave documentation.
- Travel vouchers and supporting documentation.
- Contracts in place during fiscal years 2015 and 2016.
- Annual certified inventory documentation.
- Supporting documentation for the Board's annual financial report.

Procedures and tests conducted included the following:

- Interviewed Board staff to identify the Board's financial and operational processes, including financial and administrative internal controls.

- Tested documentation related to purchasing, assets, revenue processing, and financial reporting to determine compliance with the Board’s policies and procedures and state laws and regulations.
- Tested a sample of Board salary expenditures and employee pay actions for appropriate documentation and required approvals.
- Tested a sample of in-state travel, out-of-state travel, and non-overnight travel for required approvals, appropriate documentation, and compliance with state travel requirements and Board policies and procedures.
- Analyzed Board expenditures to determine whether the Board made duplicate payments, payments to fictitious vendors, or payments to debarred vendors.
- Analyzed contract expenditures to identify contracts and determine whether the Board’s contract expenditures exceeded maximum contract amounts.
- Reviewed a sample of contracts executed in fiscal year 2016 to determine whether the Board had implemented the recommendations from a 2015 internal audit.
- Analyzed payroll transactions to determine whether payments were appropriate and made only to Board employees and complied with employee leave requirements.
- Reviewed the Board’s certified physical inventory to determine whether the Board submitted that inventory by the required due date.
- Reviewed the Board’s annual financial report procedures to determine whether the Board could ensure that it followed the Office of the Comptroller of Public Accounts’ reporting requirements.
- Analyzed fee collections to summarize the Board’s revenue collection.

Criteria used included the following:

- Texas Government Code, Chapters 404, 659, 660, 661, 2254, and 2155.
- General Appropriations Act (83rd Legislature).
- Office of the Comptroller of Public Accounts’ eXpendit purchasing procedures.
- Office of the Comptroller of Public Accounts’ manual of accounts.

- Office of the Comptroller of Public Accounts' travel policies and procedures.
- Office of the Comptroller of Public Accounts' *State Property Accounting (SPA) Process User's Guide*.
- Office of the Comptroller of Public Accounts' *Reporting Requirements for Fiscal 2015 Annual Financial Reports of State Agencies and Universities*.
- *State of Texas Procurement Manual*, 2012 version.
- *State of Texas Contract Management Guide*, version 1.13.
- Board policies, procedures, and guidelines.

Project Information

Audit fieldwork was conducted from September 2015 through March 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. 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 based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Stacey Williams, CGAP (Project Manager)
- Jeffrey D. Criminger (Assistant Project Manager)
- Frances Mikus Barker, MSA
- Arnton W. Gray
- Scott Labbe, CPA
- Kelly Starbird
- Tony Thomas
- Felicia M. Villela
- Colleen F. West
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- James Timberlake, CIA, CFE (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; violation of state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

| Summary of Issue Ratings | |
|--------------------------|---|
| Issue Rating | Description of Rating |
| Low | The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited. |
| Medium | Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level. |
| High | Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity. |
| Priority | Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity. |

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable John Otto, House Appropriations Committee

The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

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Members of the Texas Board of Nursing

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