



Texas Department
of Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

Quality Assurance and Improvement
Program Report

Internal Audit Division
September 2018



Quality Assurance and Improvement Program Executive Summary

BACKGROUND

The Internal Audit Division (IAD) follows the audit standards prescribed by the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (IIA Standards), the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing and the Code of Ethics; (2) U.S. Government Accountability Office's (GAO) Generally Accepted Auditing Standards (GAGAS); and (3) Texas Internal Auditing Act, Texas Government Code, Chapter 2102 (Act). These audit standards require IAD develop and maintain a Quality Assurance and Improvement Program (QAIP) that includes both internal and external assessments.

Internal assessments are ongoing monitoring of the performance of the internal audit activity, as well as annual self-assessment reviews. The IIA Standards require the results of internal assessments be communicated to the governing board at least annually.

This report provides a summary of fiscal year 2018 Internal Audit Division's activities and compliance with applicable audit standards.

RESULTS

The IAD complies with the IIA Standards, the Definition of Internal Auditing, the *Core Principles for the Professional Practice of Internal Auditing*, the IIA's *Code of Ethics*, GAGAS, and the Act. One opportunity for improvement was noted in the review.

The opportunity for improvement related to updating the audit charter to clearly state the IAD follows the definition of internal audit and better define IAD's scope. The audit charter has been revised and is pending approval from the TxDMV Board at the October 2018 Board meeting.

In addition, IAD began tracking and measuring its performance through Key Performance Indicators (KPIs) in fiscal year (FY) 2018. In total, IAD has 10 KPIs. IAD measured itself against 8 of those KPIs in FY2018.

The report also provides information on IAD's progress on achieving its desired level in the Capability Model and provides information on fraud, waste, and abuse allegations and dispositions handled by IAD.

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Background

The Texas Department of Motor Vehicles (TxDMV) - Internal Audit Division (IAD) follows the audit standards prescribed by the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (IIA Standards), the Definition of Internal Auditing, the *Core Principles for the Professional Practice of Internal Auditing* and the *Code of Ethics*; (2) U.S. Government Accountability Office's (GAO) *Generally Accepted Auditing Standards* (GAGAS); and (3) Texas Internal Auditing Act, Texas Government Code, Chapter 2102 (Act). These audit standards require IAD develop and maintain a Quality Assurance and Improvement Program (QAIP) that includes both internal and external assessments:

- Internal assessment is ongoing monitoring of the performance of the internal audit activity, as well as annual self-assessment reviews. The IIA Standards require the results of the annual self-assessments be communicated to the governing board at least annually.
- External assessment (Peer Review) is a review of the IAD that is conducted a qualified, knowledgeable Peer Review team. The Peer Review team will determine if the division is in conformance with applicable standards and the external assessment may provide feedback on operational and strategic issues.

Internal Assessments

The IAD internal assessment includes ongoing monitoring as well as an annual self-assessment. The ongoing monitoring includes a review of all audit documentation, audit recommendations, and reports for each engagement conducted by the IAD in a fiscal year prior to finalizing an engagement file.

The annual self-assessment includes verifying IAD followed all required compliance and performance audit standards. In addition, the IAD provides information on the following:

- Key Performance Indicators (KPIs)
- Institute of Internal Auditors (IIA) – Internal Audit Capability Model for the Public Sector (Capability Model)
- Fraud, waste, and abuse allegations and disposition
- External assessment recommendations progress

External Assessments

Every three years, the IAD Director begins the process to obtain a Peer Review team. The Peer Review team issues a public report rendering an overall opinion on whether IAD complied with the audit standards and whether QAIP provides reasonable assurance that internal audit complies with applicable professional standards in all material aspects. The IAD received its most recent Peer Review in May 2018.

Audit Engagement Team

The audit was performed by Sandra Menjivar-Suddeath (Internal Audit Director) and reviewed by Jacob Geray (Internal Auditor).

Internal Assessment Results

At the end of fiscal year (FY) 2018, the IAD Director conducted a review to determine if the IAD followed all required applicable compliance and performance audit standards. In addition, the IAD Director analyzed data collected throughout the fiscal year to report on the division's KPIs, Capability Model, and fraud, waste, and abuse resolution.

Overall Conclusion

Based on the review, the IAD complies with the IIA Standards, the definition of internal auditing, the *Core Principles for the Professional Practice of Internal Auditing*, the IIA's *Code of Ethics*, GAGAS, and the Act. One opportunity for improvement was noted in the review. The opportunity for improvement related to updating the audit charter to clearly state the IAD follows the Definition of Internal Auditing and better define IAD's scope. The audit charter has been revised and is pending approval from the TxDMV Board at the October 2018 Board meeting.

In addition, IAD met its Key Performance Indicators and has made progress on achieving the optimized level of the Capability Model.

Compliance Audit Standards

A review of the IAD's audit charter, standard operating procedures, and engagement control programs was conducted to determine if the IAD followed all compliance audit standards. Compliance standards include the following items:

- **Purpose, Authority, and Responsibility** - The internal audit function must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Institute of Internal Auditors (IIA) Standards, and the Definition of Internal Auditing).
- **Independence and Objectivity** - The internal audit function must be independent and perform work in an objective manner.
- **Proficiency and Due Professional Care** - Engagements must be performed by staff that are proficient and have due professional care.
- **Quality Assurance and Improvement Program** - A quality assurance and improvement program must be established and must enable an evaluation of the internal audit function's conformance with the audit standards and any applicable other requirements. The program should, also, assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement for the function.
- **Managing the Internal Audit Activity** - The internal audit function must be effectively managed to ensure it adds value to the organization.

- **Nature of Work** - The internal audit function must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk based approach.
- **Monitoring Progress** - A system to monitor the disposition of results must be established, maintained, and communicated.

Based on the review, IAD met all the compliance audit standards; however, one opportunity for improvement was identified. The one opportunity for improvement was related to updating its audit charter to more explicitly discuss the Definition of Internal Auditing and better define the IAD's role. The opportunity for improvement and response is noted below.

Opportunity for Improvement

The IAD should update its internal audit charter to clearly state the IAD follows the Definition of Internal Auditing and to better explain the IAD's scope. Currently, the audit charter defines internal auditing, as required by the IIA, but the charter does not state the division will follow the definition of internal auditing. In addition, the charter states the IAD's responsibilities but does not define its scope. IAD has already made revision to the audit charter, and it is pending approval from the TxDMV Board. The audit charter approval is on the October 2018 Board meeting.

Performance Audit Standards

The IAD must also meet performance audit standards. To determine whether performance audit standards were met, the IAD Director selected one completed engagement (TxDMV Fund Audit) and reviewed it. Specifically, the IAD Director verified the IAD complied with the following performance audit standards:

- **Engagement Planning** - A plan must be developed and documented for each engagement.
- **Performing the Engagement** - Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.
- **Communicating Results** - Results from the audit engagements must be communicated to management and those in charge with governance.

Based on audit documentation, the IAD met all performance audit standards. No opportunities for improvements were noted.

Key Performance Indicators

In FY 2018, the IAD began the process of developing KPIs to provide information to the TxDMV Board and executive management on the overall performance of the division. IAD, in consultation with the TxDMV Board Chair and the Finance & Audit Committee Chair, identified 10 KPIs that should be used to measure the division. These 10 KPIs are noted in Table 1.

Table 1. Key Performance Indicators

| KPI # | KPI | Target |
|-------|--|--------|
| 1 | Internal Audit Recommendations Implemented | 80% |
| 2 | Internal Audit Plan Completion | 80% |
| 3 | Engagements within 10% of budgeted hours | 90% |
| 4 | Percent of overall client satisfaction after an engagement | 80% |
| 5 | Percent of client survey that agree audit had clear and timely communication on the audit results and report | 80% |
| 6 | Percent of client survey that agree audit had sufficient knowledge about the audited area | 80% |
| 7 | Percent of relevant certifications held by staff | 80% |
| 8 | Number of Internal Audit Division educational efforts conducted | 2 |
| 9 | Percent of staff working on operational initiatives | 100% |
| 10 | Percent of clients that believe that the audit recommendations were useful and beneficial after implementation | 80% |

IAD implemented 8 of the 10 KPIs in FY 2018 and will implement the last 2 KPIs in FY 2019. The two KPIs that were not implemented in FY 2018 are the following:

- Percent of Staff Working on Operational Initiatives
- Percent of clients that believe that the audit recommendations were useful and beneficial after implementation

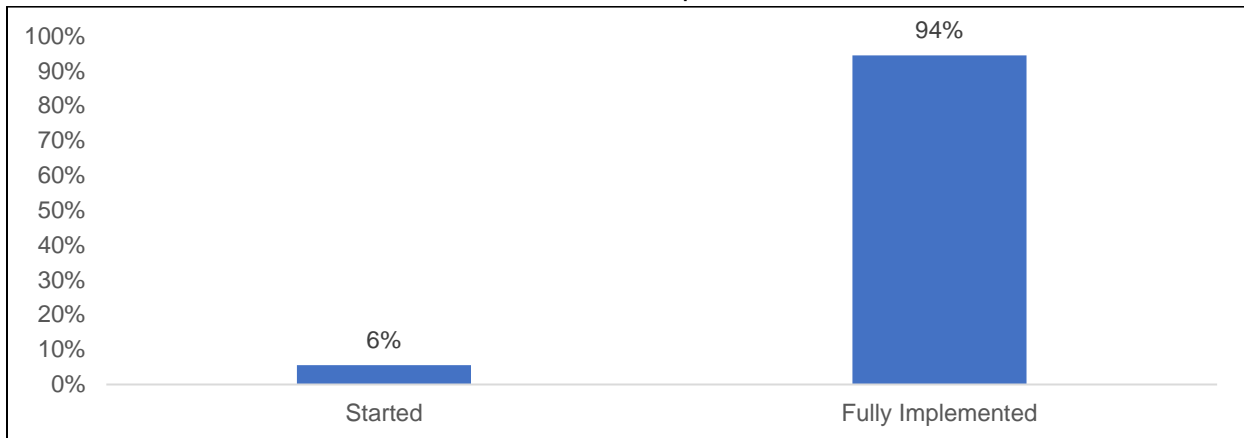
These KPIs were not implemented in FY 2018 due to when the KPIs were developed.

Audit Recommendations Implemented

IAD tracks the number of internal audit recommendations implemented by TxDMV. The implementation rate shows TxDMV's commitment to improving processes as well as IAD effectiveness.

In FY 2018, IAD verified the implementation status of 36 internal audit recommendations. IAD verified TxDMV has fully implemented 34 internal audit recommendations (94%) and started 2 internal audit recommendations (6%) as noted in the chart below.

Chart 1. FY2018 Internal Audit Recommendation Implementation rate

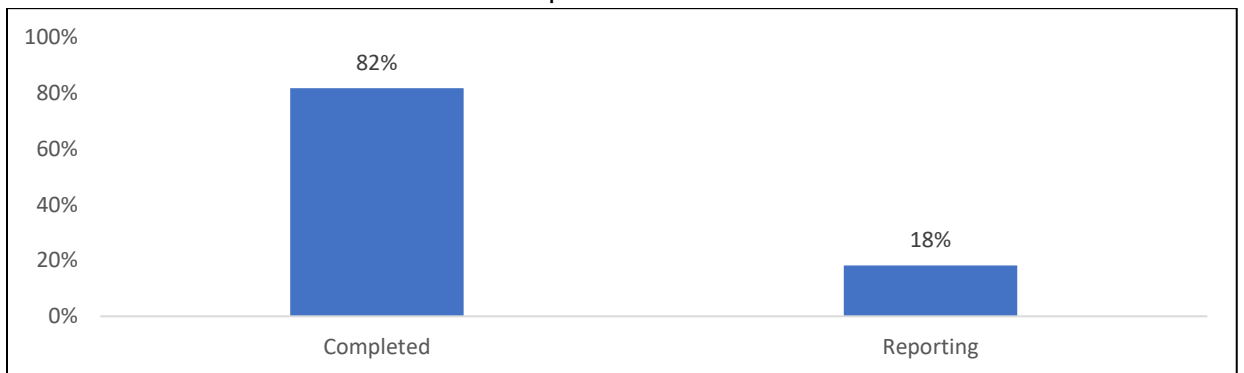


Audit Plan Completion

IAD measures how well it tracked against the approved Internal Audit Plan. The IAD must complete at least 80% of the internal audit plan by the end of the fiscal year. Due to the nature of audit reporting, audit completion is defined by the number of engagements that were issued or in the reporting phase at the end of the fiscal year divided by the number of engagements listed on the audit plan.

In FY 2018, the IAD had completed the entire audit plan (12 audit engagements) by the end of the fiscal year. 10 engagements had been fully completed and two engagements were in the reporting phase (see Chart 2 and table 2).

Chart 2. FY 2018 Internal Audit Plan Completion Status



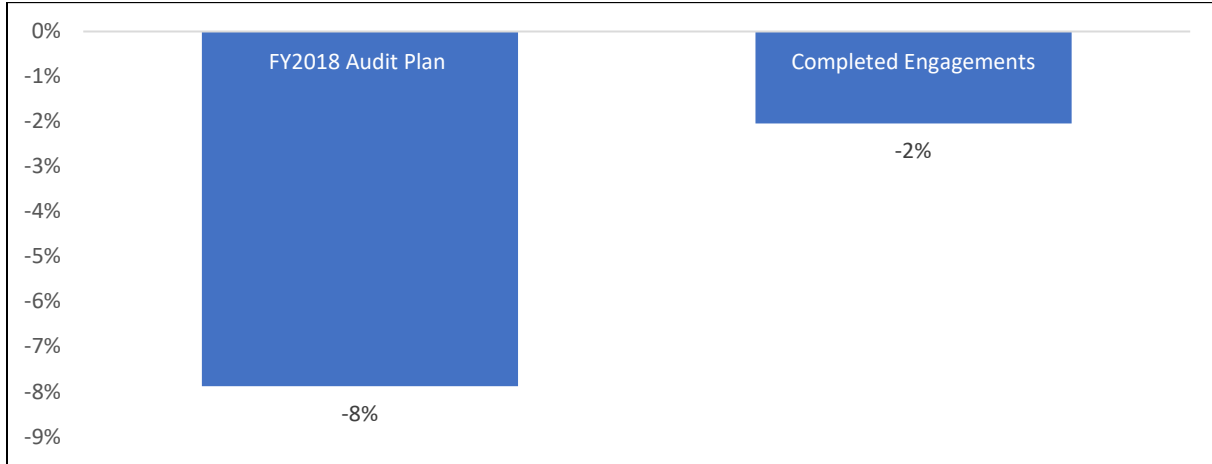
Engagement Budgets

To measure IAD's efficiency, the IAD monitors the hours spent on engagements against the initial engagement budget. Engagements must come within 10% of the initial engagement budget. The initial engagement budget is the budget given to the engagement when it is started.

In FY 2018, the IAD met its target for Engagement Budget. For engagements that were completed at the end of FY 2018, the variance was 2% of initial budget. Overall, the variance

was 8% for all engagements that were completed or in the reporting phase at the end of the fiscal year (see chart 3).

Chart 3. FY 2018 Engagement Budget Variance

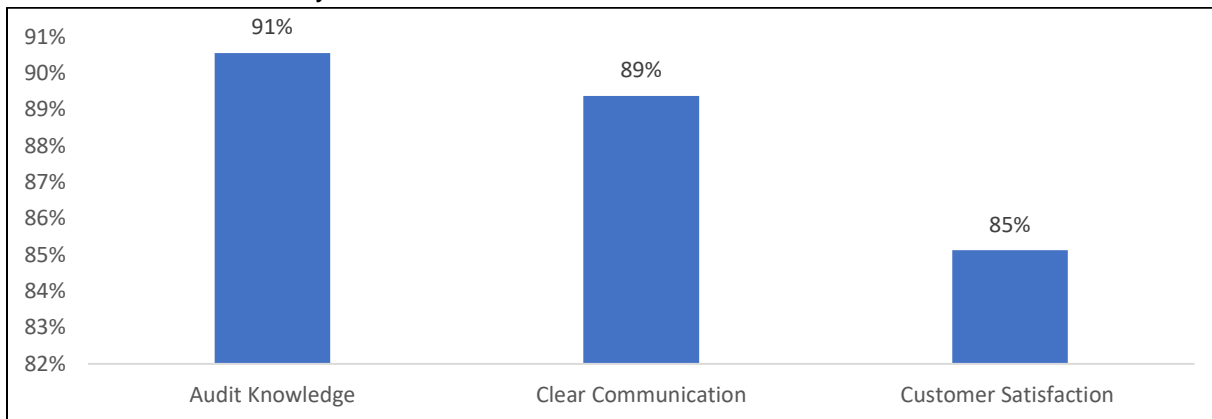


Survey

For three KPIs, IAD uses surveys to determine if the TxDMV division staff feel that the IAD possess sufficient knowledge to conduct engagements (audit knowledge) and provides clear and timely communication (clear communication). In addition, the surveys provide information on whether division staff are satisfied with the engagement (customer satisfaction). The current KPI for each survey is at least 80% agreement.

In FY2018, IAD met its KPIs for the three KPIs related to customer satisfaction, clear communication, and audit knowledge. The results are depicted in chart 4.

Chart 4. FY 2018 Survey Results



Staff Certification

To ensure IAD has staff that can perform the necessary audit work, the IAD measures staff certifications. The current KPI is that 80% of the recognized certifications must be present with audit staff.

In FY 2018, 80% of the recognized certification were present with audit staff. Audit staff had the following certification:

- Certified Internal Auditor
- Certified Information Systems Auditor
- Certified Government Auditing Professional
- Certified Fraud Examiner

The only certification not present was the Certified Public Accountant.

Audit Educational Efforts

To ensure staff and stakeholders understand the role of the IAD, IAD measures how many educational efforts are done in a fiscal year. The IAD should perform at least two education efforts a year.

In FY 2018, IAD conducted eight educational efforts to internal and external stakeholders. The eight events are noted in table 2.

Table 2. FY 2018 Educational Events

| # | Date | Association | Topic |
|---|-------------|--|-------------------|
| 1 | Fall 2017 | Texas Association of County Auditor's | Fraud Topic |
| 2 | Fall 2017 | V.G. Young School for County Tax Assessor-Collectors | Fraud Topic |
| 3 | Spring 2018 | Internal Audit Month | Open House |
| 4 | Spring 2018 | Enforcement Division - Managers | What does IAD do? |
| 5 | Spring 2018 | Enforcement Division - Motor Carrier Investigators | What does IAD do? |
| 6 | Spring 2018 | Enforcement Division - Motor Vehicle Investigators | What does IAD do? |
| 7 | Summer 2018 | Consumer Relations Division | What does IAD do? |
| 8 | Summer 2018 | Vehicle Titles & Registration - Regional Service Manager | What does IAD do? |

Capability Model

During the 2018 Peer Review, the IAD Director requested that the Peer Review team review the *Capability Model for the Public Sector* and provide an assessment on the current level of the Internal Audit Division. The Peer Review team provided an initial assessment. The Peer Review team assessed the IAD at a Level 2, Infrastructure. After reviewing the Peer Review results, the IAD set its goal to level 5, Optimizing and began working towards it.

In FY 2018, made significant progress to achieve level 5 by conducting the following:

- Developing a strategic vision for IAD
- Creating workforce projection

As a result, the IAD was at a level 3, Integrated, and had made significant progress to achieving level 5. This is noted in Figure 1.

Figure 1. FY2018 Capability Model Progress

| | Services and Role of IA | People Management | Professional Practices | Performance Management and Accountability | Organizational Relationships and Culture | Governance Structures |
|---|--|---|--|---|--|---|
| Level 5 – Optimizing | ★ IA Recognized as Key Agent of Change | ★ Leadership Involvement with Professional Bodies Workforce Projection | ★ Continuous Improvement in Professional Practices Strategic IA Planning | ★ Outcome Performance and Value to Organization Achieved | ★ Effective and Ongoing Relationships | ★ Independence, Power, and Authority of the IA Activity |
| Level 4 – Managed | Overall Assurance on Governance, Risk Management, and Control | A Contributes to Management Development IA Activity Supports Professional Bodies Workforce Planning | Audit Strategy Leverages Organization's Management of Risk | Integration of Qualitative and Quantitative Performance Measures | CAE Advises and Influences Top-level Management | Independent Oversight of the IA Activity CAE Reports to Top-level Authority |
| Level 3 – Integrated | Advisory Services Performance/Value-for-Money Audits | Team Building and Competency Professionally Qualified Staff | Quality Management Framework Risk-based Audit Plans | Performance Measures Cost Information IA Management Reports | Coordination with Other Review Groups Integral Component of Management Team | Management Oversight of the IA Activity Funding Mechanism |
| Level 2 – Infrastructure | Compliance Auditing | Individual Professional Development Skilled People Identified and Recruited | Professional Practices and Processes Framework Audit Plan Based on Management/ Stakeholder Priorities | IA Operating Budget IA Business Plan | Managing within the IA Activity | Full Access to the Organization's Information, Assets, and People Reporting Relationship Established |
| Level 1 – Initial | Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organizational unit; no established capabilities; therefore, no specific key process areas | | | | | |
| ★ | Indicates the Internal Audit Division Desired State | | | | | |
| | Indicates the activity has been fully institutionalized by the Internal Audit Division | | | | | |
| | Indicates the activity is in progress, with the Internal Audit Division working towards institutionalization | | | | | |
| | Indicates the activity has not been started by the Internal Audit Division | | | | | |
| Circle indicates current maturity level | | | | | | |

Fraud, Waste, and Abuse Allegations

As part of IAD's role, the division investigates and tracks fraud, waste, and abuse allegations. The allegations are received from multiple sources, including internal complaints, State Auditor's Office, and internal reviews.

In FY 2018, the IAD investigated, participated, or tracked in 32 fraud, waste, and abuse allegations. Most of these allegations came through the State Auditor's Office and dealt with consumer issues, such as dealership problems. Chart 5 and 6 provide information on the types of complaints received from the State Auditor's Office as well as the source of most IAD allegations.

Chart 5. Fraud, Waste, and Abuse Referral

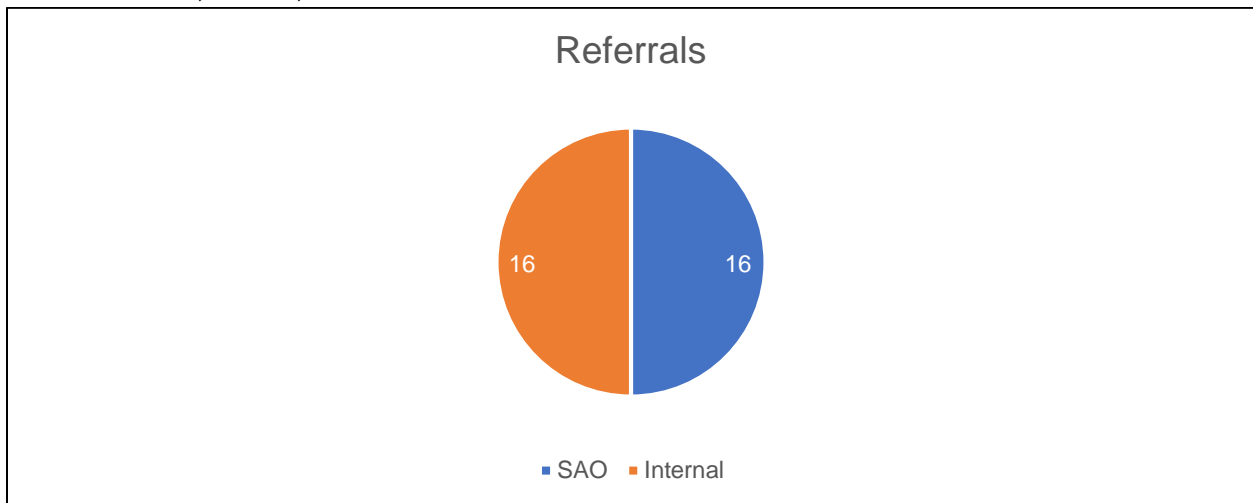
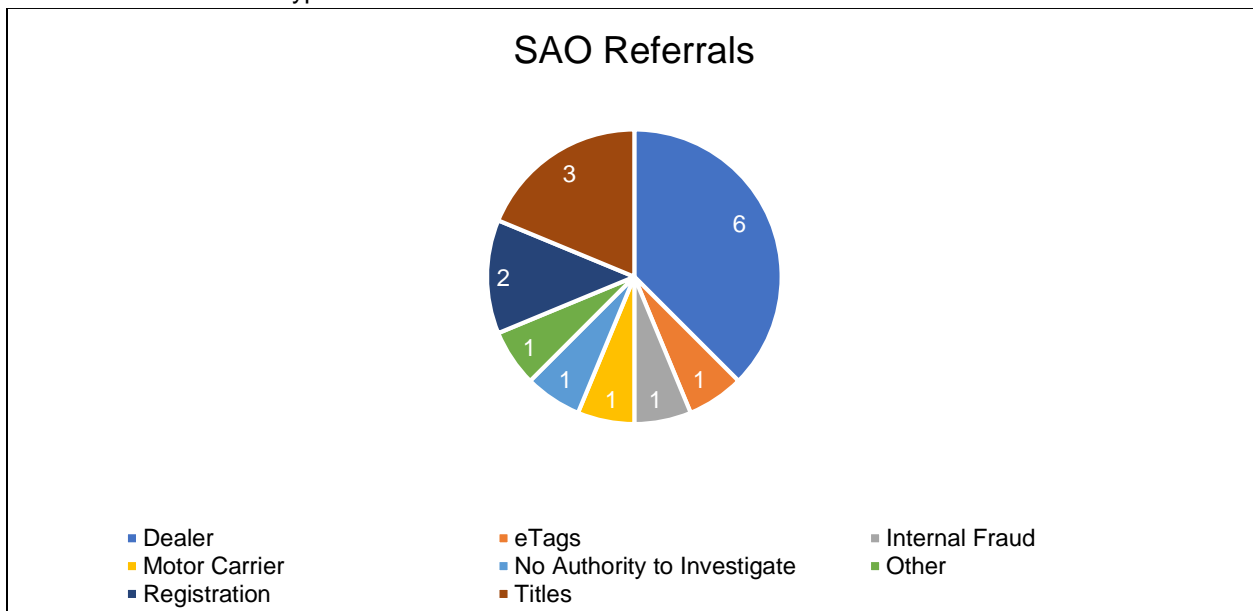
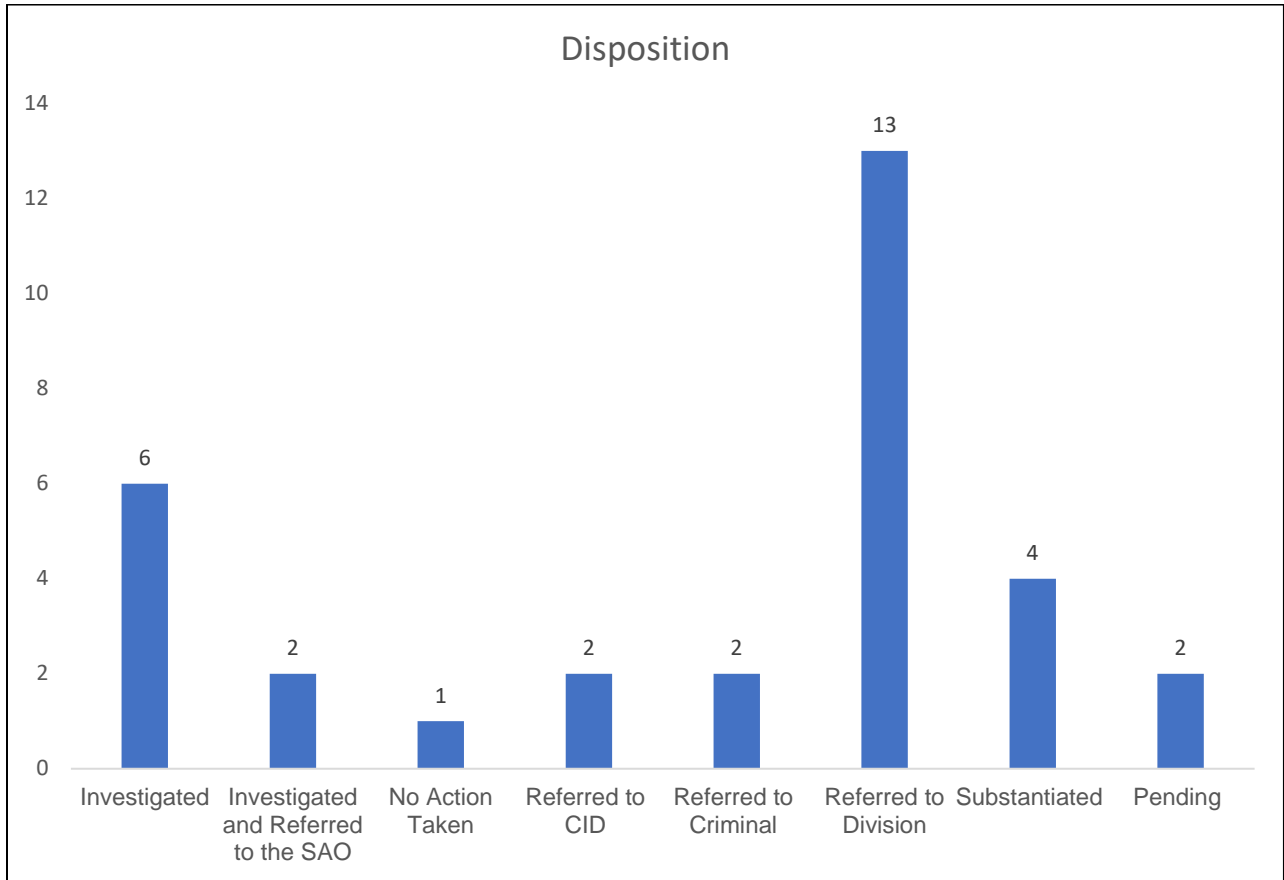


Chart 6. SAO Referral Type



For each complaint received, the IAD, in consultation with the Office of General Counsel, triages the complaints and decides whether the complaint needs to be investigated by IAD, referred to a division, or referred externally. Chart 7 provides information on the final disposition of each allegation received.

Chart 7. Fraud, Waste, and Abuse Disposition



External Assessment

The IAD obtained a Peer Review in early 2018 and released the Peer Review report in May 2018. The Peer Review team rated IAD as “pass”. The following is an excerpt from the peer review report’s 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” and is in compliance with the Institute of Internal Auditors (IIA) International Professional Practices Framework 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.

The report noted one opportunity for improvement; the opportunity and the Internal Audit 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.

The IAD is actively working on addressing this opportunity of improvement and has begun working on creating Ethics training for the Department.

Appendix 1: Objectives, Scope, Report Distribution

Objective

The objective of the Quality Assurance and Improvement Program is to provide a summary of the Internal Audit Division activities and compliance with applicable audit standards.

Scope and Methodology

The scope of the audit included FY 2018 Internal Audit Division Activities.

Information and documents reviewed in the audit included the following:

- Survey Results
- Audit Charter
- IAD Standard Operating Procedures
- IAD Engagement Control Program
- Human Resource Records
- TxDMV IAD 2018 Peer Review Report

Report Distribution

This report is distributed to the Board of the Texas Department of Motor Vehicles and the executive management team.

Appendix 2: Internal Audit Capability Model for the Public-Sector Levels

The Institute of Internal Auditors (IIA) Research Foundation developed the *Internal Audit Capability Model for the Public Sector*. The framework identifies the fundamentals needed for an effective internal audit function in the public sector. The framework describes the path an internal audit function in the public sector should follow to meet the organization's governance needs and professional expectations. The framework consists of five levels of maturity:

- **Level 1 - *Initial***: no sustainable, repeatable capabilities - dependent upon individual efforts
- **Level 2 - *Infrastructure***: sustainable and repeatable internal audit practices and procedures
- **Level 3 - *Integrated***: internal audit management and professional practices uniformly applied
- **Level 4 - *Managed***: internal audit integrates information from across the organization to improve governance and risk management
- **Level 5 - *Optimizing***: internal audit learning from inside and outside the organization for continuous improvement

While each level establishes key process that must be implemented to attain, many key processes require coordination and action by both the internal audit activity and the organization.

Initial Assessment

The Peer Review team, based on the IAD's work done from 2015 to 2017, determined its initial level. The initial assessment can be found in Figure 2.

Figure 2. Initial Capability Model

| | Services and Role of IA | People Management | Professional Practices | Performance Management and Accountability | Organizational Relationships and Culture | Governance Structures |
|--------------------------|--|---|--|---|--|---|
| Level 5 – Optimizing | IA Recognized as Key Agent of Change | Leadership Involvement with Professional Bodies Workforce Projection | Continuous Improvement in Professional Practices Strategic IA Planning | Outcome Performance and Value to Organization Achieved | Effective and Ongoing Relationships | ★ Independence, Power, and Authority of the IA Activity |
| Level 4 – Managed | ★ Overall Assurance on Governance, Risk Management, and Control | ★ A Contributes to Management Development IA Activity Supports Professional Bodies Workforce Planning | Audit Strategy Leverages Organization's Management of Risk | Integration of Qualitative and Quantitative Performance Measures | ★ CAE Advises and Influences Top-level Management | Independent Oversight of the IA Activity CAE Reports to Top-level Authority |
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| Level 2 – Infrastructure | Compliance Auditing | Individual Professional Development Skilled People Identified and Recruited | Professional Practices and Processes Framework Audit Plan Based on Management/ Stakeholder Priorities | ★ IA Operating Budget IA Business Plan | Managing within the IA Activity | Full Access to the Organization's Information, Assets, and People Reporting Relationship Established |
| Level 1 – Initial | Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organizational unit; no established capabilities; therefore, no specific key process areas | | | | | |
| | Activities that Internal Audit Division can institutionalize independent of management | | | | | |
| ★ | Indicates initial Internal Audit Division Level | | | | | |
| | Circle indicates defined maturity level | | | | | |