

**Summary of Request:**

The Board approved an internal audit plan for 2014 which included a Governance Audit.

**Historical Perspective:**

Good governance is a means to building an effective and high performing organization. The governance audit is intended to assess and make appropriate recommendations for improving the governance process, specifically, compliance with training and filing requirements.

**Pros:** The Board of Nursing will be in compliance with the Texas Internal Audit Act, the plan approved by the Board for fiscal year 2014 and will provide the Texas Board of Nursing information on compliance with training and filing requirements.

**Cons:** None.

**Staff Recommendation:**

Board Action: Move to accept Internal Audit Report 2014-1, Governance Audit as prepared by Rupert & Associates for fiscal year 2014.



# Texas Board of Nursing

**Internal Audit Report #2014-1**

**Governance Audit**

Prepared by:  
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Certified Public Accountants

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## **Acronyms and Abbreviations**

- CPA           Comptroller of Public Accounts, Texas
- ED            Executive Director
- IIA            Institute of Internal Auditors
- IPPF          International Professional Practices Framework
- OAG          Office of Attorney General
- SAO          State Auditor’s Office
- TAC          Texas Administrative Code
- TEC          Texas Ethics Commission
- TGC          Texas Government Code



## Internal Audit Report

March 7, 2014

Texas Board of Nursing

The following report provides the results and recommendations noted during the internal audit of the Governance function at the Board of Nursing. Included in this report are the purpose, scope, results, and recommendations of the audit, as well as management's responses to those recommendations.

The internal audit was conducted in accordance with 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. We believe that our work fully supports our conclusions.

This report is distributed to and intended for the use of the Texas Board of Nursing's management, board members, and the oversight agencies identified in the Texas Internal Auditing Act.

***Rupert & Associates, P.C.***

Certified Public Accountants  
Austin, Texas

## **Executive Summary**

### **Audit Purpose**

The term Governance refers to how an organization makes and implements decisions – the processes by which organizations are directed, controlled, and held to account. Public sector governance encompasses the policies and procedures used to direct an organization’s activities to provide reasonable assurance that objectives are met and that operations are carried out in an ethical and accountable manner.

The Institute of Internal Auditors (IIA) Standard 2110 on Governance states that the internal audit activity 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; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

Our audit focused on ensuring that board members were in compliance with required training and filing requirements. We also conducted a survey of Board members to identify areas to consider for improvement.

### **Overall Conclusion**

There is sufficient guidance in place for Board members to understand their responsibilities and agency activities. There are effective procedures in place to ensure compliance with Board filings and required training prior to becoming active. Board members were found to be in general compliance with filing and training requirements. One Board Member did not provide training certificates. Administrative monitoring and record-keeping processes were reviewed and found to be appropriately addressing compliance requirements. They are currently addressing the missing training documentation on the one Board member.

There were no recommendations resulting from this audit.

### **Acknowledgements**

The BON staff was very cooperative in providing requested audit information, documents, and responses to inquiries and surveys in a timely manner. We appreciate the input and assistance provided in the audit process.

## Introduction

Good governance is a means to building an effective and performing organization, able and equipped to pursue its mission and serve those individuals and communities it is there to serve.

Some signs of a governing board performing its role well are:

- It keeps out of management issues and decisions and lets the chief executive officer carry out all operational matters;
- It provides strategic direction and clear policies for the chief executive;
- It advocates effectively on behalf of the organization and of the communities the organization is there to serve;
- It ensures that the organization is in a financial situation to keep operations running in the long term; and
- It provides leadership to the organization and operates according to agreed ethical standards.

A Board's focus is on the decision making process, planning, and providing resources for goal achievement. The ability of a board to perform these duties effectively is determined by their knowledge and recognition of the separation of their role from that of the Executive Director (ED). The ED serves as the administrative leader responsible for policy implementation and daily operations. The ED supports the board's responsibility as policy maker and helps board members fulfill their duties by providing training opportunities and instituting procedures that facilitate effective board meetings, open communications, and timely transfer of information.

Internal auditors have a professional mandate to audit governance in their organizations. The audit program is intended to assess and make appropriate recommendations for improving the governance process. The Institute of Internal Auditors' (IIA) *International Professional Practices Framework* (IPPF) defines governance as "the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives". This audit focused on Board policies and member compliance with required trainings and filings.

### Criteria

The criteria used during the conduct of this audit included Texas statutes, Agency Rules, and the *International Professional Practices Framework* of the Institute of Internal Auditors.

### **Key Elements of the Governance Program**

The Texas Board of Nursing members are appointed by the governor with the advice and consent of the senate. The Board is responsible for overseeing the management of the agency, and in so doing, serving the best interests of the board. The members of the board serve staggered six-year terms. The board is required to meet at least once per calendar quarter of each year. In 2013 they met four times and in 2014 they are scheduled to meet four times.

The Board conducts regularly scheduled meetings which are open to the public. The notice of the meeting including agenda items, and the time and place of the meeting is posted with the Secretary of State's office approximately two weeks in advance. The meetings are subject to the open meetings law and the administrative procedure law. The meetings provide the public with a reasonable opportunity to speak on issues under the jurisdiction of the Board.

The following pages of this report provide more details on the audit work conducted as well as the results of the Board survey.

## **Objectives, Scope, and Methodology**

### **Objectives**

The following audit objectives were agreed-upon with management and the Internal Auditor:

**Audit Objective A – Compliance:** Review the information provided by client as well as the identified rules, laws, regulations, and information from other sources to determine specific Board filing responsibilities. Perform procedures to determine if activities comply with the criteria.

**Audit Objective B – Board Survey:**

Develop a survey tool to allow members to self-evaluate the activities of the board. Identify areas for improvement and communicate them to the Board.

### **Scope**

The audit scope included a review of the required filings and training records of Board members in place as of August 2013. A survey tool to assess the governance activities was developed and participation requested from members.

### **Methodology**

The audit methodology consisted of collecting background information, conducting interviews and surveys and performing tests of compliance by evaluating agency records against identified criteria. Persons responsible for monitoring the Board filings were interviewed to gain an understanding of their processes and controls. Tests of compliance were based on a comparison of criteria to support documentation, as well as records from the Texas Ethics Commission and the Secretary of State's office. The survey tool was developed based on guidance from the Institute of Internal Audit's professional practices framework. The survey tool was used to identify opportunities for improvement based on current best practices. The audit was conducted in accordance with professional standards and we believe our work supports our conclusions.

## AUDIT RESULTS AND RECOMMENDATIONS

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

**Audit Objective A –Compliance:** Review the information provided by client as well as the identified rules, laws, regulations, and information from other sources to determine specific Board filing responsibilities. Perform procedures to determine if activities comply with the criteria.

The Texas Board of Nursing Members are appointed by the governor with the advice and consent of the senate. Members of the board serve staggered six-year terms. The board is required to meet at least once per calendar quarter of each year.

The Nursing Practice Act §301.059 states that a person who is ‘appointed to and qualifies for office as a member of the board may not vote, deliberate, or be counted in attendance at a meeting of the board until the person completes a training program that complies with this section.

- (b) The training program must provide the person with information regarding:
- (1) the legislation that created the board and the board’s programs, functions, rules, and budget;
  - (2) the results of the most recent formal audit of the board;
  - (3) the requirements of laws relating to open meetings, public information, administrative procedure, and conflicts of interest; and
  - (4) any applicable ethics policies adopted by the board or the Texas Ethics Commission.’

The BON provides new members with an Orientation Manual that includes background information on licensing, the guiding principles of nursing regulation, and the role of Board Members. Additional resource materials on applicable State laws are also provided in the manual, such information on the Texas Legislative Budget Process,

Board members are also provided a Board Member Policy Book, which includes the governance philosophy, relationship with the ED, roles of Board members, responsibilities, and accountabilities, among other things. The Policy Book is updated approximately every two years.

In addition to these resources, Board members are provided with four training sessions per year on topics related to their roles as Board members.

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The following criteria were used to identify required filings for tests of compliance:

**TGC §572 – PERSONAL FINANCIAL DISCLOSURE, STANDARDS OF CONDUCT, AND CONFLICT OF INTEREST**

§572.021 – Financial Statement Required - a state officer, a partisan or independent candidate for an office as an elected officer, and a state party chair shall file with the commission a verified financial statement

**TGC §551.005 – OPEN MEETINGS**

(c) The office of the attorney general or other entity providing the training shall provide a certificate of course completion to persons who complete the training required by this section. A governmental body shall maintain and make available for public inspection the record of its members' completion of the training.

**TGC §552.012 – PUBLIC INFORMATION ACT**

- (1) a member of a multimember governmental body;
- (2) the governing officer of a governing body: or
- (3) the officer for public information of a governmental body to complete a course of training of at least one hour regarding the responsibilities of the governmental body with which the official serves and its officers and employees under the Texas Public Information Act

The only training information required to be kept on file for public inspection is the certification of completion of training on Open Meetings. Common practice is to maintain files on all Board members that includes personal bios; appointment information, relevant training certificates, and conflict of interest statements.

In addition to these elements we worked with outside agencies to ensure that all Board members were current on their required filings. The Texas Ethics Commission assisted us in the verification of members' annual filing of Personal Financial Statements. The Secretary of State's office assisted us in verifying that that all Board members had a signed Oath of Office on file.

The BON maintains files on each Board member that includes appointment and training information. One Board member did not have evidence of completion of the Open Meetings training that is required by §551.005 in their file at the time of audit. The BON was able to obtain the information to complete their files prior to the issuance of this report.

No recommendations.

**Audit Objective B – Board Survey:**

Evaluate the Board’s perspective of their responsibilities as a board and how their activities satisfy their responsibilities. Identify areas for improvement and provide the Board with feedback. In reporting the conclusions of the survey, we will first provide some context to the questions and then provide some best practices for consideration. The best practices noted are not meant to be recommendations; they are food for thought. Many of the responses were unanimous in their agreement, showing the subject was well understood by Board members. Some survey responses may indicate some confusion about the topic.

The intent of the survey is to start a discussion among Board members on how well they know and meet their responsibilities. The ‘Best Practices’ noted after each section are common governance practices that you may or may not already be doing. The responses to the survey should be used to gauge Board member awareness and identify possible areas for improvement.

The survey was developed in Survey Monkey, using the IPPF Governance checklist as a guide, adapted to use for state agencies. We were provided a list of Board members, who were requested to participate in the Governance survey. Of the thirteen member Board, there were ten respondents to the survey, for a participation rate of 77%.

The first question asked for some identifying information from the respondents. This allowed us to consider variances in responses that may stem from a lack of experience with the Board or participation on a specific committee.

A) Board knowledge and awareness - *The first questions were intended to assess whether individual Board members receive the appropriate information regarding the agency and its area of work. This type of information helps the Board to be clear about WHAT it is governing.*

1. Are new Board members given a basic understanding of the external environment – such as nursing, healthcare and regulation - in which the agency operates?

Yes, we undertake this work / activity	(9/10)	90.0%
Insufficient, in preparation, or being considered	(1/10)	10.0%

Comments included praise for the orientation efforts that help new appointees understand the mission and work of the agency. Each department has time allocated to meet with new members and explain their role within the agency. One commenter noted that “The onus to go beyond the basics is on the newly appointed Board member.” Another commenter noted that consumer members may not be as well informed about the nursing, healthcare and regulation environment.

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2. Are new Board members given a basic understanding of how the agency is structured and how it operates?

Yes, we undertake this work / activity 100.0%

There was total agreement that Board members are provided a basic understanding of how the agency operates and is structured.

Best Practices:

- Providing training updates for existing members
- Providing essential governing documents to new members (strategic plan, Board policies, etc.)
- Inviting outside experts to fill gaps in members' knowledge, and
- Visiting sites where the agency is implementing its programs

*B) Member integrity and collective responsibility. The next section of the survey was to assess whether the governing board ensures member integrity and collective responsibility. The intent was to assess whether there are guidelines and mechanisms in place to ensure that Board members act and behave for the collective good of the agency and its mission.*

3. Does the Board have policies or processes for members to periodically review, identify and declare actual or potential conflicts of interest?

Yes, we undertake this work / activity 100.0%

4. Is the Board committed to the organization's mission and values and to relaying its role in public protection through rule making, policy making and other board actions?

Yes, we undertake this work / activity 100.0%

5. Does the Board have procedures in place to ensure that no member of the Board derives personal benefits by virtue of that position?

Yes, we undertake this work / activity	(8/10)	80.0%
Insufficient, in preparation, or being considered	(2/10)	20.0%

The majority agreed that procedures are in place. One commenter indicated that they were sure the procedure are in place, they were not familiar with any specific procedure.

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Best Practices:

- Reviewing Board responsibilities
- Working with the Board to develop a code of conduct
- Discussing the importance of acting as one and of individual members not showing public disagreement with a decision the Board has taken; and

C) *Strategic direction and policies.* The next section covered the governing body's participation in the agency's strategic direction and policies. These questions were meant to help the Commissioners reflect on the extent to which they are involved in setting the strategic direction of the agency and developing policies to guide how the agency operates.

6. Was there Board involvement in the development of the agency's strategic plan?

Yes, we undertake this work / activity 100.0%

7. Is there evidence of the Board keeping itself abreast of developments that might affect the agency's capacity to pursue its mission?

Yes, we undertake this work / activity 90.0%  
Insufficient, in preparation, or being considered 10.0%

The majority answered positively to this question. One commenter felt unsure about how this is accomplished.

8. Is there a policy specifying that the agency will not discriminate on any ground in any aspect of its work?

Yes, we undertake this work / activity 90.0%  
Insufficient, in preparation, or being considered 10.0%

Most respondents agreed on this one, but one said they while they thought there was such a policy, they had never seen it.

9. Has the Board ensured that there is a fraud workplace policy in place?

Yes, we undertake this work / activity 80.0%  
Insufficient, in preparation, or being considered 20.0%

Most members agreed with that there is a fraud workplace policy in place. Two comments that they were sure there would be a policy in place, although they had not seen it.

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Best Practices:

- Engaging the Board members in thinking strategically about the agency's work and their own role;
- Reviewing existing policies to ensure they are up to date and identify areas where policies are needed; and
- Ensuring that the agency has a fraud workplace policy in place that is in line with best practice and is being enforced.

D) Board members relationship with the Executive Director (ED). This section is intended for the board to review how it appoints and supports the ED and their relationship to the operational side of the agency. A good working relationship between the Board and the ED is essential to all agencies and is one worthy of careful and continuous cultivation.

10. Has the Board developed a job description for the position of Executive Director defining its powers and duties together with an appropriate compensation package?

Yes, we undertake this work / activity 100.0%

11. Has the Board established and followed a robust and transparent recruitment procedure for the position of the ED?

Yes, we undertake this work / activity	(6/10)	60.0%
Insufficient, in preparation, or being considered	(1/10)	10.0%
No, we have not yet tackled this work	(3/10)	30.0%

Comments are similar to previous ones in that members have knowledge that a procedure exists, but they have no personal knowledge or experience with this process. One commenter was unsure about how transparent the process is. Another noted that a succession plan should be in place since so much weight is placed upon the ED position.

12. Does the Board assess the ED annually and in writing?

Yes, we undertake this work / activity 100.00%

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Best Practices:

- Reviewing the ED job description to make sure it is up to date and gives sufficient powers for the ED to effectively manage the organization;
- Establishing an appraisal system for the ED;
- Reviewing or developing policies defining the Board's relationships with the ED and the agency's staff, and limitation to executive powers; and
- Reviewing whether and how well those policies are followed in practice.

E) How Board members monitor and review the agency's performance. This section relates to how well the Board members know where the organization is in relation to its strategic plan and annual program.

13. Is the Board satisfied that the timeliness, quality and clarity of the periodic reports it receives enables it to make informed decisions regarding the organization's performance?

Yes, we undertake this work / activity 100.00%

14. Do Board meeting minutes reflect discussion and decisions taken in relation to those reports?

Yes, we undertake this work / activity 100.0%

15. Does the Board review the annual performance of the organization in relation to its agreed strategic objectives?

Yes, we undertake this work / activity 90.0%

No, we have not yet tackled this work / activity 10.0%

Most respondents indicated agreement with this activity. One commenter offered that they "get updates on parts but do not have a formal process where the whole plan is updated".

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Best Practices:

- Reviewing whether reports to the Board give sufficient and succinct information regarding the implementation of the agency's program and budget;
- Ensuring that reports are sent to Board in advance of meetings and that these are read and understood by them;
- Developing a calendar that makes it clear which matters will be discussed at future meetings; and which reports the Board can expect to receive and when; and
- Setting aside at least one meeting per year to review how well the agency's performance measure up to its agreed strategic objectives

F) Effective oversight of the agency's financial health. *This section is concerned with the finances of the agency and the Board's capacity to monitor them. It must satisfy itself that the internal control systems in place are adequate to protect the agency from loss and waste; and that it has taken the steps necessary for operations to continue in the future.*

16. Do the minutes of the Board meetings reflect approval of the annual budget and review of subsequent spending?

Yes, we undertake this work / activity 100.0%

17. Do the minutes of the Board meetings reflect the appointment of internal auditors and review of the audit reports and recommendations?

Yes, we undertake this work / activity 100.0%

18. Has the Board identified and recorded the risks facing the continuity of its activities and taken appropriate action to manage those risks?

Yes, we undertake this work / activity 80.0%  
Insufficient, in preparation, or being considered 20.0%

Comments referred to the audit risk activities performed at the agency, and technology issues that have been a problem recently.

Best Practices:

- Setting aside adequate time to review organizational and audit reports and agree on actions to address any recommendations made;
- Developing a resource mobilization plan in partnership with the agency's staff;
- Establishing a risk register, regularly reviewing it for accuracy, completeness and the monitoring of identified high risk activities;
- Reviewing the internal control framework of the agency and identify any areas that need strengthening; and
- Asking the auditor to review specific areas of the agency's internal controls

G) The Governing Body ensures its own review and renewal. The last questions focus on the performance of the board itself. It is generally accepted that an effective board is one where the individual members come from diverse backgrounds and possess a wide range of skills. Board work needs to be rewarding for each member; to achieve that the members need supporting as they learn more about the agency and how best they can contribute to its work.

19. Does the Board make effective use of the time and skills of its members and ensure that their capabilities are enhanced through development and training?

Yes, we undertake this work / activity	90.0%
Insufficient, in preparation, or being considered	10.0%

20. Does the Board formally assess its own performance annually?

Yes, we undertake this work / activity	100.0%
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Best Practices:

- Conducting a board profile review to identify skills and background currently missing on the board
- Developing a board calendar that clearly identifies what topics each meeting will address
- Ensuring that meetings are held at times and locations suitable for members.

No Recommendations.

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## **Report Distribution Page**

### **Texas Board of Nursing**

Kathy Shipp, MSN, RN, FNP, Board President  
Deborah Bell, CLU, ChFC, Board Liaison for Internal Audit

Katherine Thomas, MN, RN, FAAN, Executive Director  
Mr. Mark Majek, Director of Operations

### **Oversight Agencies**

Governor's Office of Budget and Planning, and Policy  
Ms. Kate McGrath

Legislative Budget Board  
Mr. Ed Osner

Sunset Advisory Commission  
Mr. Joey Longley

State Auditor's Office  
Internal Audit Coordinator