



# TEXAS STATE BOARD OF PHARMACY

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## Agency #515 INTERNAL AUDIT CHARTER Fiscal Year 2020

This charter identifies the Purpose, Authority and Responsibilities of the internal audit function.

### **DEFINITION OF INTERNAL AUDITING**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

### **CHIEF AUDIT EXECUTIVE (Garza/Gonzalez & Associates, Certified Public Accountants)**

The Texas State Board of Pharmacy (the Agency) contracts for internal audit services to meet the requirements of the Texas Internal Audit Act. The Texas Internal Audit Act §2102.006 requires that the internal auditor be either a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA). The Institute of Internal Auditor's Professional Standards recommends that the Chief Audit Executive possess one or more of the following credentials: Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Government Audit Professional (CGAP) or Certified Information Systems Auditor (CISA). In keeping with these guidelines, the Agency's contractor fulfills the functions of the agency's internal auditor and Chief Audit Executive.

### **OBJECTIVES AND SCOPE OF WORK**

#### **Assurance Objectives**

The objectives of assurance services are to provide formal, independent assurance to management and the Governing Board of the Agency (the Board) that the organization's assets are safeguarded, that operating efficiency is enhanced, and that compliance is maintained with prescribed laws, and management and Board policies. The assurance services objectives also include independent assessment of the organization's risk awareness and management, reliability and integrity of the organization's data, and achievement of the organization's goals and objectives.

## **Consulting Objectives**

The objectives of consulting services are to provide management with assessments and advice for improving processes that will advance the goals and objectives of the organization. No assurance is provided.

In particular, the objectives of consulting services are to provide formal assessments and advice on the front-end of projects so that risks may be managed and internal controls may be designed at the beginning of a project. Typically, the objectives and the scope of the projects are agreed to by management.

## **Scope**

The scope of work of the internal auditing activity is to determine whether the organization's framework of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Risk and control information is effectively communicated throughout the organization.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employee actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are monitored and achieved in line with the organization's mission.
- Quality and continuous improvement are fostered in the organization's control process.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.
- Internal controls are in place and are functioning effectively to accomplish business objectives.
- Information technology controls including systems security controls are in place and are functioning effectively.
- Specific operations, processes and programs are reviewed at the request of management or the Board.

During the performance of audit work, recommendations for improvement in risk management, control, and governance processes may be identified. This information will be communicated to the appropriate level of management and the Board.

## **AUTHORITY**

The chief audit executive and staff of the internal auditing activity are authorized to:

- Have unrestricted access to all agency divisions, departments, personnel, activities, confidential and non-confidential data and records, information systems, physical property, and contractors relevant to the performance of engagements, subject to applicable state and federal laws.
- Have access to contractor records and files in line with contract terms and specifically the 'right to audit' section.
- Have full and free access to the chair of the Board, Board members, and the executive director.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish assurance and consulting objectives.

- Obtain the necessary assistance of agency personnel in units of the organization where audits are performed, as well as other specialized services from within or outside the organization.
- Obtain timely reports from management on actions proposed and taken pertaining to audit recommendations.

The chief audit executive and staff of the internal auditing activity are not authorized to:

- Perform any operational duties for the organization, its sub-grantees or contractors. Compliance duties are not considered operational duties.
- Initiate or approve accounting transactions external to the internal auditing activity.
- Direct the activities of any organization employee external to the internal auditing activity, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

## **INDEPENDENCE AND OBJECTIVITY**

To provide for the independence of the internal audit activity, the internal auditor reports functionally to the Board and administratively to the Executive Director or her designee in a manner outlined in the section on Accountability.

## **RESPONSIBILITIES AND ACCOUNTABILITY**

### **Responsibilities**

The chief audit executive and staff of the internal auditing activity have responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, considering any risks or control concerns identified by management, and submit that plan to the Board for review and approval as well as provide periodic updates.
- Implement the approved audit plan including appropriate plan amendments and special tasks or projects requested by management and the Board.
- Assess the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Evaluate and assess significant new or changing functions, services, processes, operations, and internal controls concurrent with their development, implementation, and/or expansion.
- Issue periodic reports to the Board and management summarizing results of audit activities, including monitoring the implementation of previous audit recommendations.
- Keep management and the Board informed of emerging trends and successful practices in risk management, control, and governance.
- Assist in the deterrence of fraud by examining and evaluating the adequacy and the effectiveness of the system of internal controls.
- Report immediately any known incident of significant fraud to executive management, the Board, and the State Auditor's Office.
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the Board of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.
- Maintain an effective quality assurance program to include training, internal reviews, and

external reviews.

- Prepare an annual report and submit the report before November 1<sup>st</sup> of each year to the Governor's Office, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor's Office, the agency's governing Board, and the agency's administrator. The form and content of the report will be determined by the State Auditor.

#### Accountability

The chief audit executive, in the discharge of his/her duties, shall be accountable to the Board and the executive director to:

- Provide an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth in the current year's annual audit plan.
- Report significant issues related to the processes for controlling the activities of the agency, including potential improvement to those processes, and provide information concerning such issues through resolution.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of internal audit resources.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

#### STANDARDS OF AUDIT PRACTICE

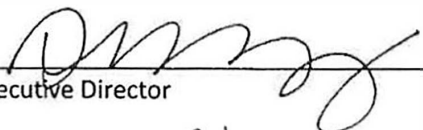
The internal auditing activity will comply with the following standards:

- *Texas Government Code*, Chapter 2102 (Texas Internal Auditing Act)
- *International Standards for the Professional Practice of Internal Auditing* and the *Code of Ethics* of the Institute of Internal Auditors, Inc.
- *Government Auditing Standards* of the United States Government Accountability Office.

#### SIGNATURE SECTION

The Internal Audit Charter was adopted by the Texas State Board of Pharmacy on this date.

Dated 02/04/2020

  
Executive Director

  
Presiding Officer of the Board

  
Chief Audit Executive (Garza/Gonzalez & Associates, Certified Public Accountants)

**TEXAS STATE BOARD OF PHARMACY**  
Austin, Texas

**INTERNAL AUDIT PLAN**

For Fiscal Year 2020



**TEXAS STATE BOARD OF PHARMACY**  
Austin, Texas

Internal Audit Plan  
For Fiscal Year 2020

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# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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Board Members  
Texas State Board of Pharmacy  
Austin, Texas

Enclosed is the Texas State Board of Pharmacy's (TSBP) proposed Internal Audit Plan (Plan) that was prepared for audits and other functions to be performed in fiscal year 2020. This Plan determines the scope of internal audit activities and is the source for assignment and prioritization of internal audit responsibilities for fiscal year 2020. Specific planning for audit procedures is a naturally ongoing process; thus, the Plan is reviewed annually and may be revised by the Board, as necessary.

This Plan has been prepared by Garza/Gonzalez & Associates, an independent Certified Public Accounting firm, following Generally Accepted Auditing Standards, International Standards for the Professional Practice of Internal Auditing, and the Institute of Internal Auditors' Code of Ethics contained in the Professional Practices Framework.

A handwritten signature in black ink that reads "Garza/Gonzalez & Associates". The signature is written in a cursive, flowing style.

January 14, 2020

# TEXAS STATE BOARD OF PHARMACY

Austin, Texas

## Internal Audit Plan For Fiscal Year 2020

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### I. Methodology

TSBP's fiscal year 2020 Internal Audit Plan (Plan) was prepared using a risk assessment process, where we reviewed various documents, and questionnaires completed by TSBP's Board President, Executive Director/Secretary, and other staff, as documented below.

The following documents were reviewed and considered in our risk assessment process:

- Organizational Charts
- Budgets
- Financial and Non-Financial Reports
- Policies and Procedures
- Applicable Laws and Regulations
- Audits and/or Monitoring Reports from Third-Party Agencies
- Prior Internal Audit Reports

Questionnaires were developed for completion by TSBP's Board President, the Executive Director/Secretary, division directors, and, other staff, to update our understanding of each division, and its role within the overall scheme of TSBP. The questionnaires included topics; such as, issues and/or concerns, recent changes in key personnel, time elapsed since last audit or review, status of past audit findings, and regulatory compliance requirements (i.e. TAC 202, *Information Security Standards*; contract management; and, benefits proportionality). Utilizing information obtained through the completed questionnaires and background information reviewed, 14 audit areas were identified as the potential audit topics. A risk analysis was completed for each of the 14 individual potential audit topics and then compiled to develop TSBP's overall risk assessment.

The following 8 risk factors were considered for each potential audit topic:

- |                                    |   |
|------------------------------------|---|
| 1. Materiality                     | Measure of the auditable unit's <i>financial</i> materiality based on the dollar amount per year of assets, receipts, or disbursements for which the area is responsible; or, <i>non-financial</i> materiality based on the degree of its responsibility related to the agency's primary mission. |
| 2. Time since Last Audit or Review | Measure of the number of years between the date of the previous audit or review and the date of the risk assessment.  |
| 3. Results of Last Audit or Review | Measure of the results of the previous audit or review.   |
| 4. Adequacy of Staffing Levels     | Measure of the adequacy of the auditable unit's staffing level as it relates to the achievement of its objectives.  |

# TEXAS STATE BOARD OF PHARMACY

## Internal Audit Plan

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5. Policies and Procedures	Measure of the existence of policies and procedures documenting the auditable unit's activities.
6. Compliance with Contracts, Laws, and Regulations	Measure of the existence of contracts, laws, and/or regulations for which the auditable unit is responsible for ensuring compliance.
7. Susceptibility of Theft or Fraud	Measure of the auditable unit's risk and controls in place as it relates to theft or fraud.
8. Existence of Issues or Concerns	Measure of issues or concerns expressed by management or the Board.

### Risk Assessment

Following are the results of the risk assessment performed for the 14 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Inspections Licensing: Pharmacists/ Interns/ Preceptors Prescription Monitoring Program (PMP) Complaints/ Investigations	HR/ Payroll Procurement/ Contract Management/ HUB Accounting & Financial Reporting/ Travel IT Licensing: Pharmacies	Fixed Assets/ Fleet Management Compliance Monitoring/ Peer Assistance Licensing: Pharmacy Tech & Trainees Records Management Risk Management

This report includes the "Risk Assessment Summary" as Attachment A; and, the "History of Areas Audited" as Attachment B, which lists audits and/or reviews performed from fiscal year 2011 through 2019 for the above 14 potential audit topics. In the prior 2 years<sup>1</sup>, the *internal audits* were performed in the following areas:

### Fiscal Year 2019

- Accounting & Financial Reporting
- Follow-up of Post-Payment Audit Recommendations Dated July 20, 2018
- Follow-up of Prior Year Internal Audit Recommendations

### Fiscal Year 2018:

- Prescription Monitoring Program (PMP)

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<sup>1</sup> Pursuant to the Texas Internal Auditing Act (Texas Government Code Chapter 2102) Sec. 2102.004, TSBP established an internal audit activity, for the first time, effective fiscal year 2018.

# TEXAS STATE BOARD OF PHARMACY

## Internal Audit Plan

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### II. Audit Scope

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope will encompass the examination and evaluation of the adequacy and effectiveness of TSBP's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope includes:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Policies, Procedures, Laws, Regulations and Contracts** – Review the systems established to ensure compliance with those policies, procedures, laws, regulations and contracts which could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organizations Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

# TEXAS STATE BOARD OF PHARMACY

## Internal Audit Plan

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### III. Internal Audit Plan

In addition to performing the 2020 risk assessment for preparation of this Internal Audit Plan (Plan), this Plan also includes one audit to be performed; a follow-up of the prior year audit recommendations; other tasks that may be assigned by the Board or management during the year; and, preparation of the Annual Internal Audit Report for fiscal year 2020.

The area recommended for internal audit and other functions to be performed for fiscal year 2020 are as follows:

1. Completion of the Fiscal Year 2020 Risk Assessment and Preparation of this Internal Audit Plan
2. Inspections  
The planned audit procedures include the following:
  - a. Review and obtain an understanding of the laws and regulations applicable to the Inspections area (the Area).
  - b. Review the Area's written policies and procedures, collect available documentation, and conduct interviews to document and assess formal/informal processes and controls, as implemented by the Area.
  - c. Review and assess the Area's process in place for scheduling inspections.
  - d. Select a sample of inspections conducted by TSBP inspectors and vendors during the year to evaluate consistent adherence to applicable laws and regulations; and, the Area's policies and procedures.
  - e. Other procedures that may be deemed necessary during audit fieldwork.
3. Follow-up of Prior Year Internal Audits and Prepare the 2020 Annual Report  
Perform follow-up procedures to determine the status of the prior year comments that were not fully implemented as of fiscal year 2019, and prepare the 2020 Annual Report. The audit procedures will result in a determination that the recommendation is (1) Fully Implemented; (2) Substantially Implemented; (3) Incomplete/Ongoing; or, (4) Not Implemented.
4. Other Tasks  
Other tasks as may be assigned by the Board or management during the fiscal year.

## **ATTACHMENTS**

† Includes review of relevant performance measures.

1 - Low Risk  
2 - Moderate Risk  
3 - High Risk

**TEXAS STATE BOARD OF PHARMACY**  
**History of Areas Audited**  
**For Fiscal Year 2020**

	POTENTIAL AUDIT TOPIC	2011	2012	2013	2014	2015	2016	2017	2018	2019
1	Accounting/ Financial Reporting/ Travel				B*				B*	A
2	Complaints/ Investigations <sup>†</sup>			D*			C*			
3	Compliance Monitoring/ Peer Assistance <sup>†</sup>						C*			
4	Fixed Assets/ Fleet Management				B*				B*	
5	HR/ Payroll			H*	B*				B*	H*
6	Inspections					D	C			
7	IT			D*		G	C*			G
8	Licensing: Pharmacists/ Interns/ Preceptors <sup>†</sup>						C			
9	Licensing: Pharmacies <sup>†</sup>						C			
10	Licensing: Pharmacy Tech & Trainees <sup>†</sup>						C			
11	Prescription Monitoring Program (PMP) (Effective FY 2017)								A	
12	Procurement/ Contract Management/ HUB				B*				B*	
13	Records Management			E*	E*	E*	E*	E*		
14	Risk Management	F*			F*			F*		F*

† Includes review of relevant performance measures.

**Legend (audits/reviews with asterisk (\*) are considered limited scope for the audit area)**

- A** Internal audit performed by Garza/Gonzalez & Associates
- B** Post-payment audit performed by the Comptroller of Public Accounts (CPA)
- C** Sunset review performed by the Sunset Advisory Commission
- D** Audit performed by the State Auditor's Office (SAO)
- E** Records retention schedule review performed by the Texas State Library & Archives Commission (TSLAC)
- F** Risk Management Program Review/ On-site Consultation performed by the State Office of Risk Management (SORM)
- G** IT Security Assessment performed by a third-party vendor procured through Department of Information Resources (DIR)
- H** Personnel policies and procedural systems review performed by the Texas Workforce Commission (TWC) Civil Rights Division