Texas Department of Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

Fiscal Year (FY) 2020 Second Half Internal Audit Plan

Internal Audit Division

February 2020

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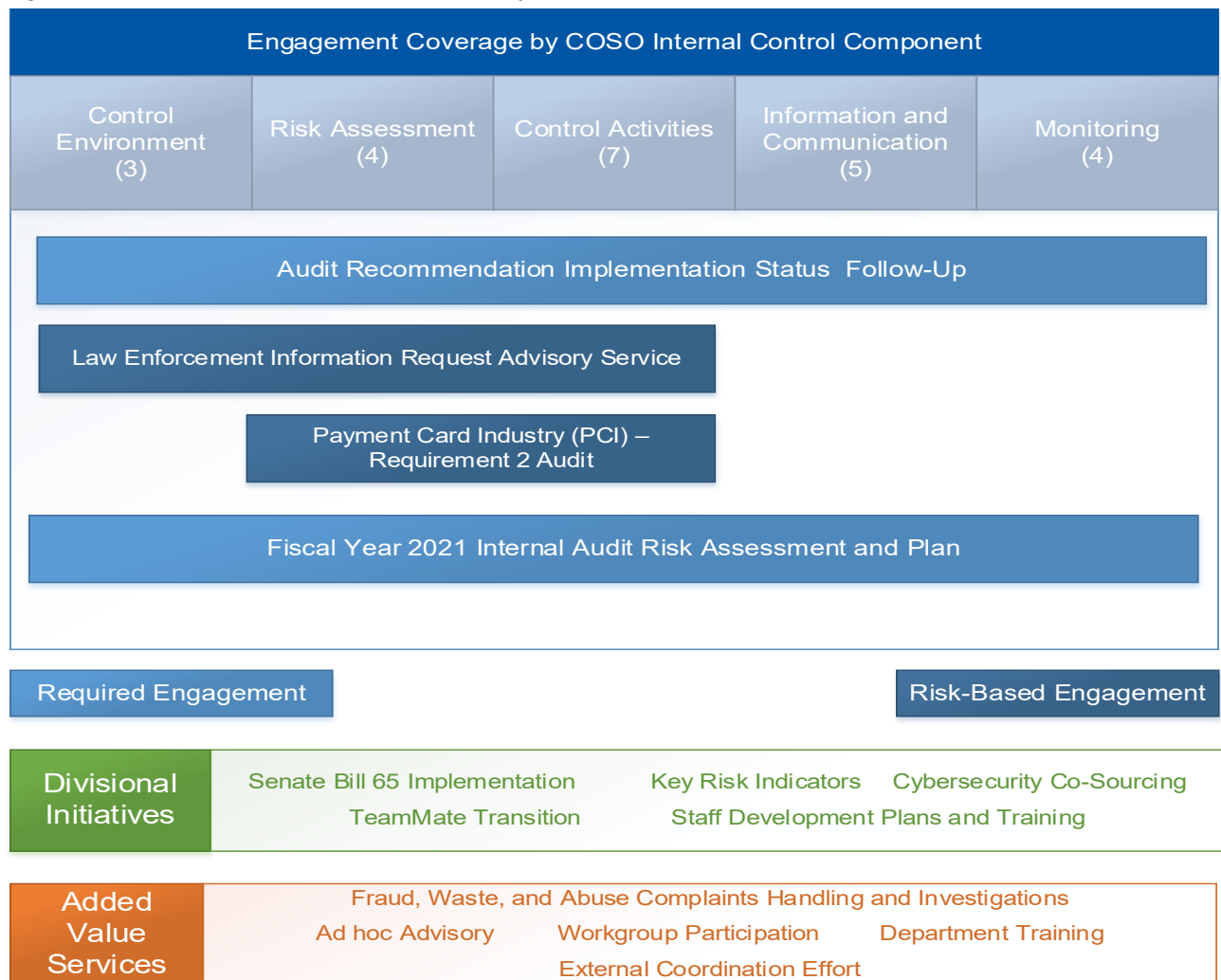
FY 2020 Second Half Summary

The Internal Audit Division (IAD) annual audit plan for fiscal year (FY) 2020 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, two required engagements, division initiatives, and added-value services. The second half summary is depicted in Figure 1 and it includes information on how each engagement relates to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) – Integrated Control Framework.

The COSO Framework was designed to help organizations improve business and operating environments by establishing effective internal control, enterprise risk management, and fraud deterrence. More information on the COSO Framework, including the five components of internal controls, can be found in the Scope and Methodology section of the plan: COSO Framework Information.

Figure 1. Second Half Audit Plan Summary

Engagement Coverage by COSO Internal Control Component				
Control Environment (3)	Risk Assessment (4)	Control Activities (7)	Information and Communication (5)	Monitoring (4)

Audit Recommendation Implementation Status Follow-Up

Law Enforcement Information Request Advisory Service

Payment Card Industry (PCI) – Requirement 2 Audit

Fiscal Year 2021 Internal Audit Risk Assessment and Plan

Required Engagement   Risk-Based Engagement

Divisional Initiatives
Senate Bill 65 Implementation   Key Risk Indicators   Cybersecurity Co-Sourcing
TeamMate Transition   Staff Development Plans and Training

Added Value Services
Fraud, Waste, and Abuse Complaints Handling and Investigations
Ad hoc Advisory   Workgroup Participation   Department Training
External Coordination Effort

Engagement and Services Information

Risk-Based Engagements

- **Law Enforcement Information Request Advisory Service**: The Department supports criminal investigations by providing information to law enforcement. The information provided may contain information that is subject to Drivers' Privacy Protection Act (DPPA) and Public Information Act (PIA). This advisory service will review law enforcement information request processes used in the Department.

- **Payment Card Industry (PCI) – Requirement 2 Audit**: When a network device is delivered to the Department, default passwords and settings are programmed by the vendor. The default passwords and settings are known to many. It is the responsibility of the Department to change those default passwords and settings as required by best practices and PCI Standards. This audit will evaluate the Department's compliance with PCI Requirement 2, which relates to default passwords and configurations. This audit was identified as an area of review in the Cybersecurity roadmap.

Required Engagements

- **Audit Recommendation Implementation Status Follow-Up:** IAD verifies the implementation status of internal audit recommendation by fiscal year quarter.

- **FY 2021 Internal Audit Risk Assessment and Plan**: An enterprise-wide risk assessment to identify the high – risk engagement areas for the upcoming fiscal year.

Resource Allocation

Risk-based, 89.0%
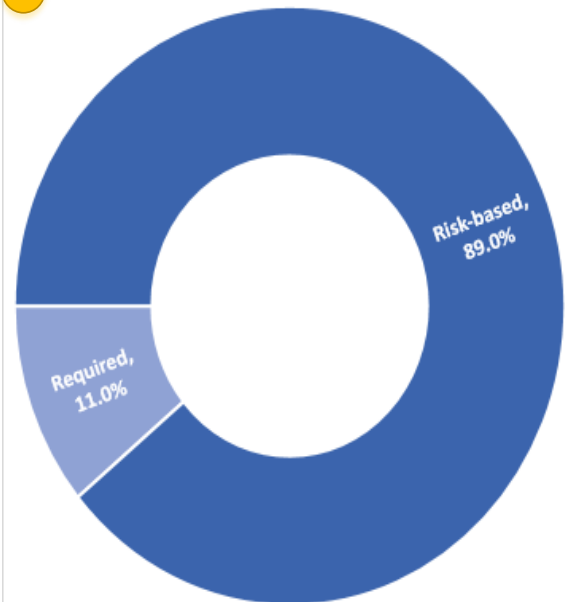
Required, 11.0%

Divisional 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 will be evaluating and reviewing bids received for its co-sourcing Request for Proposal (RFP).

- **TeamMate Transition:** The audit software used has reached end of life and an upgrade to the new software and platform is needed. IAD manages its own software and will be required to work with the vendor to implement and test the software as well as train the Department.

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

Added – Value Services

- **Fraud, Waste, and Abuse (FWA) Items:** IAD is responsible for reviewing, tracking, and investigating any internal FWA allegations, including those received through the State Auditor's Office Hotline**.**

- **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 150 hours to address any short-term assessment or information requests by TxDMV staff during the first 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.

Detailed Engagement Information

FY 2020 Second Half Engagements

The two risk-based engagements identified for the second half both align to strategic goals *Performance Driven* and *Optimized Services and Innovation*. Both engagements focus on processes conducted by several different divisions, including the following:

- Compliance and Investigations Division

- Enforcement Division

- Information Technology Services Division

- Vehicle Titles and Registration Division

The two required engagements align to all three strategic goals as it includes a risk assessment that review the entire organization to identify high-risk areas for the internal audit plan and a review of audit recommendations.

Estimated Hours

IAD anticipates the following hours for each engagement:

- **Law Enforcement Information Request:** 2,000 hours

- **PCI – Requirement 2**: 675 hours

- **Audit Recommendation Implementation Status Follow-Up**: 175 hours

- **Internal Audit Plan**: 150 hours

FY 2020 First Half Engagements Deferment

In the FY 2020 First Half Internal Audit Plan, IAD anticipated conducting two engagements:

- **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.

These engagements have been deferred and the risks identified will be reviewed as part of the FY 2021 Internal Audit Risk Assessment and Plan. The engagements were deferred due to the

request to review the Law Enforcement Information Request. Due to the nature of the request, IAD anticipates the engagement will require reviewing processes agency-wide and conducting substantial testing to provide advice and information.

Contingency Engagements

The IAD has alternate, or contingency, engagements if additional resources or hours are identified. These engagements were identified through the annual risk assessment process and a review of the Cybersecurity roadmap.

- **Change Management Audit**: The main purpose of change management is to enable fast and reliable delivery of change to the business and mitigation of the risk of negatively impacting the stability or integrity of the changed environment. Change management is the process that ensures that all changes are processed in a controlled manner, including standard changes and emergency maintenance relating to information technology. Change management sets up a set of rules and administrative guidelines to manage changes in a rational and predictable manner. In addition, it provides for the necessary documentation of any changes made to reduce any possible negative impact. Changes include, but are not limited to implementation of new functionality, interruption of service, repair of existing functionality, and the removal of existing functionality. IAD will establish objectives and hours if the engagement occurs.

   This engagement would be aligned to strategic goal, *Performance Driven*.

Scope and Methodology

Scope

The Internal Audit Plan covers the period of February to August 2020.

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. 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, 165 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, as depicted below.

Low Risk	Medium Risk	High Risk
0 – 2.00	2.01 – 4	4.01 - 6

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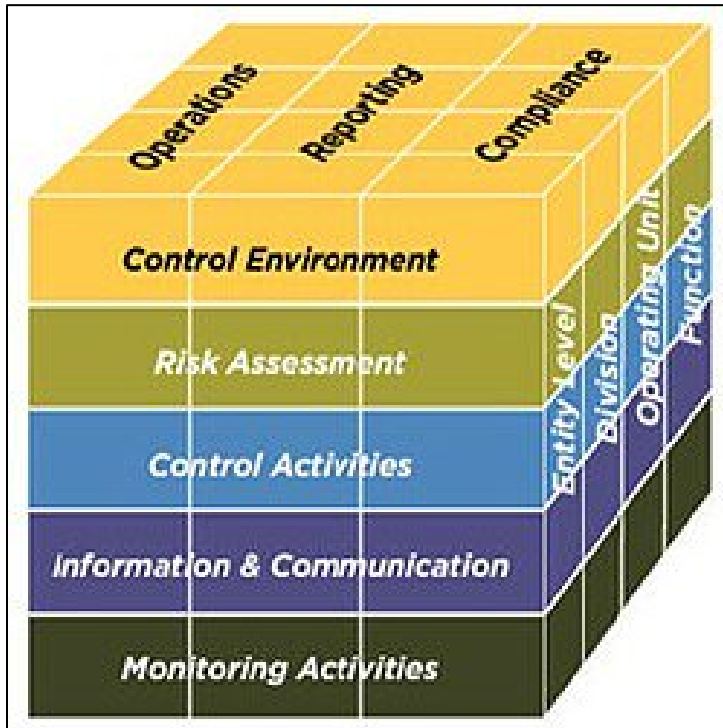
The definition for the COSO Internal Control Components are as follows:

- **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.

Hour Analysis

Hours were calculated using historical data and auditor's judgement. Hours are an estimate and could be adjusted.