



Texas Department
of Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

TxDMV Fund Audit Report
Audit 18-02

Internal Audit Division
January 2018

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TxDMV Fund, 18-02
Executive Summary

BACKGROUND

The Texas Department of Motor Vehicles (TxDMV or Department) collects fees to support three Treasury Funds: TxDMV (Fund 0010), State Highway (Fund 0006), and General Revenue (Fund 0001). These funds support transportation initiatives (Fund 0006), general government operations (Fund 0001), and the Department's operations (Fund 0010).

The TxDMV relies on the revenue deposits made into the TxDMV Fund to make its monthly payroll, postage, contracts, and other expenses, which is why it is important that appropriate revenues are distributed correctly. The TxDMV Fund revenue deposits are reported using 13 Texas Comptroller object codes (Comp Object Codes). The TxDMV Fund receives revenue deposits for fees it collects. The fees are for a variety of services to the public and the fees are primarily set by Texas State Statutes and enforced by the TxDMV. In fiscal year 2017, the Department collected \$144,143,998 in fees, or revenue, in Fund 0010.

The audit objective was to determine whether appropriate revenues are deposited to the TxDMV Fund and whether appropriate fees are distributed to counties.

RECOMMENDATIONS

The Internal Audit Division made two recommendations to ensure revenues are appropriately deposited to the TxDMV Fund. The two recommendations are monitoring data table changes in the production environment for effectiveness and formally documenting the monitoring process.

RESULTS

The TxDMV has conducted detailed reviews of the TxDMV Fund to ensure appropriate revenues are correctly deposited; that interfaces are working appropriately; and, that processes have been developed to ensure revenue is distributed as intended. The TxDMV has processes to consistently monitor revenue account codes in the TxDMV Fund. Those processes ensure that appropriate fees are deposited to the TxDMV fund. Those processes, however, are not formally documented.

In addition, the Department does not monitor changes made to data tables after those changes are in the production environment. The Department does, however, test those changes in the testing environment. Data table changes that are not reviewed in production could result in revenue being distributed to incorrect account codes or funds.

MANAGEMENT RESPONSE

Management agrees with the recommendations in this report. Finance and Administrative Services Division (FAS) will monitor data table changes for fee modifications after implementation in production and will document current revenue monitoring processes.

Overall Conclusion

Maturity Assessment Rating

3 - *Defined Process Level*: The process has been standardized, communicated, and is being followed. The process, however, may not detect any deviation due to the process not being sufficiently evaluated to address risks.

Other possible ratings and definitions can be found in Appendix 1, under Maturity Assessment Rating Definition.

Strengths

The Texas Department of Motor Vehicles (TxDMV or Department) has processes to ensure revenues are distributed as intended to the TxDMV Fund and the counties.

The Finance and Administrative Services (FAS) Division has conducted detailed reviews of the TxDMV Fund to ensure appropriate revenue are correctly deposited and interfaces are working appropriately. The FAS Division has worked with several stakeholders, including the Enterprise Project Management Office, the Information Technology Service (ITS) Division, and the Texas Comptroller, to make sure funding is correctly deposited when significant changes are made to the fund structure.

In addition, the FAS Division conducts monthly, quarterly, and annual reviews of the fund to ensure that Texas Comptroller object codes are reviewed to ensure fees are appropriately collected and deposited. Monitoring of these codes ensures that collection errors are identified. At the end of each fiscal year, FAS Division collaborates with program areas on a fee-level basis and validates revenue deposits through program applications. FAS Division also performs reconciliations for Regional Service Center revenue transactions daily and monitors process and handling fees. Any discrepancies are noted and referred to the Vehicle Titles and Registration (VTR) Division for further review and analysis.

Improvements

The FAS Division could improve the review of revenue and documentation related to monitoring the TxDMV Fund. Below are the audit results that further expand on these areas.

Audit Result #1: TxDMV Fund monitoring process should be documented and table changes should be validated once in production.

The detailed audit results can be found under the Audit Results section of this report (begins on page 4).

Observation

The Internal Audit Division (IAD) attempted to test the TxDMV Fund by reviewing a sample of transactions. The IAD was not able to conduct the transactional review because obtaining the data would require an estimated 1,500 hours of RTS data table programming, which would be a significant constraint for the ITS Division. In addition, the information was not available through the Centralized Accounting and Payroll/Personnel System (CAPPS). Current system reporting and resource constraints may continue to impact the entire Department.

Background

The TxDMV collects various fees for the State of Texas. All fees are deposited to the Texas Treasury through data interface tables between the CAPPs, the Uniform Statewide Accounting System (USAS), the State Treasury, and the various TxDMV revenue systems. Fees collected by the TxDMV and deposited at the Texas Treasury are transferred to the State Highway Fund (Fund 0006), which supports transportation initiatives; the General Revenue Fund (Fund 0001), which supports government operations; and to the TxDMV Fund, which supports the Department's operations (Fund 0010). Below are the totals deposited to each fund in fiscal year (FY) 2017.

Total Combined Revenue (Funds 0001, 0006, and 0010)	\$ 1,796,455,892
Fund 0001 General Revenue Fund	\$ 104,289,828
Fund 0006 State Highway Fund	\$1,548,022,066
Fund 0010 TxDMV Fund	\$ 144,143,998

TxDMV Fund

The TxDMV Fund was recreated by S.B. 1512, 84th Legislature, Regular Session, with a beginning date of September 1, 2016. The Department implemented the TxDMV Fund revenue collection and reporting processes utilizing the Enterprise Project Management Office's (EPMO) approved project management process. The process was designed to provide a strategic framework for project governance and project implementation.

Revenue was reported using 13 Texas Comptroller object codes (Comp Object Codes or Revenue Categories) grouping the TxDMV Fund's 120 fees. The 13 Comp Object Codes include 3012, 3014, 3018, 3035, and nine comptroller objects grouped into one miscellaneous category. The TxDMV fund receives payments and revenue from fees collected for the Texas International Registration Plan, on-line Temporary Permits, Oversize/Overweight Permits, vehicle plates, dealer licensing, titles, processing and handling fees and enforcement penalties. The TxDMV fund receives revenues from various types of fees collected through several different payment methods. The fees are collected online; by mail, by phone, and in person at Texas County Tax Assessor-Collector offices or at TxDMV Regional Service Centers. Below are the fund revenues collected in FY 2017.

Fund 0010 TxDMV Fund Revenue Categories	\$ 144,143,998
Motor Vehicle Certificates of Title (3012)	\$ 40,210,435
Motor Vehicle Registration Fees (3014)	\$ 43,152,484
Motor Carrier – Oversize/Overweight (3018)	\$ 13,401,328
Business Dealer License (3035)	\$ 8,013,945

Miscellaneous Revenue ¹	\$ 2,895,360
Processing and Handling Fee (3727)	\$ 36,470,446

The Department safeguards revenue receipts through the monitoring done by the FAS Division. The FAS Division monitors the Comptroller object codes on a high level by reviewing projected revenue to current revenue. Comp Object Codes monitored include the Motor Vehicle Certificates of Title; Motor Vehicle Registration Fees; Motor Carrier Oversize/Overweight; Business Dealer Licenses; Miscellaneous Revenue; and Processing and Handling Fee.

In addition, the Department has processes in place to ensure that fee revenues are deposited in the correct amounts to the correct statutory funds on a monthly basis. The FAS Division reviews revenues at the Comptroller-object level. This review includes a detailed analysis of the Processing and Handling Fee (Transportation Code Section 502.1911), since the fee is new and composes a third of the fund deposits made into the TxDMV Fund.

TxDMV Fund Data Table Changes

Any changes made to the Comp Object Codes, revenue deposit amounts, or the revenue fund location for the TxDMV Fund, also known as data table changes, are reviewed, approved, and submitted to the ITS Division by the FAS management. Prior to submitting data table changes, FAS staff review statutes and determine which funds need to be changed. The ITS Division programmers update data tables, and the ITS Quality Assurance team tests the changes to ensure completeness and accuracy. Upon completion of testing, the ITS Quality Assurance Manager notifies the FAS staff that testing has been completed. All testing is completed and reviewed in the testing environment, which should replicate the production environment

This audit was included in the Fiscal Year 2018 Audit Plan. The Internal Audit Division conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the Internal Standards for the Professional Practice of Internal Auditing. These 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 audit was performed by Jason Gonzalez (Senior Internal Auditor) and Sandra Menjivar-Suddeath (Internal Audit Director).

In accordance with the Texas Internal Auditing Act, this report is distributed to the Board of the Texas Department of Motor Vehicles, Governor's Office of Budget, Planning, and Policy, Legislative Budget Board, State Auditor's Office, and the Sunset Advisory Commission. The report was also distributed to the Department's executive management team.

¹ Miscellaneous Revenue includes: the following Comp Object Codes: 3727, Fees for Administrative Services (excluding P&H fee revenue); 3036, Motor Vehicle Complaints/Protests; 3719, Fees for Copies or Filing of Records; 3050, Abandoned Motor Vehicles; 3022, Assigned VIN Fees; 3081, Equipment Lease to County RTS; 3851, Interest on State Deposits; 3775, certain nonsufficient funds service charges and 3717, Civil Penalties.

Audit Results

TxDMV Fund monitoring process should be documented and table changes should be validated once in production.

Condition

The Department could create a process to validate data table changes in the production environment and to document the overall monitoring process for the TxDMV Fund, so as to strengthen monitoring of revenue that comprise the fees deposited to the TxDMV Fund.

While data table change testing does occur in the testing environment prior to production environment implementation, no detailed and formalized monitoring is done after those changes are in production to ensure code changes were operating as intended.

The Department's monitoring of revenue is performed monthly, quarterly and annually. The monthly review includes comparing projected revenue with current revenue collected, a high-level review of Comp Object Codes, and a detailed review of the Processing & Handling fee. The monthly review includes all Comp Object Codes, such as the Comp Object Codes for Motor Vehicle Certificates of Title, Motor Vehicle Registration Fees, Motor Carrier Oversize/Overweight; Business Dealer Licenses; and Miscellaneous Revenue. Although monitoring is occurring, the monitoring process is not formally documented.

Effect

Data table changes that are not reviewed in production could result in revenue being distributed to incorrect account codes or funds. Similarly, a lack of detailed continuous revenue monitoring could lead to difficulty in identifying causes for discrepancies during year-end financial reporting.

Cause

Programming constraints impact the Department's ability to monitor changes within the production environment. In addition, attempts to formally document the process have begun, but they have not been finalized due to resource constraints.

Criteria

Best practices state that documented revenue control and management policies should establish proper control over all receipts and receivables and ensure sound financial management policies. This includes monitoring changes made to the data tables in the production environment.

Evidence

The following evidence was collected to develop this result:

- Although monitoring processes existed, there was no formally documented process of that monitoring.
- Two data table changes occurred during our scope period. Both changes were not monitored after going into production to ensure changes occurred correctly.

Recommendations

The Internal Audit Division recommends the following:

- 1.1 FAS Division should develop and document a process to monitor data table changes in the production environment until FAS management is comfortable with data table changes. (High)
- 1.2 FAS Division should formally document a monitoring plan to ensure that any revenue discrepancies are within acceptable tolerance levels. (Low)

Management's Response and Action Plan

Management Response & Action Plan 1.1

Management agrees with the recommendation. FAS Division will monitor revenue deposits after fee data table changes. FAS will document a process to validate data table changes.

Management Action Plan Owners: Sergio Rey, Director of Accounting, FAS Division; Linda Flores, Chief Financial Officer, FAS Division

Anticipated Completion Date: December 31, 2018

Management Response & Action Plan 1.2

Management agrees with the recommendation. FAS Division will document current processes to monitor revenue.

Management Action Plan Owners: Brian Kline, Revenue Section, FAS Division; Linda Flores, Chief Financial Officer, FAS Division

Anticipated Completion Date: August 31, 2018

Appendix 1: Objectives, Scope, Methodology and Maturity Assessment

Objectives

The objective of this audit was to determine whether appropriate revenues, including registration fees, are deposited to the TxDMV Fund appropriately; and, whether appropriate amounts are transferred to counties per Department rules.

Scope and Methodology

The scope of the audit included areas of risks within the Department's processes; revenue receipts; and, revenue information of FY 2017.

The IAD reviewed reconciliations, Texas Comptroller object codes, quarterly and annual reporting detail, and data table structure changes.

Information and documents that we reviewed included the following:

- TxDMV IAD Audit Report 15-04 Administration Statutes and Rules through TACs
- State Auditor's Office (SAO) Audit 17-036 An Audit Report on Complaint Processing at the Department of Motor Vehicles on 5.23.17
- SAO Audit 16-555 State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended 8.31.15 on 3.14.16
- SAO Audit 15-555 State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended 8.31.14 on 2.27.15
- SAO Audit 15-015 A Report on Analysis of Quality Assurance Team Projects on 12.22.14
- SAO Audit 13-026 An Audit Report on Selected State of Entities' Compliance with Requirements Related to the Historically Underutilized Business Program and the State Use Program on 3.18.13
- SAO Audit 11-007 An Audit Report on the Department of Motor Vehicles on 10.11.10.
- Regional Service Center revenue reconciliations
- FY 2017 Quarterly and Annual Financial Reporting Revenue Receipts and Forecast
- Interviews with Department division directors, division managers, and division staff

Maturity Assessment Rating Definitions

The maturity assessment rating and information were derived from the Control Objectives of Information and Related Technologies (COBIT) 5 IT Governance Framework and Maturity Model and the Enterprise Risk Management (ERM) Maturity Model. The model was adapted for the TxDMV assurance audit purposes and does not provide a guarantee against reporting misstatement and reliability, non-compliance, or operational impacts. Below are the definitions for each rating level.

0 - A rating level of 0, also known as a non-existent process level, is defined as no process has been defined or used.

1 - A rating level of 1, also known as an initial and ad-hoc process level, is defined as a standardized process has not been developed and an ad hoc approach is being used when issues arise.

- 2 - A rating level of a 2, also known as repeatable but intuitive process level, is defined as having developed a process where similar procedures are followed by several employees, but the results may not be consistent. The process is not documented and has not been sufficiently evaluated to address risks.
- 3 - A rating level of a 3, also known as a defined process level, is defined as having a standardized, documented, communicated, and followed process. The process, however, may not detect any deviation due to the process not being sufficiently evaluated to address risks.
- 4 - A rating level of a 4, also known as a managed and measurable process level, is defined as having a standardized, documented, communicated, and followed process. Management monitors and measures compliance with process. Process is under constant improvement and provides good practice. The use of information technology would help automate workflow and improve quality and effectiveness.
- 5 - A rating level of a 5, also known as refined level, is defined as having a good process (e.g., standardized, documented, communicated, and followed process) as a result of continuous improvement and the use of technology. Information technology is used in an integrated way to automate workflow and to improve quality and effectiveness.