



Texas Department
of Motor Vehicles
HELPING TEXANS GO. HELPING TEXAS GROW.

Fiscal Year 2018 Annual Audit Activities
Report
19-01

Internal Audit Division
October 2018



Fiscal Year 2018 Annual Audit Activities, 19-01

Executive Summary

BACKGROUND

On an annual basis, the Internal Audit Division (IAD) submits its internal audit report to statutorily required parties. The parties that receive a copy of this report include the Sunset Commission, State Auditor's Office, Legislative Budget Board, and the Governor's Office. In addition, the report is posted on the Texas Department of Motor Vehicles (TxDMV) website.

The report provides information on the assurance (audit) services, consulting (advisory) services, and other activities that were conducted in fiscal year 2018.

The report is developed using the guidelines set forth by the State Auditor's Office.

RESULTS

In fiscal year (FY) 2018, the IAD conducted 12 engagements.

The FY 2019 audit plan, which was approved by the TxDMV Board on August 16, 2018, consists of several items including 10 engagements, other internal audit duties, and 5 contingency audits. These items listed in the audit plan were identified using a risk-based methodology and cover risk related to expenditure transfers, capital budget controls, other limitations or restrictions in the General Appropriation Act, contract management, and information technology risks.

As required in the guidelines set forth by the State Auditor's Office, this report includes information on the external reviews coordinated by the IAD as well as a brief description of actions taken by TxDMV to comply with the fraud reporting and investigation coordination requirements.

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Compliance with Texas Government Code Section 2102.015

The Internal Auditing Act, Texas Government Code §2102.015 requires that within 30 days of approval, an entity should post its audit plan and internal audit annual report on its internet web site. The Texas Department of Motor Vehicles (TxDMV) Board approved the *Fiscal Year 2019 Internal Audit Plan* on August 16, 2018, and the TxDMV web master posted the plan to the website after that. Similarly, the TxDMV Board approved the *Fiscal Year 2017 Annual Internal Audit Report* on October 4, 2018, and the TxDMV web master will post the report on the TxDMV website after the Board approval. These reports may be found at <http://www.txdmv.gov/reports-and-data>.

Fiscal Year 2018 Internal Audit Plan Summary

Government Code §2102.015 also requires an entity to post a summary of any concerns resulting from the audit plan or annual report and actions taken to address those issues. To address these requirements, the Internal Audit Division (IAD) summarized fiscal year (FY) 2018 audits results in table 1 (FY 2018 Audit Summary). In FY 2018, the IAD completed 10 engagements. The 10 engagements conducted by IAD included 7 audit engagements, 2 advisory service engagements, and 1 follow-up engagement.

Table 1. FY 2018 Audit Summary

| Audit Number and Name | Summary |
|--|--|
| 18-02 TxDMV Fund Tables and Process & Handling Fees | <p>The audit objective was to determine whether appropriate revenues are deposited to the TxDMV Fund and whether appropriate fees are distributed to counties.</p> <p>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.</p> |
| 18-03 Public Information Request Processes (Open Records) | <p>The audit objectives were to determine if public information requests (PIR) were handled consistently throughout the Department, were assessed at appropriate cost, and were handled in accordance with state laws.</p> <p>TxDmv's FOIAXpress (FX) system provides the public with a central online portal to submit all PIR to the Department and a tracking number to follow the progress of the PIR being processed. The</p> |

| Audit Number and Name | Summary |
|---|---|
| | <p>TxDMV's Office of General Counsel (OGC) has provided training to the Department's Public Information Coordinators (PIC) outlining their responsibilities and the Department's obligations when receiving a public information request, statutory requirements and timelines, and how to use the FX system. The TxDMV complies with the Texas Public Information Act requirements. In the 44 PIRs tested, response time to the requestor was within the required 10 business days, and fees to the requestor were applied or waived in accordance with requirements.</p> <p>The TxDMV could streamline the process by consolidating additional PIR processes and improve guidance to divisions on PIR processing practices. Currently, there are multiple PIR intake points in the Department, creating PIR reporting errors due to redundant data entry. In addition, the TxDMV applies different internal PIR response practices across the Department.</p> |
| <p>18-04 Fraud, Waste, and Abuse Risk Assessment</p> | <p>In FY 2018, TxDMV requested the IAD conduct a fraud, waste, and abuse (FWA) risk assessment. The IAD agreed and began a year-long advisory service engagement. The objectives of the advisory service were the following:</p> <ul style="list-style-type: none"> • To identify FWA risks throughout the Department; • To identify controls that mitigate the identified FWA risks; • To rank the identified FWA risks and controls based on agreed-upon criteria; and • To assist divisions in identifying mitigation strategies for FWA risks that have not been sufficiently mitigated. <p>Using the guidance approved by TxDMV executive management, the IAD worked with 13 divisions to obtain and identify fraud, waste, and abuse risks and controls.</p> |
| <p>18-05 Inventory</p> | <p>The audit objectives were to determine whether adequate processes exist to accurately and completely track and safeguard assets and to determine whether appropriate access controls exist to safeguard assets. In addition, the audit determined whether the Department is in compliance with statutory inventory requirements.</p> <p>The TxDMV has processes to ensure assets are managed as required and has taken steps to better protect inventory. In FY 2017, the Department only had 29 of its 9,738 controlled assets (0.3 %) considered missing, stolen, or damaged. In contrast, controlled assets have significantly reduced since FY2015 when there were 442 controlled assets considered missing, stolen, or damaged.</p> |

| Audit Number and Name | Summary |
|--|---|
| | <p>Although the Department had processes to ensure assets have been tracked and safeguarded, IAD identified improvements areas. The IAD made fourteen audit recommendations to improve the tracking and safeguarding of controlled and allocated asset inventory.</p> |
| <p>18-06 Travel and Training Policies and Practices</p> | <p>The audit objectives were to determine if training and travel requests and reimbursements have the appropriate approvals and justifications and if a process exists to ensure travel and training expenses were appropriate and achieved the needs of the Department. In addition, the audit evaluated how the TxDMV's handling of board member travel compares with other state agencies.</p> <p>TxDMV board travel practices are in compliance with the Texas Government Code, Comptroller rules, the General Appropriations Act, and are like other state agencies' reimbursement practices for board and commission members' travel expenses. The TxDMV had developed processes to ensure training related requests are justified and expenses are appropriate. Similarly, process have been developed to ensure travel expenses were reviewed and verified prior to reimbursement. Out-of-state travel is authorized by the executive director and the division director prior to the travel.</p> <p>However, the authorization for in-state travel authorizations is informal. The Department has not sufficiently established procedures to ensure in-state travel authorization is fully documented and retained by divisions. In addition, there are unclear guidelines for what documentation needs to be included when submitting out-of-state travel plans for authorization. The Department may have insufficient support demonstrating it authorized in-state travel with clear business justification prior to the trip. In addition, staff may not have sufficient supervisory authorization for travel prior to the trip.</p> |
| <p>18-07 Social Media</p> | <p>The audit objective was to determine whether the Department has established a social media governance structure designed to protect the Department's brand.</p> <p>TxDMV uses social media as a cost-effective method of reaching customers, reaching, 36,391 unique users at an average cost to the Department of \$0.16 per user between October 2017 to February 2018. However, the Department has not developed an agency-wide social media strategy to align the use of social media throughout the various divisions. Each division has their own security and privacy configurations for their social media pages, and has different</p> |

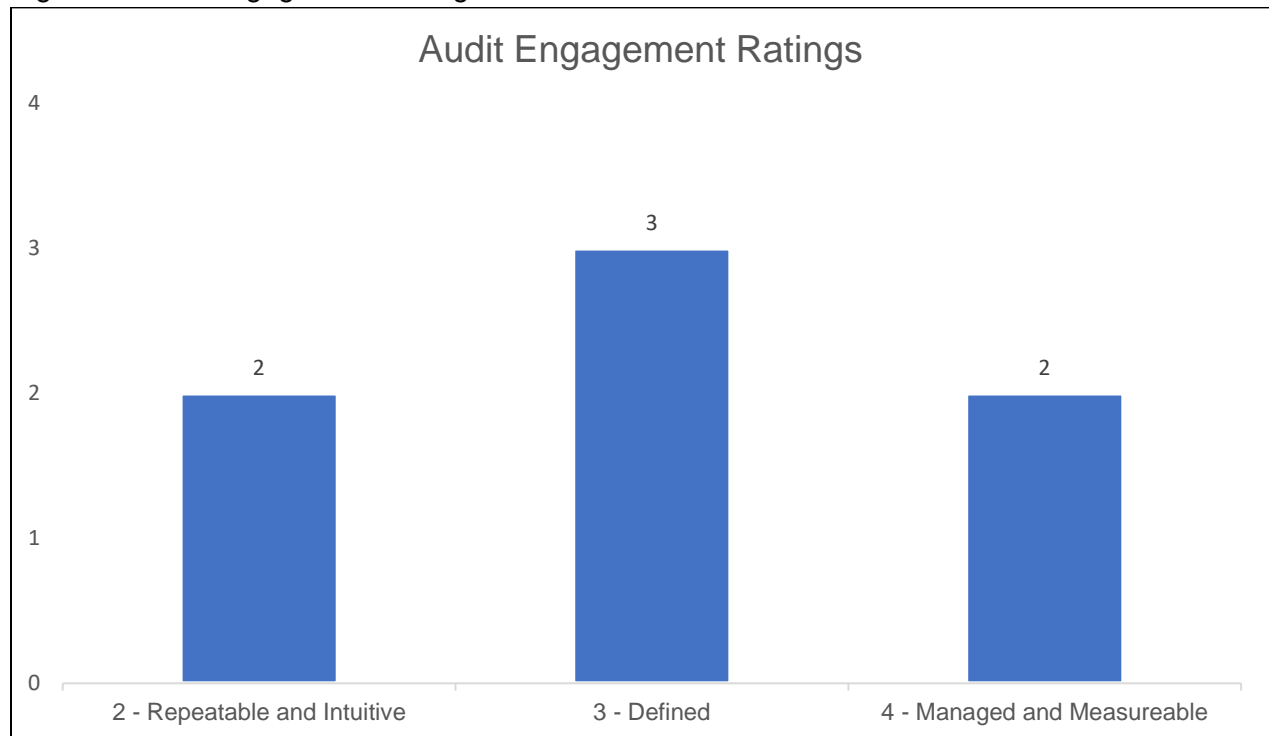
| Audit Number and Name | Summary |
|---|---|
| | <p>expectations on how to manage customer comments based on business objectives rather than Department strategy.</p> <p>A central process for reviewing social media platform terms and conditions and their associated risk to the Department, and approving and tracking all official social media accounts has not been created. The decision to register new official TxDMV account is made by each division without required review from TxDMV Office of General Counsel, Information Security Section, or the Executive Office.</p> |
| 18-08 Payment Card Industry (PCI) Compliance | <p>The audit objectives were to determine the whether TxDMV is compliant with policy requirements of PCI Requirement 12; and, whether previously issued PCI audit recommendations have been fully remediated. The IAD issued one audit recommendation to address issues identified in the audit.</p> |
| 18-09 eLICENSING | <p>The objectives of the audit were to determine how eLICENSING has affected service for internal and external customers of licensing information and to review the adequacy of access controls within eLICENSING.</p> <p>TxDMV's implementation of the eLICENSING system has reduced risk by reducing manual processes and hardcopy documentation in the motor vehicle licensing process. However, IAD identified improvement areas related to the Enforcement function of eLICENSING and access management.</p> |
| 18-10 Texas Commission on Law Enforcement (TCOLE) Compliance | <p>The IAD was asked to conduct an advisory service to review the TCOLE training compliance. The advisory service deliverables included a determination of whether the TxDMV is compliant with TCOLE training requirements, an identification of where improvements may be needed to follow TCOLE training requirements, and an evaluation on whether the reporting structure has been implemented to sufficiently monitor TCOLE compliance.</p> <p>IAD found that TxDMV is not in full compliance with TCOLE training requirements, although a concerted effort has been made to be compliant. The IAD reviewed and concluded on six TCOLE training compliance requirements.</p> |
| 18-11 Fiscal Year 2018 Internal Audit Follow-Up | <p>The follow-up objective was to determine and verify the implementation status of internal audit and external audit recommendations issued.</p> |

| Audit Number and Name | Summary |
|-----------------------|---|
| | <p>The Texas Department of Motor Vehicles (TxDMV) has taken an active approach to implementing internal audit recommendations, which resulted in all internal recommendations being started and almost all being fully implemented. IAD verified that TxDMV fully implemented 34 of 36 internal audit recommendations, with two recommendations started but not fully implemented. Both started audit recommendations have estimated completion dates before FY 2020. Similarly, TxDMV has taken an active approach to implementing external audit recommendations and has implemented all 60 external audit recommendations.</p> |

Audit Engagement Ratings

For any audit engagement, the IAD rates the engagement using a maturity rating system¹. For the seven audit engagements, the following ratings were given (see Figure 1):

Figure 1. Audit Engagement Ratings



¹ Audit Engagement Maturity Ratings and definitions are listed in Appendix 1.

Internal Audit Plan for Fiscal Year 2018

The status of the FY 2018 audit plan engagements is outlined below in Table 2.

Table 2. FY 2018 Internal Audit Plan Status

| Audit Number and Name | Release Date |
|---|----------------|
| 18-01 Fiscal Year 2017 Annual Internal Audit Report | October 2017 |
| 18-02 TxDMV Fund Tables and Process & Handling Fees Audit | February 2018 |
| 18-03 Public Information Request Processes (Open Records) Audit | February 2018 |
| 18-04 Fraud, Waste, and Abuse Risk Assessment Advisory Service | August 2018 |
| 18-05 Inventory Audit | August 2018 |
| 18-06 Travel and Training Policies and Practices Audit | May 2018 |
| 18-07 Social Media Audit | June 2018 |
| 18-08 Payment Card Industry (PCI) Compliance Audit | September 2018 |
| 18-10 eLICENSING Audit | September 2018 |
| 18-10 TCOLE Compliance Advisory Service | May 2018 |
| 18-11 Fiscal Year 2018 Internal Audit Follow-Up | August 2018 |
| 18-12 Fiscal Year 2019 Internal Audit Plan | August 2018 |

Internal Audit Plan Deviation

No deviations were made to the FY 2018 Annual Audit Plan.

Consulting Services and Nonaudit Services Completed

Consulting Services

The IAD conducted two advisory services, or consulting services, during FY 2018. The advisory services related to facilitating a fraud, waste, and abuse risk assessment and reviewing TCOLE compliance.

Fraud, Waste, and Abuse Risk Assessment

Through FY 2018, IAD conducted a year-long advisory service engagement to identify and rank Fraud, Waste, and Abuse risks and controls. The objectives of the advisory service were the following:

- To identify FWA risks throughout the Department;
- To identify controls that mitigate the identified FWA risks;
- To rank the identified FWA risks and controls based on agreed-upon criteria; and
- To assist divisions in identifying mitigation strategies for FWA risks that have not been sufficiently mitigated.

Using the guidance approved by TxDMV executive management, the IAD worked with 13 divisions to obtain and identify fraud, waste, and abuse risks and controls. The IAD identified several fraud, waste, and abuse risks and controls and worked with management on any risks that needed more mitigation.

TCOLE Compliance

The IAD was asked to conduct an advisory service to review the TCOLE training compliance. The advisory service deliverables included a determination of whether the TxDMV is compliant with TCOLE training requirements, an identification of where improvements may be needed to follow TCOLE training requirements, and an evaluation on whether the reporting structure has been implemented to sufficiently monitor TCOLE compliance.

IAD found that TxDMV is not in full compliance with TCOLE training requirements, although a concerted effort has been made to be compliant. The IAD reviewed and concluded on the following TCOLE training compliance requirements:

- Training Coordinator – The TxDMV is in compliance with the TCOLE training coordinator requirements.
- Training Provider Eligibility – The TxDMV is in compliance with training provider eligibility requirements. However, advisory board eligibility forms were not always completed prior to appointment.
- Instructor Qualification – The TxDMV is not in full compliance with instructor qualification requirements. Of the 33 instructor qualifications reviewed, only 11(33%) had required biographies available for review.

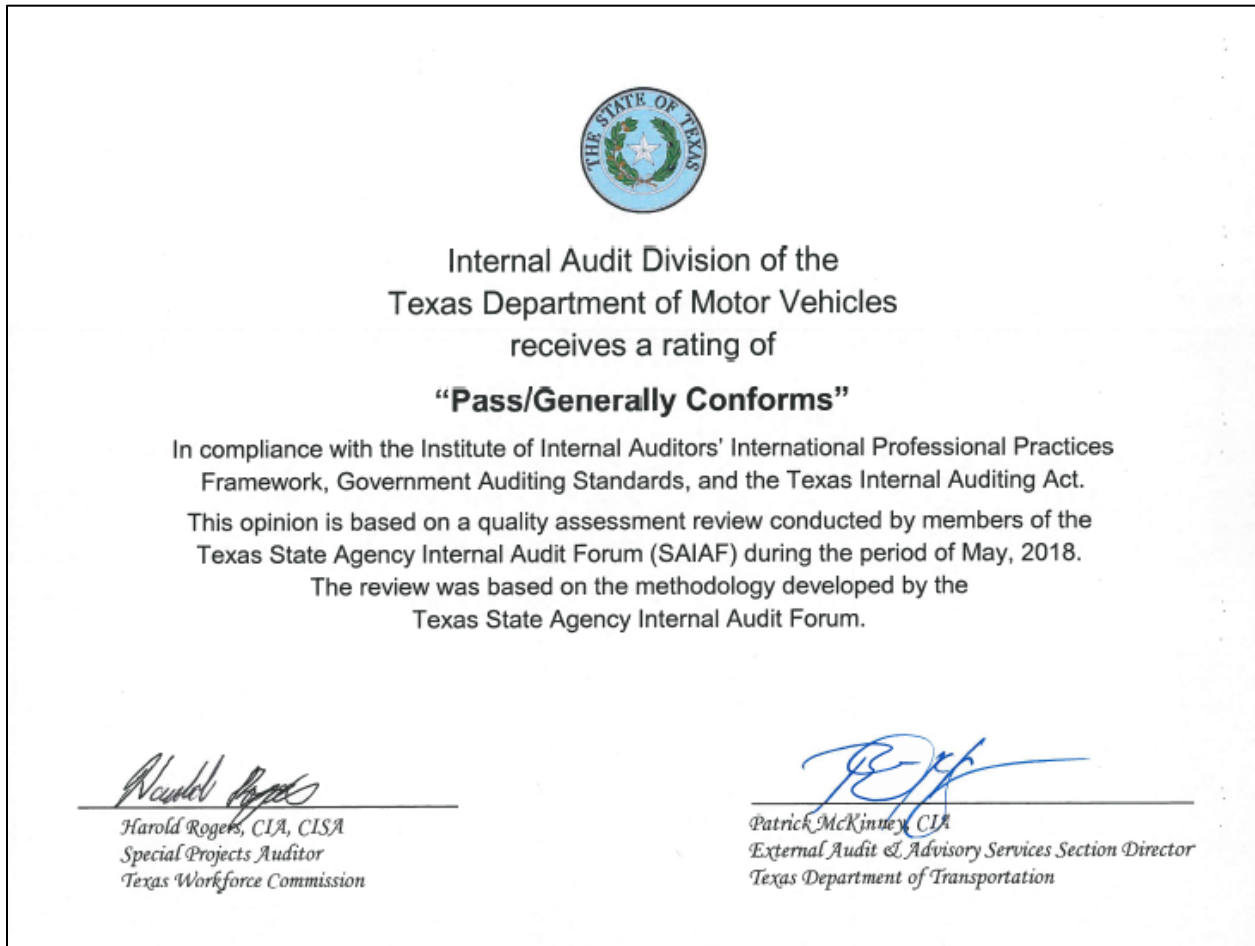
- Training Course – The TxDMV is not in full compliance with all training course requirements because the TxDMV did not always submit training reports within 30 days as required.
- Training Course File – The TxDMV was mostly in compliance with the training course file requirements. Of the 15 files reviewed, only one file was missing a course evaluation.
- Training System Access – The TxDMV was in compliance with the completion of Non-Disclosure and User Verification forms requirement. However, three of the six TxDMV staff members who have access to TCLEDDS are not actively involved in the administration of the TCOLE training program.

TxDmv should consider developing an annual strategic training plan for the TCOLE trainings and fully developing and documenting policies and procedure. The policies and procedures should also define the responsibilities of the training coordinator to ensure compliance with the TCOLE training requirements.

External Quality Assurance Review

IAD underwent an external quality assurance review (peer review) in May 2018. Representatives of the State Agency Internal Audit Forum performed the peer review in accordance with current peer review policies and procedures. On May 2018, IAD received a rating of “pass” out of three possible ratings: pass, pass with deficiencies, or fail (see Figure 2).

Figure 2. Peer Review Certificate



The report noted one opportunity for improvement; the opportunity and the Internal Audit Division Director’s response is as follows:

Opportunity for Improvement:

The Internal Audit Division should consider performing a periodic project related to the agency's ethics-related objectives, programs, and activities.

Director's Response:

The Internal Audit Division (IAD) will consider performing a project related to the agency's ethics-related objectives, programs, and activities. The Internal Audit Division is currently

conducting a fraud, waste, and abuse risk assessment for the Department to determine if we have sufficient processes to mitigate current fraud, waste, and abuse risks. In addition, the Internal Audit Division plans on periodically performing informational campaigns on ethics for the Department.

Figure 3, Peer Review Opinion, is an excerpt from the TxDMV Internal Audit Division External Quality Assurance Review – May 2018.

Figure 3. Peer Review Opinion

Texas Department of Motor Vehicles Internal Audit Division
External Quality Assurance Review – May 2018

Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Department of Motor Vehicles Internal Audit Division receives a rating of **"Pass/Generally Conforms"** and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics*, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

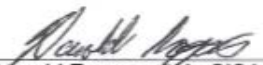

We found that the Internal Audit Division is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

The Internal Audit Division is well managed internally. In addition, the Division has effective relationships with the Board and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.

The Internal Audit Division has reviewed the results of the peer review team's work and has accepted them to be an accurate representation of the Division's operations.

Acknowledgements

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit Division staff, the Board members, the Executive Director, and the senior managers who participated in the interview process. We thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Division and its relationship with management.

| | | | |
|--|---|---|---|
|  <hr style="width: 100%;"/> Harold Rogers, CIA, CISA Special Projects Auditor Texas Workforce Commission SAIAF Peer Review Team Leader | 6/1/18 <hr style="width: 100%;"/> Date |  <hr style="width: 100%;"/> Patrick McKinney, CIA External Audit & Advisory Services Section Director Texas Department of Transportation SAIAF Peer Review Team Member | 6/1/18 <hr style="width: 100%;"/> Date |
|--|---|---|---|

Internal Audit Plan for Fiscal Year 2019

The TxDMV Board approved the Fiscal Year 2019 Internal Audit Plan on August 16, 2018. The audit plan included 10 engagements, 5 contingency engagements, and other internal audit duties. Table 3 provides information on the ten engagements that will be conducted in FY 2019, including the hours allocated to each engagement, the alignment to the TxDMV strategic goals, the initial contact division (if applicable), the engagement background information, and the preliminary objectives (if applicable).

Table 3. Audit Plan

| Engagement Topic | Strategic Goal(s) | Division | Background and Preliminary Objectives |
|---|---------------------------------------|--|--|
| 1. Compliance & Investigations Division 650 hours | Customer Centric & Performance Driven | Compliance & Investigations Division (CID) | <p><u>Background:</u> In the 85th Legislature, TxDMV requested an exceptional item of 13 Full – Time Equivalents (FTEs) with \$1.9 million in funding to address external fraud, waste, and abuse. The exceptional item was approved by the Legislature, which resulted in a new division (CID). CID is responsible for processing complaints and investigating allegations of fraud related to motor vehicle title and registration, providing support for law enforcement, and working on compliance with tax assessor-collectors' offices and Regional Service Centers.</p> <p><u>Preliminary Objectives</u></p> <ul style="list-style-type: none"> • To determine whether CID established appropriate and valid objectives to meet desired outcomes. • To evaluate whether CID structure is sufficient to prevent, detect, and investigate fraud, waste, and abuse. |

| Engagement Topic | Strategic Goal(s) | Division | Background and Preliminary Objectives |
|---|--|--|--|
| <p>2. Lemon Law Investigation and Resolution Process 500 hours</p> | <p>Customer Centric & Performance Driven</p> | <p>Enforcement Division (ENF) & Office of Administrative Hearing (OAH)</p> | <p><u>Background:</u> The Lemon Law resolution process was transferred from the State Office of Administrative Hearings (SOAH) to the Department when HB 1692 (83rd Texas Legislature, Reg. Session) passed. As of January 2014, the Office of Administrative Hearings, with help from the Enforcement Division, has been in charge of handling Lemon Law investigations and resolutions.</p> <p><u>Preliminary Objectives</u></p> <ul style="list-style-type: none"> To determine whether the Lemon Law process provides equitable and objective resolution. |
| <p>3. Employee Classification & Hiring 500 hours</p> | <p>Performance Driven</p> | <p>Human Resources Division (HRD)</p> | <p><u>Background:</u> Effective talent management, including hiring staff, is a critical function to ensure the Department is properly staffed. The HRD is responsible for acquiring, developing, and retaining talent to meet the business needs of the Department. For HRD to meet its responsibilities, it works with Department staff to hire for vacant positions and conducts job audits to make sure staff are in the correct position and classification. In FY 2018, it currently takes the Department 84 days to hire an employee, and it takes HRD anywhere from a day to 105 days to process a job audit.</p> <p><u>Preliminary Objectives</u></p> <ul style="list-style-type: none"> To determine whether the hiring process is sufficiently agile to address current and emerging staffing needs. |

| Engagement Topic | Strategic Goal(s) | Division | Background and Preliminary Objectives |
|--|-----------------------------------|--|---|
| 4. Information Security Risk Management 600 hours | Performance Driven | Information Technology Services (ITS) Division | <p><u>Background:</u> Cybersecurity continues to be one of the highest risk areas for any state agency. Cybersecurity requires a process to identify and manage security risks to avoid costly and significant consequences.</p> <p><u>Preliminary Objectives</u></p> <ul style="list-style-type: none"> To determine whether the Department has sufficient processes in place to monitor and identify information security threats. |
| 5. Payment Card Industry (PCI) Compliance 450 hours | Performance Driven | ITS | <p><u>Background:</u> Customers' credit cards are accepted for some of the Department's transactions. To be able to accept credit cards, TxDMV has to attest to the Payment Card Industry (PCI) Security Standards Council that the credit card information obtained from transactions is being safeguarded, and that the Department is meeting the twelve PCI requirements. The requirements range from installing and maintaining a firewall to maintaining an information security policy.</p> <p><u>Preliminary Objectives</u></p> <ul style="list-style-type: none"> To determine whether TxDMV is compliant with certain PCI requirements. |
| 6. Enterprise Project Management <i>Advisory Service</i> 1100 hours | Optimized Services and Innovation | Enterprise Project Management Office (EPMO) | <p><u>Background:</u> EPMO and ITS have completed an organizational assessment that identified significant issues in the process for project planning and management. The assessment is being used to help with organizational change for the project planning and management process. With any organizational change, the changes increase risks to the function that updated roles and responsibilities</p> |

| Engagement Topic | Strategic Goal(s) | Division | Background and Preliminary Objectives |
|---|--|------------------------|--|
| | | | <p>will not be fully understood and processes not being as efficient and effective as possible. Organizational changes may also increase risks concerning project assignments, management reporting structures, quality assurance, and overall governance.</p> <p><u>Advisory Service Objectives</u></p> <ul style="list-style-type: none"> • To conduct a facilitated self-assessment to identify risks and controls for the following EP MO processes: <ul style="list-style-type: none"> ○ Project Planning and Development, ○ Project Quality Assurance, ○ Project Governance, ○ Contractor and Contract Management, and ○ Staff and Project Roles. |
| <p>7. Management or Board Requests 650 hours</p> | <p>TBD</p> | <p>TBD</p> | <p><u>Background:</u> Time has been allotted for a special requests or reviews of a new or emerging risk for the Department. This time includes any type of request and may include specific reviews of Regional Service Centers, Driver’s Privacy Protection Act, or other items.</p> |
| <p>8. FY 2019 Internal Audit Follow-Up 100 hours</p> | <p>Optimized Services and Innovation, Customer Centric, & Performance Driven</p> | <p>Department-wide</p> | <p><u>Background:</u> This project would verify if outstanding internal and external audit recommendations have been fully implemented. Quarterly reporting and an annual report will be provided.</p> |

| Engagement Topic | Strategic Goal(s) | Division | Background and Preliminary Objectives |
|---|--|-----------------|---|
| 9. FY 2020 Internal Audit Plan 100 hours | Optimized Services and Innovation & Customer Centric | Department-wide | <u>Background:</u> The annual audit plan is prepared using risk assessment techniques to identify individual audits to be conducted during the year. The TxDMV Board must review and approve the annual audit plan as required by Government Code. |
| 10. FY 2018 Annual Internal Audit Report 30 hours | Not Applicable | Department-wide | <u>Background:</u> A summary of internal audit activities. Government Code requires this annual report be submitted before November 1 to the TxDMV Board, the Governor, the Legislative Budget Board, the State Auditor's Office, and the Sunset Advisory Commission. |

Contingency Audit and Advisory Services

The IAD identified alternate, or contingency, engagements that it can perform. These engagements were identified through the annual risk assessment process and are high risk areas for the Department, but they are not as high risk as the primary engagements identified. Table 4 summarizes the contingency engagement information for FY 2019.

Table 4. Contingency Engagements

| Engagement Topic | Strategic Goal(s) | Division | Background |
|--|--|-----------|---|
| 1. Procurement & Contract Management 800 hours | Optimized Services and Innovation & Performance Driven | FAS, EPMO | <u>Background:</u> Procurement processes and contracts continue to be an area of focus for the Texas Legislature and external regulators. Recently, there has been a focus on ensuring that contracts are properly procured, reviewed by management, and have oversight by the Board of Directors. As of April 2018, the Department had issued over \$78 million in procurements for FY 2018. |

| Engagement Topic | Strategic Goal(s) | Division | Background |
|---|--|------------------------------|--|
| 2. ELinc Application Review 600 hours | Optimized Services and Innovation | ITS & Motor Carrier Division | <u>Background:</u> ELinc will allow motor carriers to self-issue operating authority in Texas, which will reduce the approval time. |
| 3. Access Management 600 hours | Performance Driven | ITS | <u>Background:</u> Access Management is a pivotal and key component of any information technology system. Ensuring that access is managed properly, to ensure only those employees or staff access only the right data, is needed. |
| 4. ITS Infrastructure 800 hours | Optimized Services and Innovation & Performance Driven | ITS | <u>Background:</u> The Department relies on the Texas Data Center Services (DCS) to host and manage its key IT infrastructure, including services. DCS is responsible for ensuring servers are appropriately patched and maintained to reduce the risk of a cyber-attack and keep up with technology changes. Since DCS is a third-party provider, oversight by the Department is key to ensure objectives are met and IT infrastructure is properly maintained. |
| 5. Regional Service Centers 800 hours | Customer Centric & Performance Driven | VTR | <u>Background:</u> The Regional Service Centers (RSCs) play an integral role in serving TxDMV customers located throughout the state of Texas. Each RSC has a regional manager that manages the RSC and an assistant chief that oversees the RSC. |

Other Internal Audit Duties

In addition to conducting engagements, the IAD has other duties that it performs each fiscal year. These duties include conducting quality control on issued audit and advisory service reports, working on Anti-Fraud, Waste, and Abuse Items, and providing ad hoc advisory services to the Department. Table 5 summarizes the other Internal Audit duties and the hours allocated to each item. In addition, the table provides information on total budgeted hours for IAD activities, including hours allocated to engagements and to other duties.

Table 5. Internal Audit Duties

| Other Internal Audit Duties | |
|---|--|
| <ol style="list-style-type: none"> 1. Coordinating with external auditors and reviewers (50 hours) 2. Working on Anti-Fraud, Waste, and Abuse Items (200 hours) 3. Conducting an annual Quality Assurance and Improvement Program as required by auditing standards (80 hours) 4. Advising the agency’s Governance Team and Executive Steering Committees (200 hours) 5. Providing ad hoc advisory services or consultations (100 hours) | |
| Total Budgeted Hours on Audit and Advisory Service Engagements: 4,700 | |
| Total Budgeted Hours on Other Internal Audit Division Duties: 630 | |
| Total Budgeted Hours for Reports and Division Duties in FY 2019: 5,330 | |

Risk Assessment Methodology

The audit plan was developed using a risk-based methodology, which incorporated input from board members, senior management, division management, and risks identified by audit staff through FY 2018 engagements and observations. The Internal Audit Division also analyzed department information and reviewed internal audit and industry publications to identify and rank potential audit topics by risk. Projects’ risk rankings were developed using the following factors:

- Revenue or expense impact
- Asset or liability impact
- Operational effectiveness and efficiency impact
- Legal or regulatory impact
- Brand or reputational impact
- Degree of change in the program, function, or process
- Degree of complexity
- Degree of centralization

In total, 100 Department risks were identified through the risk assessment. Each risk was scored using the above factors. The risk scores ranged from zero, which is the lowest risk score, to six, which is the highest risk score. An inherent risk score of four or higher is considered high risk for the Department. Low and medium risk scores are from 0 to 3.99.

SAO Related Items

The FY 2019 Internal Audit plan includes one contingency audit related to contract management, capital budget controls, and expenditure transfers: Procurement and Contract Management audit.

External Audit Services Procured in Fiscal Year 2018

TxDMV did not procure any external audit services; however, TxDMV was audited five times in FY 2018. Table 6 provides details on the external audit services.

Table 6. External Audit in FY 2018

| External Auditor and Topic | Results |
|--|--|
| <p>State Office of Risk Management</p> <p>FY 2018 Risk Management Review</p> | <p>State Office of Risk Management (SORM) conducted a Risk Management Program Review (RMPR) of the Texas Department of Motor Vehicles (TxDMV) on November 8, 2017. The consultation was conducted under the authority of Texas Labor Code, Title V, Subtitle A, Chapter 412, and is designed to assist state agencies to develop and implement comprehensive risk management programs that meet Risk Management for Texas State Agencies (RMTSA) guidelines.</p> <p>SORM reviewed processes and found almost all items in compliance. Only one finding was issued related to an electrical panel. An electrical panel in the Camp Hubbard Complex (building 5) was not appropriately labeled. TxDMV corrected the issue at the end of February 2018.</p> |
| <p>Texas Commission on Law Enforcement</p> <p>2018 Training Program Evaluation Report (TPER)</p> | <p>TxDMV provides training to law enforcement through the Texas Commission on Law Enforcement (TCOLE) training program. TCOLE conducted a review to determine if TxDMV was in compliance with the Commission rules and state law.</p> <p>TCOLE reviewed training records and found that TxDMV was mostly in compliance with the requirement, but found two areas of noncompliance:</p> <ul style="list-style-type: none"> • TxDMV did not consistently submit training rosters within the 30-day period. • TxDMV did not have all required documentation in training course file. <p>TCOLE recommended TxDMV develop policies and procedure and TxDMV developed policies and procedures by April 2018.</p> |

| External Auditor and Topic | Results |
|---|--|
| <p>Texas Department of Public Safety</p> <p>Criminal Justice Information Services (CJIS) Security Audit</p> | <p>Texas Department of Public Safety (TxDPS) conducted a review of TxDMV compliance with CJIS policies. TxDPS found that TxDMV was mostly compliance, but needed to correct a few issues.</p> <p>TxDMV corrected all issues in April 2018 and TxDPS provided a notice of compliance.</p> |
| <p>Sunset Commission</p> <p>2018 Sunset Commission Staff Report</p> | <p>The Sunset Commission conducted an evaluation on TxDMV to determine if objectives were being met and whether TxDMV needed to continue. Several recommendations were made to address the issues identified.</p> |
| <p>Texas Comptroller of Public Accounts</p> <p>Post-Payment Audit</p> | <p>The Texas Comptroller of Public Accounts conducted a post payment audit on TxDMV. The audit found TxDMV was in compliance with applicable state laws for travel, security, internal controls, and fixed asset areas. However, the audit found non-compliance in the procurement and payroll area.</p> |

Reporting Suspected Fraud and Abuse

Fraud Reporting Requirements

To comply with fraud reporting requirements in the General Appropriations Act (85th Legislature, Article IX, Section 7.09), the TxDMV has taken the following actions:

- Provides information on the home page of the TxDMV website (www.txdmv.gov) on how to report suspected fraud, waste, and abuse directly to the State Auditor's Office (SAO)
- Includes in the agency's Human Resources Manual information on how to report suspected fraud involving state funds to the SAO. Employees are directed by agency policy to report any suspected incidents of fraud to their manager, the Internal Audit Director, and the SAO
- Provides a link on the Internal Audit Division's Intranet page to the SAO fraud hotline website

The Internal Audit Division also participates in the TxDMV Anti-Fraud, Waste, and Abuse Working Group. The working group is composed of several divisions that are involved in preventing or identifying fraud and is chaired by the Executive Director. This year, the Anti-Fraud, Waste, and Abuse Working Group began implementing new fraud training and requested an advisory service to help identify fraud, waste, and abuse risks and controls.

Investigation Coordination Requirements

The IAD coordinates compliance with Texas Government Code, Section 321.022 (Coordination of Investigations) by submitting a quarterly report to the State Auditor's Office on the disposition of allegations received.

The IAD also evaluates all instances of fraud, waste, or abuse reported to the IAD to determine appropriate action. If the Internal Audit Director has reasonable cause to believe that fraudulent or unlawful conduct has occurred in relation to the operation of the TxDMV, the Director will work with appropriate parties and notify the SAO.

Appendix 1: Report Distribution and Rating Information

Report Distribution

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.

Maturity Rating Definition

IAD derived the maturity assessment ratings and definitions 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: Non-existent process level - The function used no process since a standardized process is not defined or being used.

1: Initial and ad-hoc process level - The function used an ad hoc approach when issues arise because a standardized process is not defined.

2: Repeatable but intuitive process level - The function developed a process where similar procedures are followed by several employees, but the results may not be consistent. The process is not completely documented and has not been sufficiently evaluated to address risks.

3: Defined process level - The function followed a standardized, documented, and communicated process. The process, however, may not detect any deviation due to the process not being sufficiently evaluated to address risks.

4: Managed and measurable process level - The function followed a standardized, documented, and communicated process that is monitored and measured for compliance. The function evaluated the process for constant improvement and provides good practice. The process could be improved with the use of more information technology to help automate the workflow and improve quality and effectiveness.

5: Refined level - The function followed a standardized, documented, and communicated process defined as having a good process that results from continuous improvement and the use of technology. Information technology was used in an integrated way to automate workflow and to improve quality and effectiveness of the process.