

**TEXAS STATE BOARD OF  
PUBLIC ACCOUNTANCY**

**Internal Audit Plan FY 2017  
(As Approved on November 17, 2016)**



**MONDAY RUFUS & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

**TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY**  
**Internal Audit Plan – Fiscal Year 2017**

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**MONDAY RUFUS & CO., P.C.**  
**Certified Public Accountants & Advisors**  
Member: American Institute of Certified Public Accountants

November 17, 2016

Executive Committee  
Texas State Board of Public Accountancy  
Austin, Texas

Dear Board Members:

As required by the Internal Auditing Act (Texas Government Code, Section 2102.008), the following internal activities are planned for the Fiscal Year 2017:

	<u>Estimated Hours</u>
• Cash Disbursements Processing, Payables, and Payroll	150
• Licensing Applications and Processing	<u>150</u>
	300

Sincerely,



Monday N. Rufus, MBA, CISA, CPA  
Managing Shareholder  
MONDAY RUFUS & CO., P.C.

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**I. Purpose**

The Purpose of this internal audit plan is to document the development, risk assessment, scope of assignments and implementation timetable for fiscal year 2017 internal audit activities. This document will serve as a primary tool to carry out internal audit responsibilities in an efficient manner and prioritize the audit areas based on risk assessments agreed to by the Board Members or the designated Committee of the Texas State Board of Public Accountancy (agency).

Due to the nature, scope and timing of audit procedures contemplated here, planning for specific aspects of the audit is a continuing process. Accordingly, the plan will be revised as necessary and reviewed at least annually.

This plan has been prepared to meet planning guidelines as required by both generally accepted governmental auditing standards and conducted in conformance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

**II. Background Information**

The agency operates under the authority of the *Public Accountancy Act, Chapter 901 of the Occupations Code (West 2015)* effective September 1, 2015. The agency has the responsibility and authority to regulate the practice of public accountancy in Texas through examination, certification, registration, licensure, continuing professional education, peer review, enforcement, and public education.

The agency became a self-directed semi-independent project agency under Senate Bill 1438 which was passed and signed into law in 1999, and codified as Article 8930 Sec. 4(c) (West Supp., 2012), the Self-Directed Semi-Independent Agency Project Act (Act). Senate Bill 736, 77<sup>th</sup> Legislature, Regular Session (2001), resolved conflicts with other laws and the agency became a self-directed, semi-independent agency effective September 1, 2001. HB 1685 83<sup>rd</sup> Legislature, Regular Session, transferred the Self-Directed Semi-Independent Agency Project Act (Article 8930, Revised Statutes) to Subtitle E, Title 4, Government Code, Chapter 472, Government Code, Self-Directed Semi-Independent Agencies, effective September 1, 2013.

House Bill 1685 authorizes the agency's continuance as a self-directed and semi-independent agency and removed the Act's project status and separate Sunset date.

The Act requires the agency to annually remit \$703,344 to the general revenue fund. The agency is required to remit all administrative penalties collected by the agency to the comptroller for deposit in the general revenue fund.

The Act requires the agency to use the Comptroller's uniform statewide accounting system under Chapter 2101 to make all payments, other than direct payments from the Texas State Board of Public Accountancy to the Texas Treasury Safekeeping Trust Company.

House Bill 2440 passed by the 81<sup>st</sup> Legislature transferred the administration of the fifth year scholarship program from the Texas Higher Education Coordinating Board to the agency, effective September 1, 2009.

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The agency's Board approved fee changes in response to the passage of House Bill 7 (HB 7) by the 84th Texas Legislature (2015). Effective September 1, 2015, HB 7 eliminated the annual \$200 fee for accountants and other licensed professionals in Texas. (Renewal fee charges accrued prior to September 1, 2015 will continue to include the \$200 professional fee).

The projected revenue, expenditures, and fund balances provided for fee reductions effective September 1, 2016, The firm license fee decreased from \$60 to \$50, the Exam application of intent fee decreased from \$60 to \$20, and the exam eligibility fee decreased from \$20 per part to \$10 per part.

The statute provides for fifteen TSBPA members appointed by the Governor, with the advice and consent of the Senate, for six-year staggered terms. The TSBPA is comprised of 10 CPAs with five of the 15 members designated as public members who are not licensed by the agency and who do not have financial affiliations with any organizations that are regulated by the agency. The Governor designates the Presiding Officer. The agency's Board members appoint an Executive Director. The Executive Director reports directly to the Board and is responsible for overseeing all of the agency's operations. The agency's operating budget is prepared and approved by the Board members on an annual basis.

The agency is divided into seven divisions. They are the Licensing, Continuing Professional Education, Sponsor Review Program and Peer Review Division; Qualifications Division; Enforcement Division; Public Information Division; Executive Division; Accounting and Administrative Services Division; and Information Resources Division, all of which report directly to the Executive Director. The Executive Division is headed by the Executive Director.

### DIVISIONAL INFORMATION

The agency's staff is organized into seven divisions including the Executive Division, each with specific duties and responsibilities in carrying out the overall mission of the agency.

#### A. Licensing/Continuing Professional Education/Peer Review

1. *Licensing* – The licensing division performs the following functions:

a. **Registration** – Registration is required of the following entities engaged in the practice of public accountancy:

- Professional corporations;
- Partnerships;
- Limited liability companies
- Registered limited liability partnerships; and
- Sole proprietorships

In addition:

- Certified public accountants of other states and persons holding similar titles in foreign countries pursuant to the *Public Accountancy Act* (the *Act*) (an individual so registered must identify himself or herself as a

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certified public accountant of the state which issued the certificate or identity the foreign country and the title held); and

- Firms and individuals temporarily engaged in the practice of public accountancy must obtain a temporary permit to practice.
- b. **Reciprocity** – The agency may issue a certificate of certified public accountant to a person holding a certificate issued by another state if all requirements are met pursuant to the *Act*.
- c. **Licensure** – The following must be licensed by the agency to lawfully practice public accountancy in Texas:
- Certified public accountants
  - Public accountants
  - Individuals registered with the agency under the *Act* as certified public accountants of other states and persons holding similar title in foreign countries
  - Practice units (professional corporations, partnerships, limited liability companies, registered limited liability partnerships, and sole proprietorships) engaged in the practice of public accountancy.
2. *Continuing professional education* – Texas CPAs are required to comply with the agency’s mandatory continuing professional education program. The continuing professional education section maintains records of registered sponsors of continuing professional education courses and verifies that licensees have earned and reported the minimum required number of continuing professional education hours.
3. *Peer review* - Each firm performing audits, reviews, compilations of financial statements, or preparation of forecasts, projections, and other special reports must undergo a peer review every three years. This program is intended to measure the work product of firms in the client practice of public accountancy for adherence to quality control standards adopted by practitioners and the profession.
4. *Sponsor Review Program* - The Board sponsor review program (SRP), a review program for organizations offering CPE courses, ensures the availability of high-quality continuing professional education (CPE) for Texas CPAs. The program provides the means by which the agency can evaluate courses and enforce standards.

The licensing director is the staff liaison to the licensing, continuing professional education, and peer review committees.

**B. Qualifications Division**

The Qualification Division is responsible for the following functions required by the *Act*:

1. reviewing, evaluating, and processing applications of individuals to take the Uniform Certified Public Accountant Examination (UCPAE);

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2. reviewing, evaluating, and processing applications of individuals who have successfully completed the UCPAE and are applying to become CPAs of this state; and
3. disseminating information to colleges and universities and to the general public on the requirements to become a CPA of this state, and UCPAE process.

The director of qualifications serves as the liaison to the agency's qualifications committee.

**C. Enforcement Division**

When a licensee or registrant violates statutory provisions related to the practice of public accountancy or the Rules of Professional Conduct, the agency has the authority to reprimand, place on probation, limit the scope of practice, suspend, revoke, or refuse to renew a license or registration, or take other disciplinary action. In addition, the agency has the authority to enforce specific statutory prohibitions against practicing or offering to practice public accountancy without a license.

The agency has the authority to assess direct administrative costs incurred in connection with its enforcement activities and to assess an administrative penalty not to exceed \$100,000 per violation.

Among the functions of the division are investigating complaints against licensees and non-licensed individuals, preparing and filing Board rule changes with the Secretary of State, preparing for and prosecuting contested case hearings, assisting the Attorney General in presenting certain administrative and court proceedings against licensees and non-licensees.

**D. Public Information Division**

The *Act* provides for public information services to carry out the agency's responsibility of protecting the public. The public information function includes writing, editing, and preparing all agency publications, brochures, and newsletters, and publishing the *Act* and Board rules, disseminating this material to the public, and responding to inquiries concerning recent legislative and actions. This division also coordinates the semi-annual regional swearing-in ceremonies. This division is coordinated by the public information officer.

**E. Executive Division**

The Executive Division consists of the executive director, the public information officer, and an administrative assistant. The Executive Director reports directly to the agency, and is responsible for overseeing all of the agency's operations.

**F. Accounting and Administrative Services Division**

The Accounting and Administrative Services Division is responsible for all support activities of the agency. The Division is headed by the agency's Director of Administrative Services/Chief

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Financial Officer (a CPA), who reports directly to the executive director. The division consists of the Administrative Services Section and the Accounting Section. The Administrative Services Section oversees the daily operations of the mailroom, the reception function, purchasing, personnel, and the office facility. The Accounting Section manages the budget and accounting functions of the agency. This section is responsible for financial and performance reporting such as the Annual Financial Report and other required reporting.

**G. Information Resources Division**

Information Resources Division (IR) is responsible for the management and operations of agency technology systems. The division is divided into two sections: System Development/Network Management and Production Control.

1. *System Development/Network Management:* This section performs complex systems analysis and design, programming, and testing of computer programs, systems, and networks. This section also analyzes user requirements, procedures, and problems to automate processing or improve current systems. The personnel in this section develop and integrate a wide range of hardware, software, programs, and networks for traditional enterprise systems and Internet based systems during system development. They also document programs and assist with system documentation. Other responsibilities include coordinating with other staff members and offering technical assistance to users in all areas, and workstation functions. This section also makes recommendations on hardware and software purchases as needed, and works with outside vendors and consultants during system development.
2. *Production Control:* This section is responsible for maintaining the enterprise database for all systems at the agency. This section also completes many types of production activities which include executing production jobs, operating varied computer equipment, revising production documentation, filing, maintaining logs, distributing production output, maintaining computer equipment, and coordinating with other IT staff. The personnel may train other staff as needed.

The IR Division is comprised of an information resource director, three systems analysts, and two production control staff.

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The agency’s operating budget for the fiscal year 2017 is as follows:

**PUBLIC STANDARDS**

Licensing	\$ 1,317,649
Sponsor Review Program	277,235
Peer Review	117,926

**ENFORCEMENT**

Operating	890,360
Major Cases – Expert Witnesses, OAG Legal Services	304,120
Major Cases – Contingency	0

**PUBLIC EDUCATION**

Public Information	459,728
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**INDIRECT ADMINISTRATION**

Indirect Administration	<u>2,051,017</u>
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Grand Total	<u>\$ 5,418,035</u>
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**II. Internal Audit Plan Methodology**

This section summarizes the methodology used in preparing the annual internal audit plan. In order to understand the agency and develop the risk assessment process, the following was reviewed:

- Strategic Plan
- Operating Budget
- State Legislation
- Reports from the State Auditor’s Office
- Annual Financial Reports
- Prior Internal Audit Reports
- Organizational Chart
- Agency Website
- Agency Brochures and other pertinent information

In planning internal audit procedures, financial, operational, as well as compliance issues are considered in determining processes/systems of interest. Functional areas that cross many divisions and the interaction between divisions are key criteria in the process of identifying areas of interest. The agency’s financial reports, planning documents, laws,

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rules, and regulations were all considered in developing the list of areas of interest. Upon completion of this list, each area was subjected to a risk analysis process.

The following agency processes/systems have been considered during the development of the areas of interest list:

- Enforcement – Policies and Procedures
- Information Systems – System Development
- Cash Disbursements Processing, Payables, and Payroll
- Licensing Applications and Processing
- CPE – Verification and Monitoring
- CPE – Recordkeeping
- Peer Reviews
- Personnel Processes
- Enforcement – Hearings
- Information Systems – Logical & Physical Security
- Budgeting and Reporting
- Scholarship Trust Fund for Fifth-Year Accounting Students
- Cash Receipts and Fee Processing
- Information Systems – Business Continuity
- Qualifications – Policies & Procedures and Verifications
- Fixed Assets
- Public Information
- CPE – Sponsor Review Program
- Historically Underutilized Business (HUB) Compliance

There are numerous other areas that may be identified during the process of performing internal audit procedures during the year. Continuing input from both the Board members and management will be essential in identifying additional or new areas of risk that should be considered in the future.

The risk assessment was performed through the consideration of various factors, including:

1. Exposure Level
2. Complexity of Unit
3. Materiality
4. Results of Last Audit
5. Extent of other Coverage or Oversight
6. Quality of Internal Controls/Adherence to Laws
7. Changes in Systems and Processes
8. Normal Audit Interval

Although all of the above factors were considered in the assessment of risk for each process/system, some of the factors were weighed more heavily and considered to be more critical to the agency's internal control structure. The following critical factors were weighted more heavily in our assessment.

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- Exposure Level
- Quality of Internal Controls/Adherence to Laws
- Changes in Systems and Processes

The other factors noted are not considered to be as critical to the internal control structure of the agency. However, all factors were considered in assessing risk and were taken into consideration for each process/system as to their impact on the agency. Once each area of interest was evaluated, it was assigned a risk factor of high, moderate or low. The following is the result of the risk assessment process.

Processes Identified as High Overall Risk

None

Processes Identified as Moderate Overall Risk

Cash Disbursements Processing, Payables, and Payroll  
Licensing Applications and Processing  
Personnel Processes  
Scholarship Trust Fund for Fifth-Year Accounting Students  
Enforcement – Policies and Procedures  
Information Systems – Business Continuity  
Public Information  
Budgeting and Reporting  
CPE – Verification and Monitoring  
CPE – Recordkeeping  
Information Systems – Logical & Physical Security  
Cash Receipts and Fee Processing  
Enforcement – Hearings  
Information Systems – System Development  
Peer Reviews

Processes Identified as Low Overall Risk

Qualifications – Policies & Procedures and Verifications  
CPE – Sponsor Review Program  
Fixed Assets  
Historically Underutilized Business (HUB) Compliance

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**III. Internal Audit Plan**

The internal audit plan is designed to provide a review of all areas based on the level of risk. Although the plan is structured in this manner, it should not prevent the review of areas on a more frequent basis, in the case of future restructuring or development of new processes/systems. Also, special reviews might be added in the future as requested by the agency's Board or when deemed necessary by the internal audit function after performance of in-depth review of the specific divisions/systems. Any proposed addition by the internal auditor will be presented to the Executive Committee or Board members for approval before the commencement of such internal audit activity.

Internal audit activities will be primarily concerned with documenting, testing and evaluating each division or system's internal control policies and procedures and the quality of performance in carrying them out. This will include reporting conditions and suggestions to management and evaluating management's response and plans for corrective actions. Opportunities for improved efficiency identified as a result of performing internal activities will be communicated to management and the agency's Board or its designated Committee as part of the reporting process.

Internal Audit activities for the fiscal year 2017 are planned for the following processes/systems:

<u>Fiscal Year 2017</u>	<u>Estimated Hours</u>
1. Cash Disbursements Processing, Payables, and Payroll	150
2. Licensing Applications and Processing	150

These audits will take place from January 2017 through August of fiscal year 2017 with final reporting occurring in October 2017. The above plan does not preclude the internal audit function from identifying and assessing risk relating to new divisions or systems added to the Agency.

These processes/systems were identified for review through risk assessment methodology. As discussed above, this methodology included identifying financial and non-financial risk, identifying interaction of divisions amongst each other, identifying rules and regulations various divisions must comply with, and identifying the types of transactions and personnel involved within each division.

**IV. Reporting**

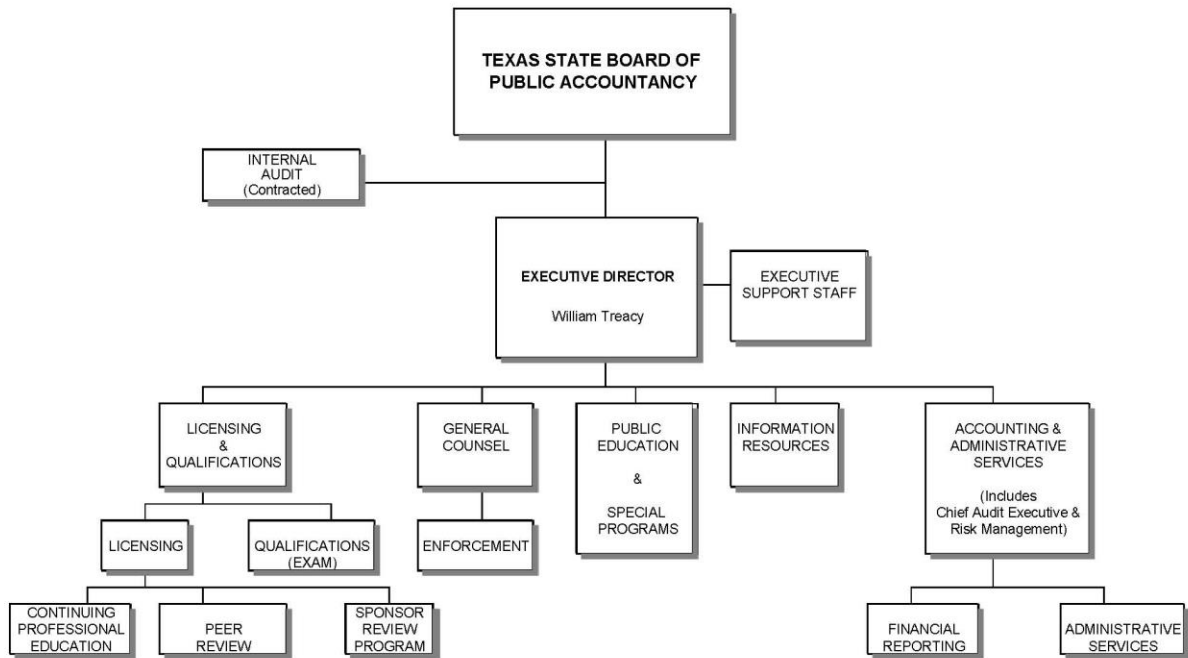
In compliance with the Texas Internal Auditing Act, the annual internal audit report and individual reports will be submitted to the Governor's Office of Budget and Planning, the Legislative Budget Board, the Sunset Advisory Commission, and the State Auditor, agency Board members, and Agency's Executive Director by November 1, 2017. The annual internal audit report will be in the form specified by the State Auditor.

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**Appendix A: Organizational Chart**

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**ORGANIZATION CHART**  
As of September, 2013



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**Appendix B: Risk Assessment**

High Risk: 38 & up  
Moderate: 30-37  
Low: Below 30

	<u>Total</u>	<u>Weighted Rank</u>
Cash Disbursements Processing, Payables, and Payroll	35	1
Licensing Applications and Processing	34	2
Personnel Processes	34	3
Scholarship Trust Fund for Fifth-Year Accounting Students	34	4
Enforcement – Policies and Procedures	34	5
Information Systems – Business Continuity	34	6
Public Information	33	7
Budgeting and Reporting	32	8
CPE – Verification and Monitoring	32	9
CPE – Recordkeeping	32	10
Information Systems – Logical & Physical Security	31	11
Cash Receipts and Fee Processing	31	12
Enforcement – Hearings	30	13
Information Systems – System Development	30	14
Peer Reviews	30	15
Qualifications – Policies & Procedures and Verifications	29	16
CPE – Sponsor Review Program	28	17
Fixed Assets	27	18
Historically Underutilized Business (HUB) Compliance	22	19