Texas Department of Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

Fiscal Year 2020 Annual Audit Activities Report

21 – 01

Internal Audit Division
September 2020

Texas Department *of* Motor Vehicles

Fiscal Year 2020 Annual Audit Activities, 21-01

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 2020.

The report is developed using the guidelines set forth by the State Auditor's Office. The guidelines require the report to include information on engagements conducted, the audit plan, and external reviews.

RESULTS

In fiscal year (FY) 2020, IAD completed five audit and advisory service engagements. The five engagements conducted by IAD included three audit engagements, one advisory service engagement, and 1 follow-up engagement.

The FY 2021 audit plan, which was approved by the TxDMV Board on August 6, 2020. The approved audit plan included engagements for the first six month and contingency/potential engagements for the second half of the fiscal year. The plan includes division initiatives and added value services as well. 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.

Finally, 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.

Contents

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 2021 First Six Month Internal Audit Plan* on August 6, 2020, and the TxDMV web master posted the plan to the website after that. Similarly, the annual report will be presented to the TxDMV Board on October 1, 2020, and the TxDMV web master will post the report on the TxDMV website after that date.

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 2020 Internal Audit Plan Summary

In fiscal year (FY) 2020, the IAD completed five audit and advisory service engagements. The five engagements conducted by IAD included three audit engagements, one advisory service engagement, 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:

- **20-03 Title and Registration Customer Support**: The audit had three objectives: to evaluate the consistency of title and registration of customer support to tax-assessor collector offices and the general public; the communication and planning processes between the Department's title and registration customer support functions; and, the design of the Department's decentralized customer support resources. IAD found TxDMV's title and registration customer support processes are at a level 2 maturity level, where similar procedures are followed by several employees, but the results may not be consistent.

  The Department has established similar performance measures, comparable customer feedback mechanisms, and consistent training and resources for frontline staff in all title and registration customer service divisions and the customer service model routes customer issues that cannot be resolved at the frontline to program areas with specialized knowledge of the issue. However, each division is only responsible for the portion of the customer's issue to which their expertise applies. IAD issued two HIGH priority recommendations designed to establish ownership of issue processing and quality assurance standards for title and registration customer support across divisions.

- **20-04 Patch Management**: The audit had two objectives: to evaluate and determine the effectiveness of patch management for workstations, servers, and network devices and to assess management's design of configuration for network devices. IAD found the patch management

process is at a level 2 maturity level, where a process is repeatable but intuitive. The audit has one results and two recommendations strengthen patch management processes.

- **20-05 Law Enforcement Information Requests:** This engagement was an advisory service. See the [Consulting Services](#) for more details.

- **20-06 Payment Card Industry (PCI) Compliance – Requirement 2:** The objective of the audit was to determine whether the Department replaces vendor-supplied defaults for system passwords and other security parameters. IAD found that the process is at a level 2 maturity rating. The audit had one result and one recommendation.

- **20-00 FY 2020 Internal Audit Follow-Up**: The audit objective was to verify the implementation status of internal and external audit recommendations that were due in FY 2020. For the time period, IAD reviewed 85 internal and external audit recommendations that were due in FY 2020. The majority of the audit recommendations were implemented.

Internal Audit Plan for Fiscal Year 2020

The status of the FY 2020 audit plan engagements is outlined below in Table 1.

Table 1. FY 2020 Internal Audit Plan Status

Engagement Code and Name	Report Date
20-00 FY 2020 Internal Audit Follow-Up	N/A
20-01 Annual Activities Report	September 2019
20-02 QAIP: Internal Assessment	October 2019
20-03 Title and Registration Customer Support	January 2020
20-04 Patch Management	January 2020
20-05 Law Enforcement Information Requests	September 2020
20-06 Payment Card Industry Compliance: Requirement 2	September 2020
20-07 Internal Audit Plan	August 2020

Internal Audit Plan Deviation

Two engagements were deferred to conduct the Law Enforcement Information Request advisory service engagement:

- **Applications Services Section Audit**: Application Services Section supports Department applications. The audit was to evaluate how the section prioritizes and balances support needs.

- **Temporary Tags Advisory Service**: TxDMV issues temporary tags for vehicles subject to Texas registration laws, but not authorized to travel on Texas highways. This advisory service was to provide strategies to further combat temporary tag fraud.

Consulting Services and Nonaudit Services Completed

Consulting Services

The IAD conducted one advisory service, or consulting service, during FY 2020. The advisory service engagement related to Law Enforcement Information Requests.

Law Enforcement Information Requests

The Office of General Counsel (OGC) requested a review of law enforcement information request, report 20-05. The advisory service objectives were to determine and communicate the following:

- Identify processes used throughout the Department to handle and process law enforcement requests.

- Review and test law enforcement information requests for compliance with applicable state laws and rules.

The Texas Department of Motor Vehicles' (TxDMV) Information Technology Services (ITSD), Enforcement (ENF), Compliance and Investigations (CID), Vehicle Title and Registration (VTR), Motor Vehicle (MVD) and Motor Carrier (MCD) divisions receive law enforcement information requests from local, county, state, and/or national external law enforcement entities. Each division responds individually to their own received requests. The requested information was provided to the OGC and no recommendations were issued in September 2020.
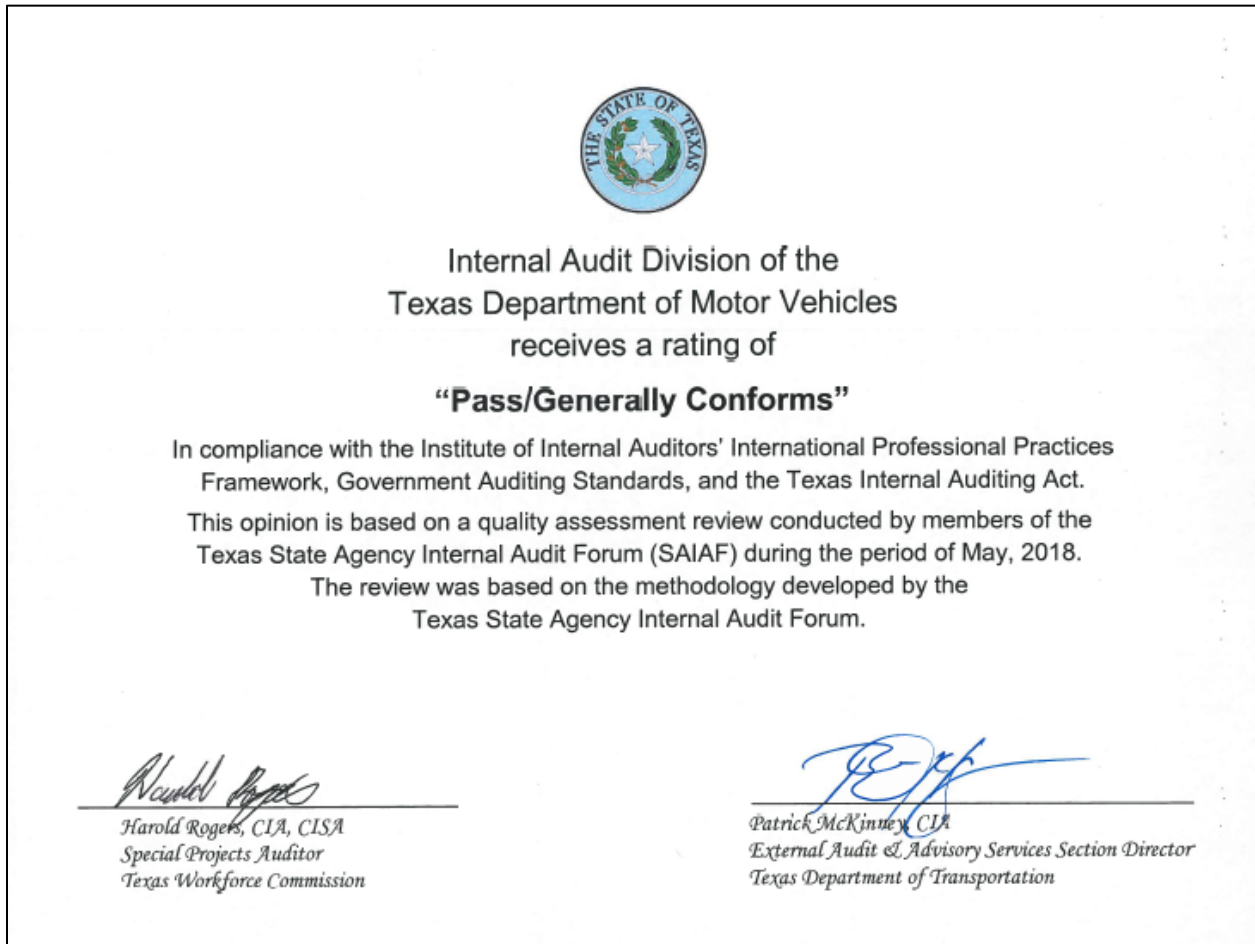
Nonaudit Services

IAD performed nonaudit services during FY 2020. The nonaudit services include facilitating external 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). IAD implemented the recommendation in 2020.

Figure 2. Peer Review Certificate

Internal Audit Division of the
Texas Department of Motor Vehicles
receives a rating of

"Pass/Generally Conforms"

In compliance with the Institute of Internal Auditors' International Professional Practices Framework, Government Auditing Standards, and the Texas Internal Auditing Act.

This opinion is based on a quality assessment review conducted by members of the Texas State Agency Internal Audit Forum (SAIAF) during the period of May, 2018. The review was based on the methodology developed by the Texas State Agency Internal Audit Forum.

Harold Rogers, CIA, CISA
Special Projects Auditor
Texas Workforce Commission

Patrick McKinney, CIA
External Audit & Advisory Services Section Director
Texas Department of Transportation

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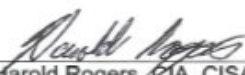
We found that the Internal Audit Division is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques;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

Harold Rogers, CIA, CISA   Date 6/1/18
Special Projects Auditor
Texas Workforce Commission
SAIAF Peer Review Team
Leader

Patrick McKinney, CIA   Date 6/1/18
External Audit & Advisory Services
Section Director
Texas Department of Transportation
SAIAF Peer Review Team Member

Internal Audit Plan for Fiscal Year 2021

The TxDMV Board approved the Fiscal Year 2021 First Half Internal Audit Plan on August 6, 2020. The audit plan included nine engagements for the first half of the fiscal year, five 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 2021 Engagements

Table 2. FY 2021 Engagements – First Half

Engagement Area	Hours	Strategic Goal(s)	Impacted Division(s)	Background
Telecommuting	700	Optimized Services and Innovation	Department-wide Human Resources Division	Telecommuting, or remote work, has become the standard in the COVID-19 environment. Telecommuting must be set up properly to be effective for the organization and employees. Set up includes processes for monitoring employee productivity, program usage, and whether program objectives were properly articulated. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, and Monitoring.
Employee Relations	680	Performance Driven	Human Resources Division	Employee relations involves creating and maintaining a positive environment between the organization, its managers, and employees, where employees feel engaged and are accountable for their work. When employees may not be performing at expected levels, processes should exist to help management and the employee achieve output expectations. This engagement ties to COSO elements of Control Environment, Control Activities, Information and Communication, and Monitoring.
Procurement Measures	750	Optimized Services and Innovation	Finance & Administrative Services Division	Procurements, or purchases, conducted by the Department range from consumable goods to complex information technology products. Regardless of the procurement, timelines, roles, and measures should be

Engagement Area	Hours	Strategic Goal(s)	Impacted Division(s)	Background
				established to measure the effectiveness and performance of the procurement function. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, and Monitoring.
License Plate Manufacturing and Monitoring	850	Optimized Services and Innovation Customer Centric Performance Driven	Finance & Administrative Services Division Vehicle Titles & Registration Division Compliance & Investigations Division	The Department contracts with the Texas Department of Criminal Justice (TDCJ) to manufacture license plates, disabled placards, and other items. The Department's contract outlines the minimum requirements of goods produced and responsibilities between the departments. The goods are produced at the Wynne Unit, a facility owned and operated by the TDCJ. TxDMV has staff at the Wynne Unit to oversee the manufacturing, storage, and disbursement of manufactured goods. The engagement will be coordinated with the TDCJ's internal audit division. This engagement ties to COSO elements of Risk Assessment, Control Activities, and Monitoring.
Information Technology Change Management	N/A	Performance Driven	Information Technology Services Division	The initial engagement was selected using the Cybersecurity roadmap and will co-sourced. Change management is the process that ensures all changes are processed in a controlled manner, including standard changes and emergency maintenance relating to information technology. Changes include, but are not limited to interruption of service, implementation of new functionality, and the repair and/or removal of existing functionality. This engagement is contingent on vendor availability. This engagement ties to COSO elements of Control Activities and Monitoring.

Engagement Area	Hours	Strategic Goal(s)	Impacted Division(s)	Background
Annual Audit Activities	35	Performance Driven	Department-wide	A statutorily required review that summarizes internal activities conducted in FY 2020. The State Auditor's Office prescribes the report format and information.
Quality Assurance and Improvement Program – Internal Assessment	75	Performance Driven	Internal Audit Division	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.
Quality Assurance and Improvement Program – External Assessment	50	Performance Driven	Internal Audit Division	Every three years, the division is required to obtain an External Assessment (Peer Review) on whether the internal audit function complies with the applicable professional auditing standards in all material aspects. The division produces a self-assessment report and the report is used to obtain information on how the IAD meets applicable auditing standards.
Audit Recommendation Implementation Status Follow-Up	125	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.

Table 3. FY 2021 Engagements – Potential Second Half and Contingency

Engagement Area	Strategic Goal(s)	Impacted Division(s)	Preliminary Engagement Information
Strategic Communication	Customer Centric Performance Driven	Government & Strategic Communication	The Department provides written communications, in various forms, to customers and employees with key information that impact the operations internally and externally and to employees. With the need to communicate quickly and effectively, processes

Engagement Area	Strategic Goal(s)	Impacted Division(s)	Preliminary Engagement Information
			should exist to ensure effective communication. This engagement ties to COSO elements of Control Environment and Information and Communication.
Payment Card Industry (PCI)	Performance Driven	Information Technology Services Division	The Department accepts credit cards and is required to meet PCI standards. This potential audit would evaluate PCI compliance with one of the 12 requirements. This audit was identified as an area of review in the Cybersecurity roadmap. This engagement ties to COSO elements of Risk Assessment, Control Activities, and Monitoring.
Staff Retention and Recruitment	Optimized Services and Innovation Performance Driven	Human Resources Division	Staff retention and recruitment begins with processes and policies that help divisions identify the talent needed to achieve organizational goals. It also includes those divisions using available policies and processes to keep employees. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.
Strategic Purchasing	Optimized Services and Innovation Performance Driven	Finance & Administrative Services Division	Purchasing is a key component to ensure the Department's needs and objectives are met. Without a purchasing strategy, needs and objectives may not be met. This includes key purchases, such as technology purchases. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.
Contract Development	Optimized Services and Innovation	Finance & Administrative Services Division Office of General Counsel	The state continues to evolve its procurement and contract rules and regulation and has begun focusing more on the development of contracts. 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.
Placeholder	TBD	TBD	In case a risk emerges that requires immediate review, this engagement will be used to substitute one of the risk-based engagements. This engagement will only be conducted in consultation with the

Engagement Area	Strategic Goal(s)	Impacted Division(s)	Preliminary Engagement Information
			Finance & Audit Committee Chair and members and the Board Chair.

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:

- **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.

- **TeamMate Transition**: IAD will transition to TeamMate +, a web-based, audit software at the beginning of the fiscal year. Staff will receive training and provide support to the Department staff.

- **Staff Development Plans and Training:** IAD staff take training and create development plans to obtain required knowledge, skills, and abilities.

- **Dashboard Report Development**: IAD will develop an interactive dashboard style report to provide more focused information on results.

- **Board Communication**: IAD will continue refining dashboards and other items to provide a snapshot of the Department's risk management and governance information.

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. 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

247 Department risks were identified through the risk assessment. Each risk identified was scored using the above factors to determine the engagements for the first half of fiscal year 2021 and contingency engagements.

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

Table 4. Risk Scores

Very Low Risk	Low Risk	Medium Risk	High Risk	Very High Risk
0 - 1.5	1.5 – 2.5	2.5 – 3.5	3.5 – 4.5	4.5 +

For the FY 2021, the Internal Audit Division introduced "themes" to help organize and categorize the internal audit plan. The themes include: Human Resources, Transformation, Information Technology, and Procurement & Supply Chain Management. In addition, the themes were significantly impacted by COVID-19:

- **Transformation**: Areas where new solutions are needed to address the post COVID-19 environment, which poses difficult problems that significantly disrupt current operations.

- **Human Resource**s: Areas within human resources that play a critical role in ensuring our organization has a competitive advantage in hiring and retaining staff, as well as improving morale and coaching staff.

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

- **Procurement & Supply Chain Management**: Areas in procurement and supply chain that are critical to ensure costs are being contained and services/goods are provided on time and as needed.

Hour Analysis

Hours were calculated using historical data and auditor's judgement. Hours are an estimate and could be adjusted. IAD anticipates about 1700 hours available for required and risk-based engagements for the second half of the fiscal year and 3625 hours available for the first half of the fiscal year.

SAO Related Items

The FY 2021 Internal Audit plan includes items to monitor contract management and technology risks. For contract management, the plan includes following up on previously issued procurement and contract management recommendations and conducting engagement on License Plate Manufacturing and Monitoring and on Procurement Measures. 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 IT Change Management.

External Audit Services Procured in Fiscal Year 2020

TxDMV received three external audits in FY 2020. The list below provides information on the external audits received:

- **Texas Workforce Commission** - Civil Rights Division Personnel Policies and Procedures Review.

- **Texas Commission on Law Enforcement** - Training Program Evaluation Report (TPER).

- **State Office of Risk Management** – Onsite Consultation at Texas Department of Motor Vehicles: Austin Regional Service Center.

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 and have an active working group that review policies related to anti-fraud, waste, and abuse.

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, and the State Auditor's Office. The report will also be distributed to the executive management team.