Fiscal Year (FY) 2022 Second Six Month Internal Audit Plan

Internal Audit Division

March 2022

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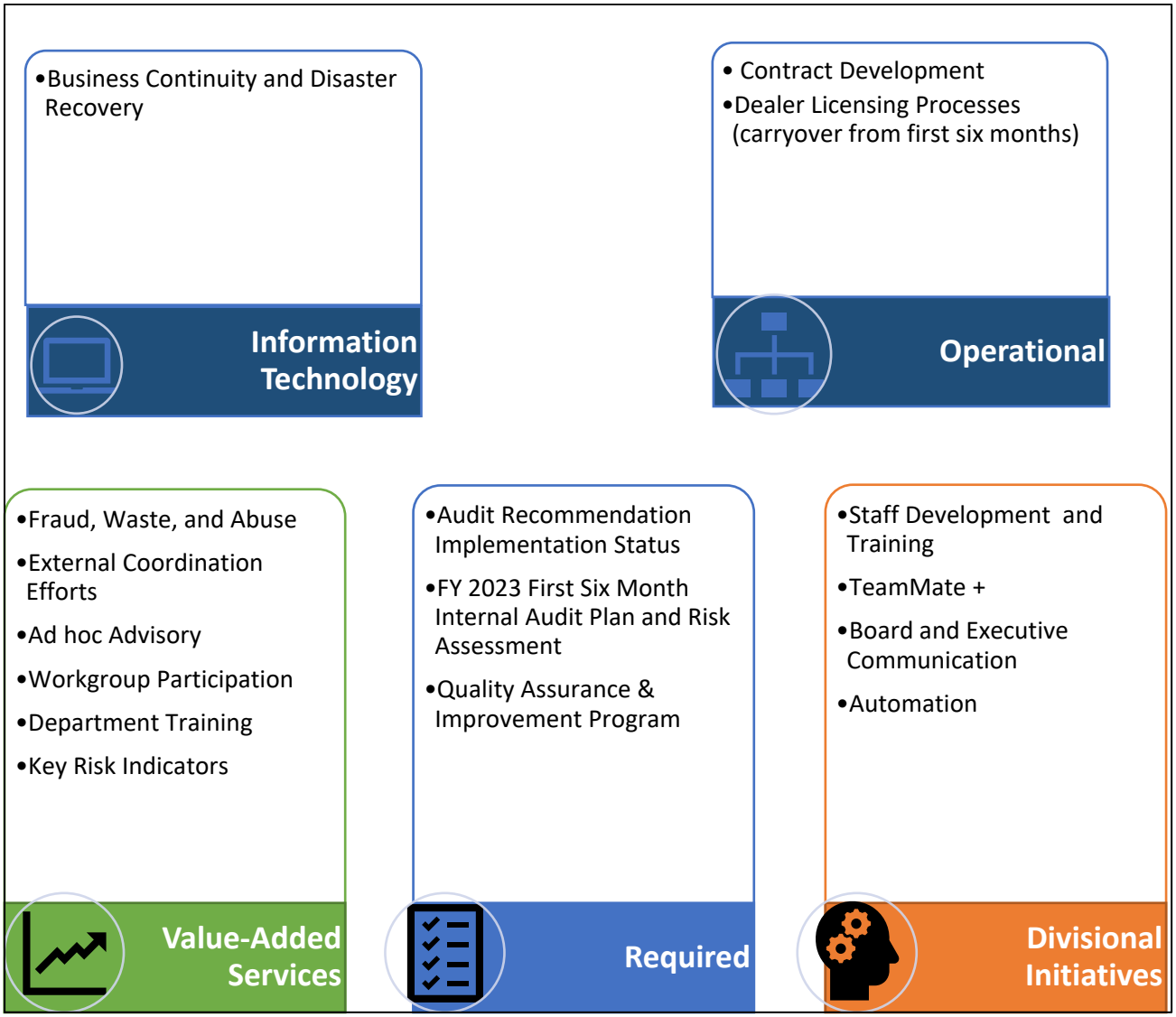
FY 2022 Second Half Summary

The Internal Audit Division (IAD) audit plan for fiscal year (FY) 2022 is divided into two six-month plans. IAD moved to a six-month audit plan to allow for flexibility as Texas Department of Motor Vehicles' (TxDMV) risks change rapidly. The audit plan for the second half of the fiscal year includes two risk-based engagements tied to two themes and three required engagements. In addition, the plan includes division initiatives, and added-value services. The second half summary is illustrated in figure 1.

Figure 1. Second Half Audit Plan Summary



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Engagement and Services Information

Risk-Based Engagements

- **Business Continuity and Disaster Recovery:** Business Continuity and Disaster Recovery are key processes to minimize the effect of outages and disruptions (e.g. from natural disasters or cyberattacks) on TxDMV operations. This audit will examine whether controls to ensure operational resiliency have been developed, implemented, and updated to account for the expansion of telework.
- **Contract Development:** Contracts are the primary control to ensure that TxDMV receives deliverables from vendors that are timely and meet specifications. This audit will examine the contract development process, including collaboration between Purchasing and other divisions, to determine if the processes and controls currently in place support the Department's objectives.
- **Dealer Licensing Processes (continued from first six months):** The Motor Vehicle Division is responsible for issuing dealer licenses. This audit engagement would evaluate processes designed to ensure verification of dealer identity, including systems used to review and document criminal history information.

Required Engagements

- **Audit Recommendation Implementation Status Follow-Up**: Verification of the implementation status for internal and external audit recommendation.
- **FY 2023 Risk Assessment and Internal Audit Plan:** An enterprise-wide risk assessment to identify the high – risk engagement areas for the upcoming fiscal year.

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Value-Added Services

- **Fraud, Waste, and Abuse (FWA) Items:** IAD works on detecting, tracking, and reviewing any internal FWA allegations or State Auditor's Office Hotline complaints**.** IAD investigates internal FWA allegations.
- **External Coordination Efforts:** IAD coordinates and facilitates any external audits. External coordination efforts include providing audit status update and coordinating responses.
- **Ad hoc Advisory:** IAD sets aside 250 hours to address any short-term assessment or information requests by TxDMV staff during the second half of the fiscal year.
- **Workgroup Participation:** IAD participates in TxDMV work groups to help identify any unforeseen risk in enterprise projects or activities.
- **Department Training:** IAD provides training to help TxDMV staff understand their responsibilities for audits, recommendation implementation, and preventing fraud, waste, and abuse.
- **Key Risk Indicators**: IAD will be monitoring the Fraud, Regional Service Centers, and Procurement & Contract Management risk indicators on a quarterly basis to help with risk mitigation.

Divisional Initiatives

- **TeamMate +:** IAD continues to enhance and support its audit software.
- **Staff Development Plans and Training**: IAD staff take training and create development plans to obtain required knowledge, skills, and abilities.
- **Communication Plans:** IAD continues refining dashboards, communication sites, and other items to provide a snapshot of the Department's risk management, governance, and engagement information to the Department.
- **Automation & Technology Improvement**: IAD will continue to work on automating routing processes and leverage technology to be more efficient.

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Detailed Engagement Information

Engagements

Tables 1 and 2 provide information on the risk-based and required engagements that will be conducted in the second half of the FY 2022. The information includes engagement name, engagement hours, TxDMV strategic goal alignment, impacted division(s), and background. The background includes information on how the engagement ties to Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Information on COSO can be found in Scope and Methodology section, under the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Methodology. Table 1 provides information on the risk-based engagement and table 2 provides information on the required engagements.

Table 1. Risk-Based Engagements

Engagement Area	Hours	Strategic Goal(s)	Impacted Division(s)	Background
Business Continuity and Disaster Recovery	600	Performance Driven	Information Technology Services Division	As natural disasters and cybersecurity events become more common, having business continuity and disaster recovery plans that are effective is key. This engagement would look at the Department's current plans as well as any changes currently in progress. This engagement ties to COSO elements of Control Environment, Risk Assessment, and Information and Communication.
Contract Development	700	Performance Driven	Finance & Administrative Services Division Office of the General Counsel	The state continues to evolve its procurement and contract rules and regulations and has begun focusing more on the development of contracts. Questions about contract development and its effect on deliverables were raised by division leadership during the risk assessment. This engagement would review processes that exist to develop contracts and amend contracts. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

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Engagement Area	Hours	Strategic Goal(s)	Impacted Division(s)	Background
Dealer Licensing Processes (carryover from first six months)	200	Customer Centric Optimized Services and Innovation	Motor Vehicle Division	The Department is responsible for determining license eligibility for a multitude of dealer licenses. The engagement will evaluate the Department's processes designed to ensure the verification of dealer applicant's identities and applicant's criminal history through the dealer licensing process. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, and Monitoring.

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Table 2. Required Engagements

Engagement Area	Hours	Strategic Goal(s)	Impacted Division(s)	Background
Audit Recommendation Implementation Status Follow-Up	75	Optimized Services and Innovation Customer Centric Performance Driven	Department-wide	An engagement to verify if outstanding audit recommendations have been fully implemented. Quarterly reporting for internal audit recommendations will be done.
FY 2023 Risk Assessment and First Half Internal Audit Plan	200	Optimized Services and Innovation Customer Centric Performance Driven	Department-wide	An engagement to identify high – risks areas where engagement may be warranted in the upcoming year.

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Contingency Engagements

Table 3 denotes the potential engagements that could be performed during the second half of the fiscal year if one of the risk-based engagements cannot be done.

Table 3. Contingency

Engagement Area	Strategic Goal(s)	Impacted Division(s)	Preliminary Engagement Information
Facilities	Optimized Services and Innovation	Finance & Administrative Services Division	With the approval from the Legislature, the Department will begin evaluation of building consolidation and facilities construction planning for headquarters. Additionally, the Department maintains Regional Services Facilities. This engagement would look at the Department's capacity to maintain headquarter buildings and evaluate the Department's capabilities to meet Departmental needs at Regional facilities. This engagement ties to COSO elements of Control Environment, Risk Assessment, and Control Activities.
Payment Card Industry Compliance	Performance Driven	Information Technology Services Division	The Department accepts credit cards and is required to meet PCI standards. At the time of this plan's development, ITSD intends to contract with a third-party certified assessor to examine PCI compliance. If this does not occur, IAD would evaluate PCI compliance with one of the 12 PCI requirements. This audit was identified as an area of review in the Cybersecurity roadmap.

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Scope and Methodology

Scope

The Internal Audit Plan covers activities and engagements for the second half of the fiscal year, March 2022 to August 2022, and identifies potential engagements for the second half of the fiscal year.

Risk Assessment

Risk 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. In addition, IAD collected information on the potential controls that were in place to mitigate the identified risks.

Each risk was reviewed using approved Department risk guidance that included 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
- Control design strength

420 Department risks have been identified through the risk assessment. Each risk identified was scored using the above factors to determine the engagements for the second half of fiscal year 2022 and contingency engagements.

The risk scores ranged from zero, which is the lowest risk score, to five, which is the highest risk score. Table 4 provides information on the risk scores for each item.

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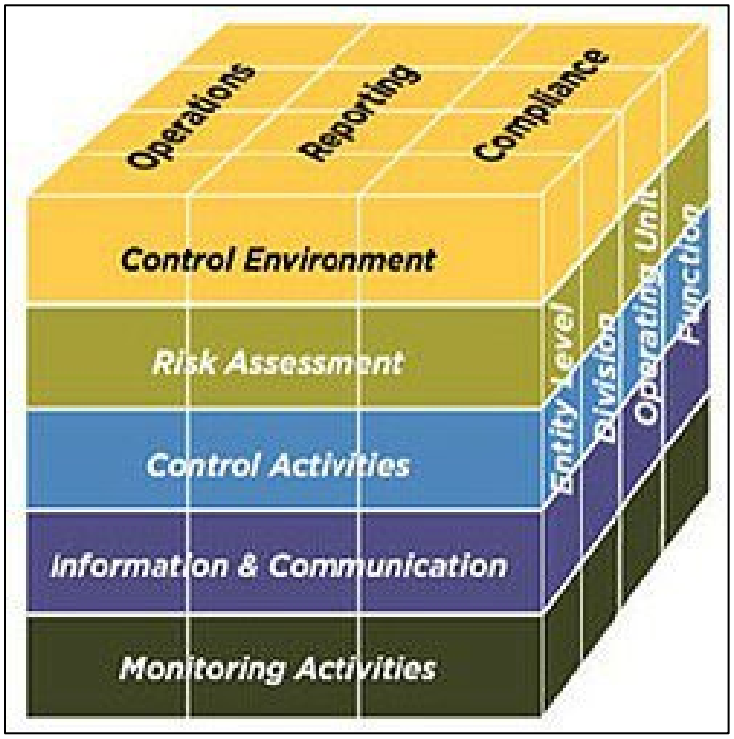
Table 4. Risk Scores

Very Low Risk	Low Risk	Medium Risk	High Risk	Very High Risk
0 - 1.49	1.5 – 2.49	2.5 – 3.49	3.5 – 4.49	4.5 +

Committee of Sponsoring Organizations of the Treadway Commission (COSO) Methodology

Once all risks were reviewed and ranked, the audit team evaluated each risk using the COSO *Internal Control – Integrated Framework*. The framework integrates three broad objectives (Operations, Reporting, and Compliance) and ties those objectives to risks and controls through five internal control components and four structural levels as depicted in Figure 2, COSO cube. The COSO cube depicts how the internal controls framework has a direct relationship between objectives, the components needed to achieve objectives, and a typical organizational structure.

Figure 2. COSO Cube



The definition for the COSO Internal Control Components are as follows:

- **Control Environment**: The foundation for an internal control system. The Control Environment is a set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. It provides the discipline and structure to help an entity achieve its objectives. The TxDMV Board and executive management establish the tone at the top regarding the importance of internal control including expected standards of conduct.

- **Risk Assessment**: The processes used to determine how risk is to be managed. TxDMV management assesses the risks facing the entity as it seeks to achieve its objectives.

- **Control Activities**: The actions TxDMV management established through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes information systems.

- **Information and Communication**: The quality of information TxDMV management and staff generate and use to communicate and support the internal control system on an ongoing and iterative basis**.**

- **Monitoring**: The activities TxDMV management established to assess the quality of performance over time. The activities include ongoing evaluations, separate evaluations, or some combination of the two. The activities are used to ascertain whether each of the five components of internal control, are present and functioning.

Fraud, Waste, and Abuse Consideration

During the risk assessment, the IAD also conducted an update to the fraud, waste, and abuse risk assessment. Those risks were reviewed as part of this risk assessment.

Themes

For the FY 2022, three themes were developed to help provide an overall perspective on internal audit's focus for the first six months:

- **Legislative Implementation Readiness**: Areas and functions significantly impacted by legislation changes.

- **Operational effectiveness**: Areas and functions where processes and overall operations had significant change in management or processes are expected to be changed.

- **Information Technology**: Areas where the spread of new technologies, data collection methodologies, and automation increases risks to our organization and customers.

Hour Analysis

Engagement hours were calculated using historical data and auditor's judgement. Hours are an estimate and could be adjusted at the beginning of an engagement.