



Texas Department
of Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

Fiscal Year 2019 Annual Audit Activities
Report
20 – 01

Internal Audit Division
September 2019



Fiscal Year 2019 Annual Audit Activities, 20-01

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 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 2019.

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

RESULTS

In fiscal year (FY) 2019, the IAD conducted 11 engagements. These engagements include 9 audit and advisory service engagements, an internal audit plan, and an annual activities report.

The FY 2020 Internal Audit plan, which was approved by the TxDMV Board on August 8, 2019, consists of several items including 7 engagements for the first half, 7 potential engagements for the second half, divisional initiatives, and added value services. These items listed in the audit plan were identified using a risk-based methodology and cover risk related to 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 2020 Internal Audit Plan* on August 8, 2019, and the TxDMV web master posted the plan to the website after that. Similarly, the TxDMV Board obtains a presentation on the *Fiscal Year 2019 Annual Internal Audit Report* on October 3, 2019, and the TxDMV web master will post the report on the TxDMV website after the Board approval.

In addition, all public audit and follow - up reports are made available on the TxDMV website. The Internal Audit Plan, Annual Activities Report, and other audit reports can be found at <https://www.txdmv.gov/motorists/consumer-protection/internal-audit-division>.

Fiscal Year 2019 Internal Audit Plan Summary

In fiscal year (FY) 2019, the IAD completed 9 audit and advisory service engagements. The 9 engagements conducted by IAD included 6 audit engagements, 2 advisory service engagements, and 1 follow-up engagement.

The Internal Audit Division post every non-confidential audit report on the TxDMV website. Each report includes a summary of any concerns resulting from the audit plan or annual report and actions taken to address those issues. In addition, the reports are summarized below:

- **19-02 Employee Classification and Hiring**: The audit objective was to determine whether the hiring process is sufficiently agile to address current and emerging staffing needs. IAD found that employee classification and hiring processes are at a level 2 maturity level, where 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. IAD issued seven recommendations. These recommendations included clarifying the job classification review process, monitoring the contract performance of the background check vendor, identifying potential bias in the screening, and evaluating the hiring process timeframes.
- **19-03 Lemon Law Investigation & Resolution Process**: The audit objectives were to determine whether the Lemon Law process provides equitable and objective resolution and to determine whether the Lemon Law process is achieving objectives. IAD found that the Lemon Law process is at a level 2 maturity level, where the process is repeatable but intuitive. 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. The process developed for Lemon Law has been set up to provide impartial, equitable, and objective resolution. Both the Enforcement Division and the Office of Administrative Hearings have taken steps to show their impartiality and provide equitable and objective resolution to consumers and manufacturers. However, the process has not been sufficiently developed

to ensure that appropriate roles and responsibilities have been established. IAD also found that technology has not been fully leveraged and communication on the process to consumers and manufacturers could be improved. Finally, a formal process to identify and disclose conflict of interest has not been established. IAD issued ten audit recommendations to improve case management and communication.

- **19-04 Enterprise Project Management:** This engagement was an advisory service. See the Consulting Services Section for more details.
- **19-05 Information Security Risk Management:** The audit objective was to determine whether the Department has sufficient processes in place to identify and assess information security threats. IAD found that the Information Security Risk Management process is at a level 2 maturity level, where similar procedures are followed by several employees, but the results may not be consistent. IAD had four audit results and issued 11 audit recommendations to improve the Department's information security risk management processes. Out of the 11 recommendations, 7 recommendations were rated High.
- **19-06 Payment Card Industry (PCI) Compliance:** The audit objective was to determine whether TxDMV is compliant with PCI requirement 5. IAD found that the process is at a level 2 maturity rating. TxDMV has taken several steps to protect against malware and virus. The audit had one result and an observation. To address the result, IAD issued three audit recommendations. Two recommendations were rated HIGH.
- **19-07 Compliance and Investigations Division:** The objectives of the audit were to determine whether CID established appropriate and valid objectives to meet desired outcomes and evaluate whether CID structure is sufficient to prevent, detect, and investigate fraud, waste, and abuse. IAD found the CID processes are at a level 2 maturity level. The audit had three audit results and two observations related to access and sampling procedures. To address the results, IAD issued four recommendations. Three audit recommendations were rated HIGH.
- **19-09 FY 2019 Internal Audit Follow-Up:** The audit objective was to verify the implementation status of internal and external audit recommendations. For the time period, TxDMV implemented 56 of the 62 (90%) internal and external audit recommendations that were due. Specifically, TxDMV implemented all 25 (100%) external audit recommendations and implemented 31 of the 37 (84%) internal audit recommendations that were due from July 2018 to May 2019.
- **19-10 Procurement and Contract Management:** The audit objectives were to determine whether the procurement process (e.g., purchasing process) is achieving desired outcomes and whether the contract management process is achieving desired outcomes. IAD found that the purchasing and contract management processes are at a level 2 maturity rating. While purchasing and contract monitoring processes have been established to provide oversight, facilitation, and management of activities, these processes have not been fully effective due to how the processes were designed. These processes, also, do not ensure

full compliance with applicable laws and regulations or allow for effective monitoring of purchasing or contracts. Eight audit recommendations were made to improve the purchasing and contract management processes. Six of these recommendations were rated HIGH.

- **19-11 Accounts Receivables:** This engagement was an advisory service. See the Consulting Services Section for more details.

Internal Audit Plan for Fiscal Year 2019

The status of the FY 2019 audit plan engagements is outlined below in Table 1.

Table 1. FY 2019 Internal Audit Plan Status

Engagement Code and Name	Report Date
19-01 Annual Audit Report and Quality Assurance Program	October 2018
19-02 Employee Classification and Hiring	January 2019
19-03 Lemon Law Investigation & Resolution Process	January 2019
19-04 Enterprise Project Management Advisory Service	June 2019
19-05 Information Security Risk Management Audit	May 2019
19-06 Payment Card Industry (PCI) Compliance Audit	September 2019
19-07 Compliance and Investigations Division Audit	September 2019
19-09 FY 2019 Internal Audit Follow-Up Audit	August 2019
19-10 Procurement and Contract Management Audit	July 2019
19-11 Accounts Receivable Advisory Service	August 2019
19-12 Internal Audit Plan	August 2019

Internal Audit Plan Deviation

The FY 2019 Internal Audit Plan had hours set aside to allow for management and board requests. The hours set aside were used on two engagements: Procurement and Contract Management Audit and the Accounts Receivable Advisory Service.

Compliance with Texas Government Code, Section 2102.005(b)

Although changes to Texas Government Code, Section 2102.005(b) were not in effect until September 2019, the IAD used the following methods to ensure compliance with contract processes and controls for monitoring agency contracts:

- Audited Procurement and Contract Management processes.
- Reviewed contract terms for background checks in the Employee Classification and Hiring Audit.
- Conducted follow up activities on external recommendations related to contract activities.

Consulting Services and Nonaudit Services Completed

Consulting Services

The IAD conducted two advisory services, or consulting services, during FY 2019. The advisory services related to the Enterprise Project Management Processes and Accounts Receivables.

Enterprise Project Management

In FY 2019, TxDMV underwent a reorganization that placed the formerly independent Enterprise Project Management Office (EPMO) within the Information Technology Services Division (ITSD). ITSD management requested the Internal Audit Division evaluate the current enterprise project governance structure and staff roles and responsibilities, as well as to research alternative project governance models.

The TxDMV conducts several enterprise projects each biennium. Each enterprise project is managed through three key teams: Project, Leadership, and the Executive Steering Committee (ESC). These teams report to the Governance Team, which is responsible for managing the Department's project portfolio. This structure creates transparency for individual projects, but creates inefficiencies due to member overlap as well as unclear roles and authority. IAD identified four alternative governance models: a streamlined version of the current Governance structure, the Information Technology Investment Management Framework (ITIL), the Technology Business Management framework, and a principles-based Agile governance structure.

No recommendations were issued.

Accounts Receivable

The Finance and Administrative Services Division and the Executive Office requested that IAD evaluate the accounts receivable function in the Department and provide information on the revenue collection processes. The scope of the advisory service was FY 2018 accounts receivable activities.

The advisory service identified that TxDMV's accounts receivable function is spread across six divisions. The six divisions along with the Tax Assessor-Collectors Offices, are responsible for collecting and monitoring the different types of accounts receivable. TxDMV has 28 receivable accounts where payments are collected in advance or in arrears of services rendered. The collection and monitoring of receivable accounts are done through 18 different applications, however none of the systems were designed for conducting accounts receivable activities.

No recommendations were issued.

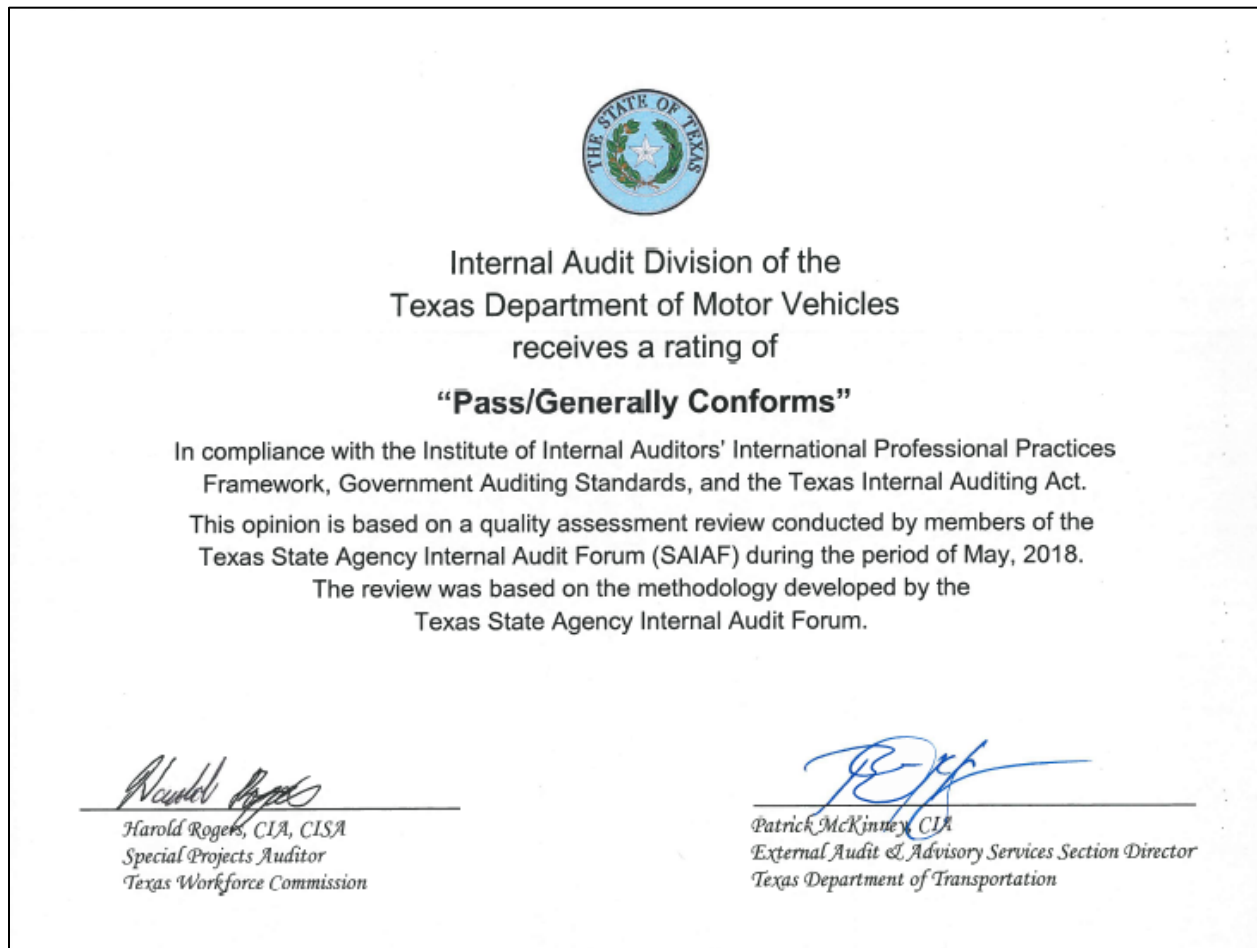
Nonaudit Services

IAD performed nonaudit services during FY 2019. The nonaudit services include facilitating external audit coordination, providing advice on several agency workgroups, and participating as non-voting member in the enterprise project governance process.

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
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Internal Audit Plan for Fiscal Year 2020

The TxDMV Board approved the Fiscal Year 2020 Internal Audit Plan on August 9, 2019. The audit plan included 7 engagements for the first half of the fiscal year, 7 potential engagements for the second half of the fiscal year, division initiatives, and added value services. Table 2 and 3 provide information on the engagements.

FY 2020 Engagements

Table 2. FY 2020 Engagements – First Half

Engagement Area	Preliminary Engagement Information	Strategic Goal(s)	Impacted Division(s)
Application Services Section Audit <i>750 hours</i>	The audit will evaluate how the section prioritizes and balances support needs. In addition, it will evaluate communication and planning processes.	Customer Centric Optimized Services and Innovation	Information Technology Services Division (ITSD)
Patch Management Audit <i>700 hours</i>	The audit will assess how application and server configurations are current. In addition, the audit will evaluate communication and planning processes. This audit was identified as an area of review in the Cybersecurity road map.	Optimized Services and Innovation	ITSD
Title and Registration Customer Support Audit <i>1000 hours</i>	The audit will evaluate the consistency of customer support. In addition, it will evaluate communication and planning processes.	Customer Centric	Consumer Relations Division (CRD) Vehicle Titles & Registration (VTR) Division Finance & Administrative Services (FAS) Division ITSD
Temporary Tags Advisory Service <i>625 hours</i>	This advisory service will provide strategies to further	Optimized Services and Innovation	VTR ITSD

Engagement Area	Preliminary Engagement Information	Strategic Goal(s)	Impacted Division(s)
	combat temporary tag fraud.		Compliance & Investigations Division (CID)
Annual Audit Activities 25 hours	A statutorily required review that summarizes internal activities conducted in FY 2019. The State Auditor's Office prescribes the report format and information.	Performance Driven	Department-wide
Quality Assurance and Improvement Program 50 hours	An internal assessment to determine compliance with audit standards and provide information on IAD's performance. IAD's performance includes an evaluation of Key Performance Indicators and Capability Model.	Performance Driven	IAD
Audit Recommendation Implementation Status Follow-Up 75 hours	An engagement to verify if outstanding audit recommendations have been fully implemented. Quarterly reporting for internal audit recommendations will be done.	Optimized Services and Innovation Customer Centric Performance Driven	Department-wide

Table 3. FY 2020 Engagements – Potential Second Half

Engagement Area	Preliminary Engagement Information	Strategic Goal(s)	Impacted Division(s)
VTR Strategic Alignment Audit	A potential audit to evaluate whether VTR sufficiently plans to achieve objectives.	Customer Centric Performance Driven	VTR

Engagement Area	Preliminary Engagement Information	Strategic Goal(s)	Impacted Division(s)
Title Litigation Advisory Service	A potential advisory service to evaluate the title litigation processes.	Customer Centric	Office of General Counsel (OGC) VTR
Payment Card Industry (PCI) Audit	A potential audit to evaluate whether the Department is compliant with PCI Requirement 2: Vendor-supplied defaults. This audit was identified as an area of review in the Cybersecurity roadmap.	Performance Driven	ITSD
Mailroom Audit	A potential audit to evaluate mail room operations.	Performance Driven	FAS
OGC Structure Audit	A potential audit to evaluate whether the Office of General Counsel is appropriately structured to achieve objectives.	Customer Centric Optimized Services and Innovation	OGC
Staff Recruitment and Workforce Planning Audit	A potential audit to evaluate if the Department appropriately plans to recruit and retain staff.	Optimized Services and Innovation Performance Driven	Human Resources Division
Supervisory Training Audit	A potential audit to evaluate supervisory training to ensure supervisors understand their roles and responsibilities.	Performance Driven	Human Resources Division

Division Initiatives

In addition to audit engagements, IAD conducts several divisional initiatives to help the division provide more risk coverage. In the first half of the fiscal year, IAD will be conducting the following division initiatives:

- **Senate Bill 65 Implementation:** IAD will identify how to implement statutorily required monitoring of procurement and contract functions.
- **Key Risk Indicators:** IAD will be finalizing processes to conduct continuous risk evaluation for the following items:
 - *Fraud Indicators:* IAD will monitor TxDMV leave balances and payment information.
 - *Regional Service Center (RSC) Transactions:* IAD will be monitoring RSC transactions to identify potential fraud or inefficiencies.
 - *Procurement and Contract Management Monitoring:* IAD will monitor procurement and contracts to identify potential high-risk procurements that might warrant additional review.
 - *ITS Division Monitoring:* IAD will evaluate how to monitor ITS Division workload.
- **Cybersecurity Co-Sourcing:** IAD is in the process of procuring audit services to conduct cybersecurity engagements.
- **TeamCentral Reporting:** IAD is working on developing customized reporting from its audit software.
- **Staff Development Plans and Training:** IAD staff take training and create development plans to obtain required knowledge, skills, and abilities.

Added Value Services

IAD also provides added value services throughout the years. These added value services include fraud, waste, and abuse items, external audit coordination, adhoc advisory, workgroup participation, and department training.

Risk Assessment Methodology

The audit plan was developed using a risk-based methodology, which incorporated input from TxDMV board members, executive management, division management, and risks identified by audit staff through previous fiscal year engagements and observations. IAD also analyzed TxDMV 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 and risk guidelines reviewed and discussed with TxDMV executive management:

- 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
- Control design strength

In total, 162 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 range from 0 to 4.

Hours were calculated using historical data and auditor's judgement. Hours are an estimate and could be adjusted during the fiscal year. As the internal audit plan only includes the first half of the fiscal year, the IAD has identified the hours that are available for the second half of the year. Currently, the IAD estimates that 1,300 hours are available for the second half of the internal audit plan.

SAO Related Items

The FY 2020 Internal Audit plan includes items to monitor contract management and technology risks. For contract management, the plan includes follow-up activities that will review and assess contract management recommendations that have been implemented. IAD's Key Risk Indicators initiative will also review high risk procurement and contracts.

IAD will be evaluating technology risk in the Department through its engagements in Patch Management, Application Services Section Review, and Follow-Up audits.

External Audit Services Procured in Fiscal Year 2019

TxDMV received 10 external audits in FY 2019. Only one of those external audits was procured (Weaver). The list below provides information on the external audits received:

- **Federal Highway Administration** - Heavy Vehicle Use Tax Audit
- **Federal Motor Carrier Safety Administration** - Innovative Technology Deployment (ITD) Core Compliance Review
- **State Auditor's Office** - Information Technology Position Classification Audit
- **State Auditor's Office** - WebDEALER Review
- **State Auditor's Office** - An Audit on Selected Contracts at the Department of Motor Vehicles
- **State Office of Risk Management** - An Onsite Consultations for the Houston Regional Service Center
- **Texas Comptroller of Public Accounts** - Contract Management Audit
- **Texas Comptroller of Public Accounts** - Promotional Item Purchase Order Audit
- **Texas Department of Public Safety** - Driver Records Information Audit
- **Weaver** - Verification and Valuation of the Single State Registration System (SSRS) revenue

Reporting Suspected Fraud and Abuse

Fraud Reporting Requirements

To comply with fraud reporting requirements in the General Appropriations Act (86th Legislature, Article IX-37, 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.
- Provides information on the Internal Audit Division's internet page about reporting fraud.

The Department formed the Compliance and Investigations Division (CID) to handle external fraud.

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

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.