



Texas Department  
*of* Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

Fiscal Year (FY) 2021 Second Six Month  
Internal Audit Plan

Internal Audit Division

March 2021

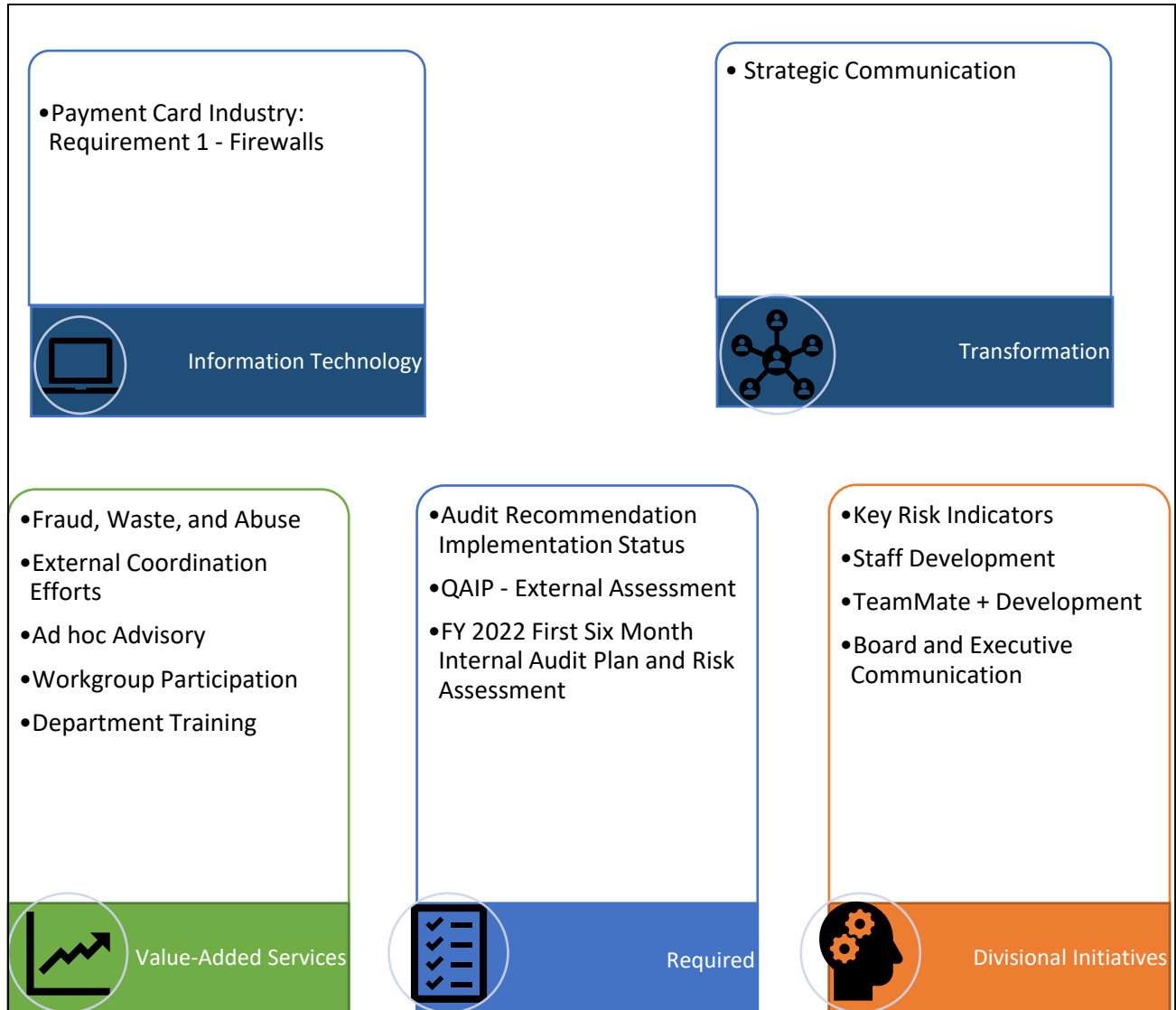
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## FY 2021 Second Half Summary

The Internal Audit Division (IAD) audit plan for fiscal year (FY) 2021 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



## Engagement and Services Information

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### Risk-Based Engagements

- **Strategic Communication:** With communications occurring in traditional, digital, and social media outlets, information can be misinterpreted or ignored by key stakeholders. This can potentially cause a risk that stakeholders may miss critical facts or information that impacts their decision making or causes delays in implementation of Department rules and processes. This audit engagement would review how communication is disseminated and the effectiveness of communication.
- **Payment Card Industry (PCI) – Requirement 1:** A key objective of PCI is having a secure network and network architecture that controls entry to and exit from the network. Firewalls are essential security devices of a network. Firewalls help protect networks from outside threats. Firewalls filter and block traffic that is trying to obtain unauthorized access to the network. This audit engagement would review PCI Compliance with the firewall requirement.



### Required Engagements

- **Audit Recommendation Implementation Status Follow-Up:** Verification of the implementation status for internal and external audit recommendation.
- **FY 2022 Risk Assessment and Internal Audit Plan:** An enterprise-wide risk assessment to identify the high – risk engagement areas for the upcoming fiscal year.
- **Quality Assurance and Improvement Program – External Assessment:** An external review to determine the division’s compliance with internal audit standards. The review occurs every three years and a final report with the results is produced.



### Divisional Initiatives

- **Key Risk Indicators:** IAD will be finalizing and providing quarterly reporting on the following indicators:
  - *Fraud Indicators:* IAD will monitor leave balances and payment information.
  - *Regional Service Center (RSC) Transactions:* IAD will be monitoring RSC transactions to identify potential fraud.
  - *Procurement and Contract Management Monitoring:* IAD will monitor procurement and high-risk contracts.
- **TeamMate + Development:** IAD continues to enhance its audit software, TeamMate +.
- **Staff Development Plans and Training:** IAD staff take training and create development plans to obtain required knowledge, skills, and abilities.
- **Board and Executive 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

- **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

### 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 2021. 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
<b>Strategic Communication</b>	900	Customer Centric Performance Driven	Government & Strategic Communication Vehicle Titles and Registration Enforcement Compliance and Investigations	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 should exist to ensure effective communication. This engagement ties to COSO elements of Control Environment and Information and Communication.
<b>Payment Card Industry (PCI)</b>	600	Performance Driven	Information Technology Services Division	The Department accepts credit cards and is required to meet PCI standards. This engagement would evaluate PCI compliance with compliance requirement 1: Install and Maintain a Firewall. 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.

Table 2. Required Engagements

Engagement Area	Hours	Strategic Goal(s)	Impacted Division(s)	Background
<b>Quality Assurance and Improvement Program – External Assessment</b>	100	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. A final report with compliance information is produced by the Peer Review team.
<b>Audit Recommendation Implementation Status Follow-Up</b>	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.
<b>FY 2022 Risk Assessment and First Half Internal Audit Plan</b>	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.

## 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
<b>Incident Response Communication</b>	Performance Driven	Department-wide	Over the past few years, organization’s incident response plans have been used more often. As natural disasters and cybersecurity events become more common, the communication plan to staff and stakeholders should be flexible and consider different scenarios. This engagement would look at the Department’s incident response plan and communication. This engagement ties to COSO elements of Control Environment, Risk Assessment, and Information and Communication.
<b>Business Continuity</b>	Performance Driven	Department-wide	Business Continuity Plans were activated several times over the past year to address a multitude of natural disaster events and changes have been made to plans based on those events. This engagement would evaluate the effectiveness of the Department’s Business Continuity Plan and whether it accurately reflects the needs of the Department during a business continuity event. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, and Information and Communication.
<b>Staff Retention and Recruitment</b>	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.
<b>Strategic Purchasing</b>	Optimized Services and Innovation	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



Engagement Area	Strategic Goal(s)	Impacted Division(s)	Preliminary Engagement Information
	Performance Driven		as technology purchases. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.
<b>Contract Development</b>	Optimized Services and Innovation	Finance & Administrative Services Division  Office of General Counsel	The state continues to evolve its procurement and contract rules and regulations 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.

## Scope and Methodology

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### Scope

The Internal Audit Plan covers activities and engagements for the second half of the fiscal year, March 2021 to August 2021, 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

315 Department risks have been identified through the risk assessment, including an additional 68 risks that had not been identified in previous risk assessments or were new risks due to the changing environments. Each risk identified was scored using the above factors to determine the engagements for the second 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.

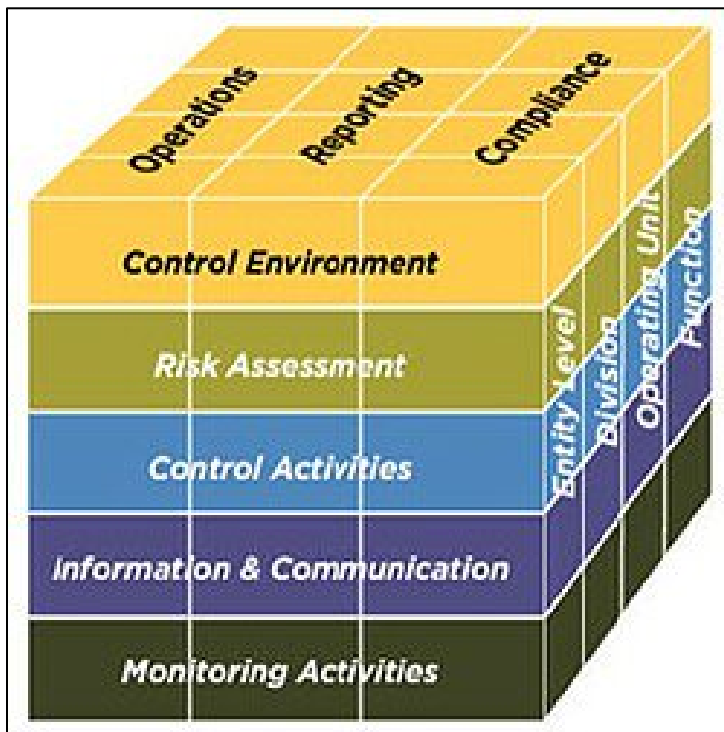
Table 4. Risk Scores

Very Low Risk	Low Risk	Medium Risk	High Risk	Very High Risk
0 - 1.49	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.

## Themes

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 Resources:** 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

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.