



Texas Department
of Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

Quality Assurance and Improvement
Program Report

21 – 02

Internal Audit Division

October 2020



Quality Assurance and Improvement Program, 21-02

Executive Summary

BACKGROUND

The Internal Audit Division (IAD) follows (1) the audit standards prescribed by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards), the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing and the Code of Ethics; (2) U.S. Government Accountability Office's (GAO) Generally Accepted Government Auditing Standards (GAGAS); and (3) Texas Internal Auditing Act, Texas Government Code, Chapter 2102 (Act). These audit standards require IAD develop and maintain a Quality Assurance and Improvement Program (QAIP) that includes both internal and external assessments.

Internal assessments are ongoing monitoring of the performance of the internal audit activity, as well as annual self-assessment reviews. The IIA Standards require the results of internal assessments be communicated to the governing board at least annually.

This report provides a summary of Internal Audit Division's fiscal year 2020 activities and compliance with applicable audit standards, including information on which Key Performance Indicators were met, on its Capability Model progress, and fraud, waste, and abuse allegation handling. It also provided information on the progress made in implementing external assessment recommendations.

RESULTS

For FY 2020, the division complied with all internal audit standards and a met many of its Key Performance Indicators. In addition, it maintained an overall *Level 3* in the Capability Model while improving in individual categories of the model.

While the division complied with all audit standards, two opportunities of improvement were identified in the review:

- Define the Finance & Audit Committee's role in the internal audit charter.
- Revise Board training to focus on the role of internal audit.

The division also tracked and handled a total of 74 fraud, waste, and abuse allegations and spent a total of 1098 hours. Of the 74 allegations, 24 allegations were related to internal fraud, waste, or abuse. To investigate those allegations, the division spent about 950 hours.

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Background

The Texas Department of Motor Vehicles (TxDMV) - Internal Audit Division (IAD) follows (1) the audit standards prescribed by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards), the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing and the Code of Ethics; (2) U.S. Government Accountability Office's (GAO) Generally Accepted Government Auditing Standards (GAGAS); and (3) Texas Internal Auditing Act, Texas Government Code, Chapter 2102 (Act). These audit standards require IAD develop and maintain a Quality Assurance and Improvement Program (QAIP) that includes both internal and external assessments:

- Internal assessments are ongoing monitoring of the performance of the internal audit activity, as well as annual self-assessment reviews. The IIA Standards require the results of the internal assessments be communicated to the governing board at least annually.
- External assessment (Peer Review) is a review of the IAD conducted by a qualified, knowledgeable Peer Review team. The Peer Review team will determine if the division conforms with applicable standards and the external assessment may provide feedback on operational and strategic issues.

Internal Assessments

The IAD internal assessments include ongoing monitoring as well as an annual self-assessment. The ongoing monitoring includes a review of all audit documentation, audit recommendations, and reports for each engagement conducted by the IAD in a fiscal year prior to finalizing an engagement file.

The annual self-assessment includes verifying IAD followed all required compliance and performance audit standards. In addition, IAD provides progress and result information on the following:

- Key Performance Indicators (KPIs)
- Institute of Internal Auditors (IIA) – Internal Audit Capability Model for the Public Sector (Capability Model)
- Fraud, waste, and abuse allegations and disposition
- External assessment recommendations progress

External Assessments

Every three years, the IAD Director begins the process to obtain a Peer Review team. The Peer Review team issues a public report rendering an overall opinion on whether IAD complied with the audit standards and whether QAIP provides reasonable assurance that internal audit complies with applicable professional standards in all material aspects. The IAD received its most recent Peer Review in May 2018. In 2021, IAD will undergo another external assessment. The IAD has begun External Assessment activities, including its self-assessment.

Audit Engagement Team

The review was performed by Jacob Geray (Internal Auditor), Frances Barker (Internal Auditor), Jason Gonzalez (Senior Auditor), Derrick Miller (Senior Auditor), and Sandra Menjivar-Suddeath (Internal Audit Director).

Internal Assessment Results

IAD staff conducted the self-assessment review to determine if the IAD followed all required applicable compliance and performance audit standards during fiscal year (FY) 2020. In addition, IAD staff analyzed data collected throughout the fiscal year to report on the division's KPIs, Capability Model, and fraud, waste, and abuse resolution.

Overall Conclusion

Based on the review, IAD complies with the IIA Standards, the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, GAGAS, and the Act. While IAD complied with the audit standards, IAD could enhance its audit charter to include the role of the Finance & Audit Committee and to improve Board training.

As for the effectiveness and efficiency of the activity, IAD did progress on the Capability Model but did not meet all their KPIs. For FY 2020, IAD met 60% of their KPIs. KPIs related to engagements within budget, customer satisfaction, audit knowledge, and audit recommendation implementations.

IAD also implemented its External Assessment recommendation and handled several internal fraud, waste, and abuse allegations.

Compliance Audit Standards

A review of the IAD's audit charter, standard operating procedures, and engagement control programs was conducted to determine if the IAD followed all compliance audit standards. Compliance standards include the following items:

- **Purpose, Authority, and Responsibility** - The internal audit function must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Institute of Internal Auditors (IIA) Standards, and the Definition of Internal Auditing).
- **Independence and Objectivity** - The internal audit function must be independent and perform work in an objective manner.
- **Proficiency and Due Professional Care** - Engagements must be performed by staff who are proficient and have due professional care.
- **Quality Assurance and Improvement Program** - A quality assurance and improvement program must be established and must enable an evaluation of the internal audit function's conformance with the audit standards and any applicable other requirements. The program should, also, assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement for the function.

- **Managing the Internal Audit Activity** - The internal audit function must be effectively managed to ensure it adds value to the organization.
- **Nature of Work** - The internal audit function must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach.
- **Monitoring Progress** - A system to monitor the disposition of results must be established, maintained, and communicated.

Conclusion

Based on the review, IAD met the compliance standards but identified two opportunities of improvement related to additional information on the internal audit charter and updating Board training. The audit charter could be enhanced to provide more information on the roles and responsibilities of the Finance and Audit Committee for the internal audit activity. In addition, the training to TxDMV Board members could be enhanced to provide more information on the role of the internal audit activity within the Department instead of just providing information on the activity.

Both items are being addressed and scheduled for completion by January 2021.

Performance Audit Standards

The IAD must also meet performance audit standards. To determine whether performance audit standards were met, the IAD Director selected one completed engagement (Patch Management Confidential Audit) for review. Specifically, a staff member not associated with the engagement determined whether the audit engagement complied with performance audit standards. IAD must comply with the following performance audit standards:

- **Engagement Planning** - A plan must be developed and documented for each engagement.
- **Performing the Engagement** - Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.
- **Communicating Results** - Results from the audit engagements must be communicated to management and others in charge of governance.

Conclusion

Based on the review, IAD complies with performance audit standards when planning, performing, and communicating the results of engagements.

Key Performance Indicators

IAD has 10 Key Performance Indicators (KPIs) used to measure the function’s effectiveness and efficiency. The KPIs and the overall performance for the year are documented below.

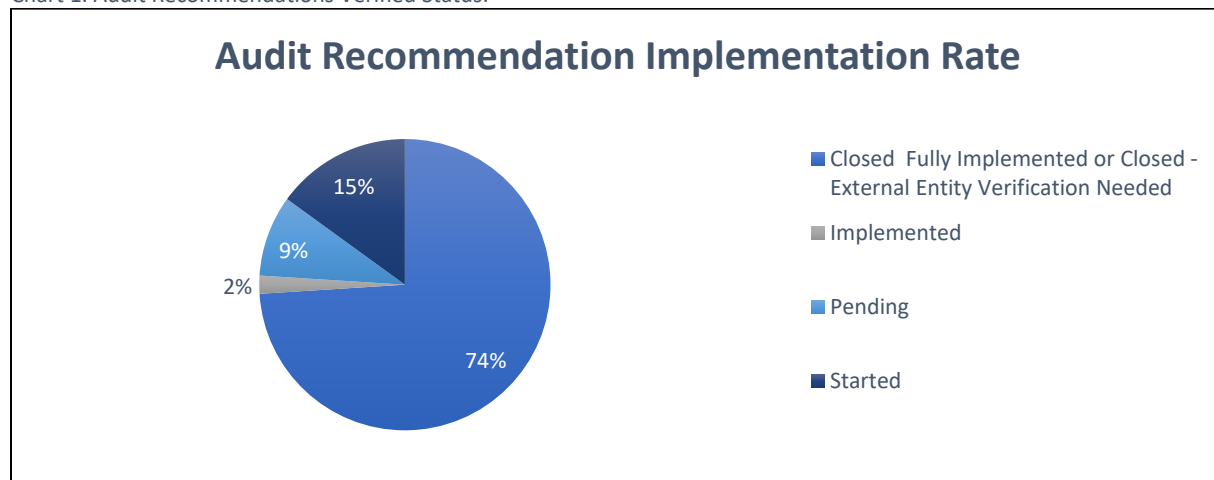
Audit Recommendations Implemented

IAD monitors the Department’s implementation rate for internal and external audit recommendations. In FY 2020, the Department’s KPI was an implementation rate of 80% for internal and external audit recommendations.

Conclusion

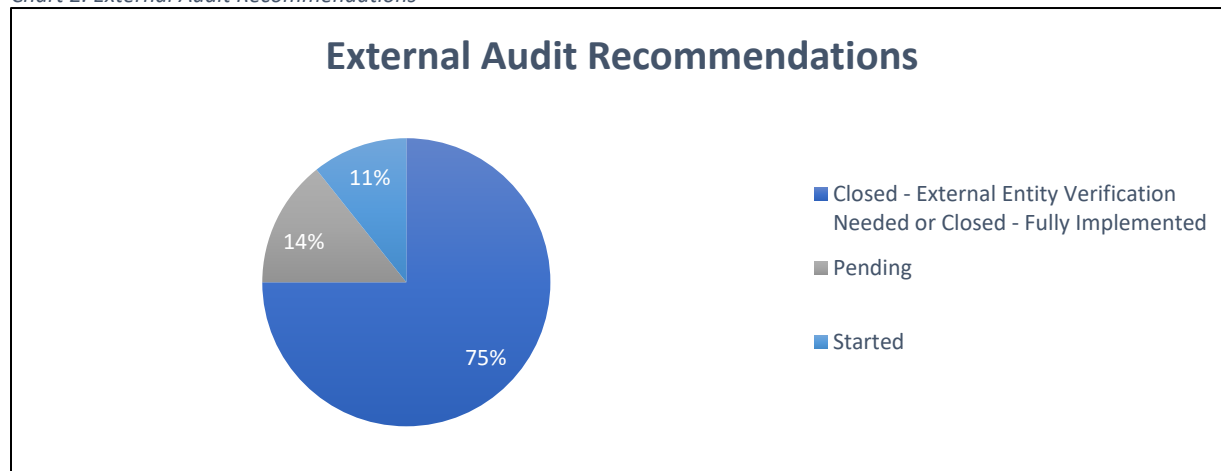
The Department had 66 internal and external recommendations that were due or completed in FY 2020. The Department implemented 49 (74%) of the internal and external audit recommendations as depicted in Chart 1.

Chart 1. Audit Recommendations Verified Status.



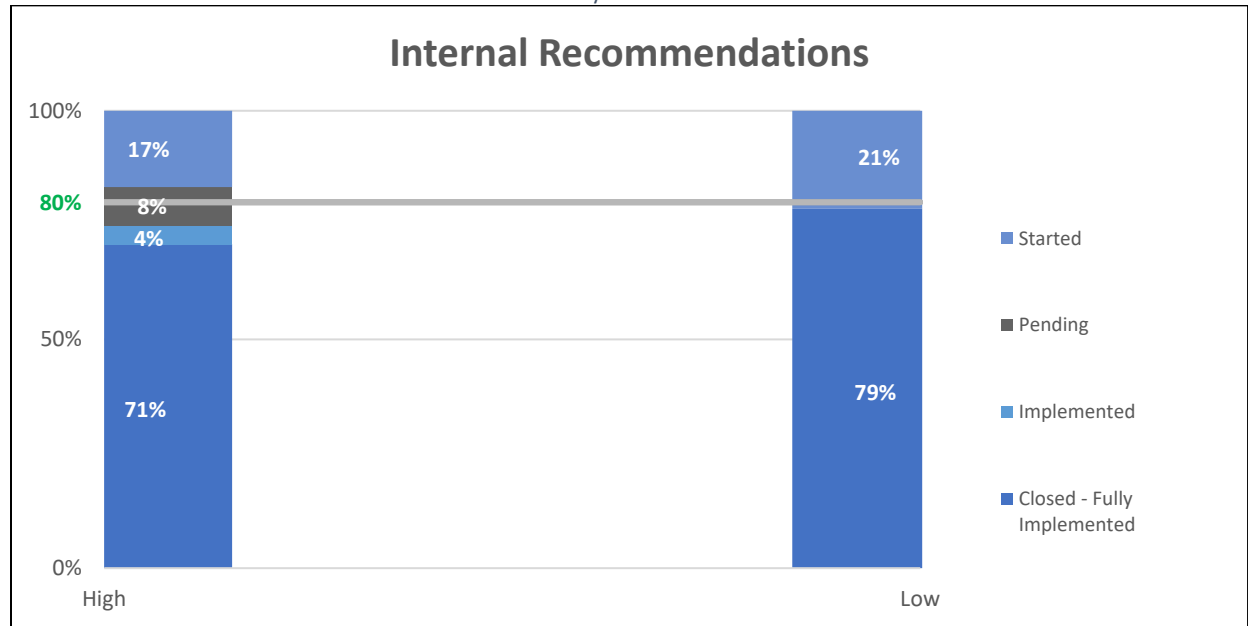
For external audit recommendations, 21 of 28 (75%) of the audit recommendation were Closed – Fully Implemented or Closed – External Entity Verification Needed as noted in Chart 2.

Chart 2. External Audit Recommendations



For internal audit recommendations, 28 of 38 (74%) of the recommendations were fully implemented. The 38 internal audit recommendations consisted of 24 that were a HIGH priority and 14 that were of a LOW priority. 17 of the 24 (71%) HIGH priority internal audit recommendations were Closed- Fully Implemented while 11 of the 14 (79%) LOW priority internal audit recommendations were Closed – Fully Implemented as depicted in Chart 3.

Chart 3. Internal Audit Recommendations Status and Priority



Audit Plan Completion

IAD measures how well it tracked against the approved Internal Audit Plan. The IAD must complete at least 80% of the internal audit plan by the end of the fiscal year. Due to the nature of audit reporting, audit completion is defined by the number of engagements that were issued or in the reporting phase at the end of the fiscal year divided by the number of engagements listed on the audit plan.

Conclusion

IAD met this KPI. For the seven engagements, all engagements were either in reporting or issued. Five (71%) engagements were issued by the end of the fiscal year while 2 (29%) were in the reporting phase. The last two reports were issued in September.

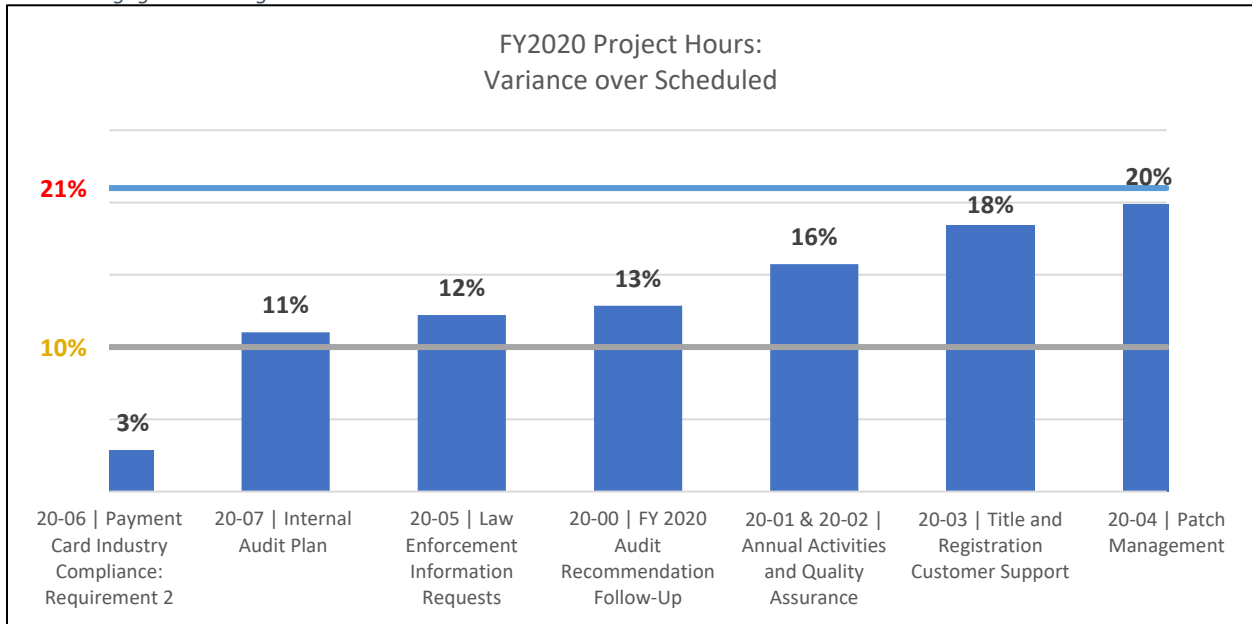
Engagement Budgets

IAD measures the time spent on engagements and how well it estimates its engagement time. IAD’s measure is that 90% of engagements are within 10% of the budgeted hours.

Conclusion

IAD had seven engagements in FY 2020. Out of the 7 engagements, only one engagement (14%) was within 10% of the budgeted hours. However, most engagements were close to the budgeted hours as depicted below in Chart 4.

Chart 4. Engagement Budget



Survey

For four KPIs, IAD uses surveys to determine if the TxDMV division staff feel that the IAD possess sufficient knowledge to conduct engagements (audit knowledge); provides clear and timely communication (clear communication); are satisfied with the engagement (customer satisfaction); and, whether recommendations implemented were useful and beneficial after implementation (recommendation usefulness). The current KPI for each survey is at least 80% agreement.

Conclusion

Out of the four KPIs, IAD only met two. IAD met the KPIs related to the usefulness of audit recommendations and clear and timely communications. IAD did not meet the customer satisfaction or audit knowledge. Based on the customer feedback received, IAD believes these KPIs were not met because of the audit recommendations and results issued. Charts 4 and 5 depict the survey results.

Chart 4. Engagement Survey Results

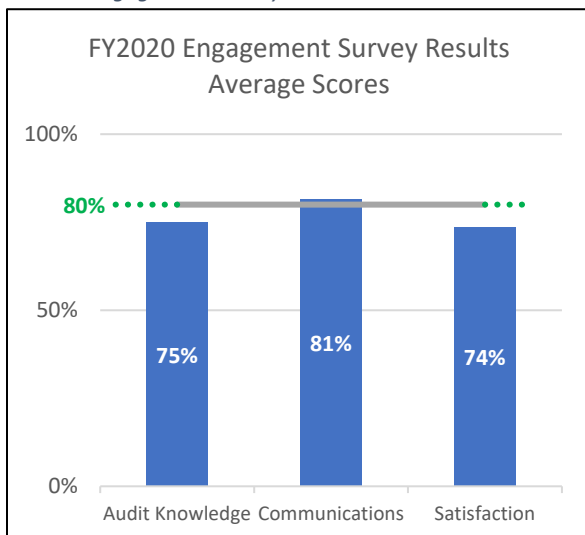
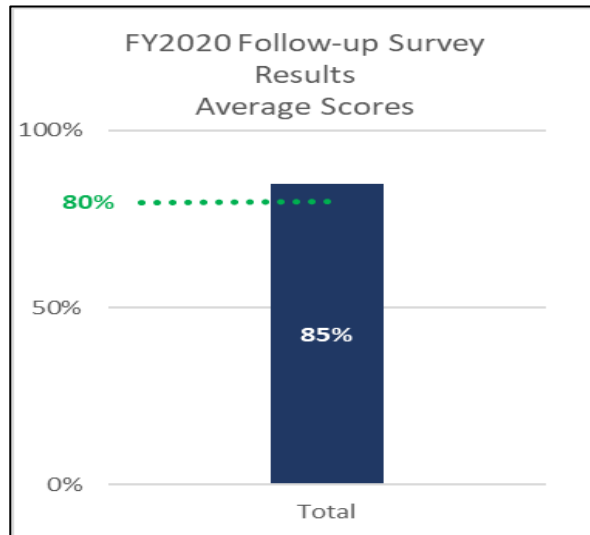


Chart 5. Audit Recommendation Results



Staff Certification

To ensure IAD has staff that can perform the necessary audit work, the IAD measures staff certifications. The current KPI is that 80% of the recognized certifications must be present with audit staff.

Conclusion

In FY 2020, 80% of the recognized certification were present with audit staff. Audit staff had the following certification:

- Certified Internal Auditor
- Certified Information Systems Auditor
- Certified Government Auditing Professional
- Certified Fraud Examiner

The only certification not present was the Certified Public Accountant.

Audit Educational Efforts

To ensure staff and stakeholders understand the role of the IAD, IAD measures how many educational efforts are done in a fiscal year. The IAD should perform at least two education efforts a year.

Conclusion

In FY 2020, IAD conducted eight internal audit educational efforts to the Department, including one training to the Institute of Internal Auditors – Houston Chapter. The eight events are documented in table 1.

Table 1. Educational Effort Name and Date

Date	Title
Sep-19	Audit 101
Sep-19	Audit 101
Sep-19	LBB Reporting - Audit Testing Demonstration
Feb-20	Internal Audit: Providing Value in a Small Shop
Apr-20	TeamCentral Training
May-20	Internal Audit Month
Aug-20	TeamMate+ Client Training
Aug-20	TeamMate+ Client Training
Total	8

Operational Initiatives

IAD had several operational initiatives to improve its functions. During FY 2020, all staff led and participated in the operational plans.

Internal Audit Capability Model for the Public Sector (Capability Model)

Since the 2018 Peer Review, IAD tracks its effectiveness progress through the *Capability Model for the Public Sector*. The goal for the division is to achieve *Level 5, Optimizing*. After the 2018 Peer Review, IAD was at a *Level 2, Infrastructure*. IAD improved to a *Level 3, Integrated* by the end of FY 2018. In FY 2020, IAD maintained its *Level 3, Integrated*.

While IAD maintained a *Level 3*, IAD did improve in four individual categories: Service and Role of Internal Audit, People Management, Performance Management and Accountability, and Organizational Relationships and Culture and has achieved a *Level 5* in these categories. IAD was able to achieve *Level 5* in these categories by conducting the following activities:

- Becoming more involved in professional organizations, such as the Institute of Internal Auditors – Austin Chapter.
- Positioning the internal audit activity as a key player and an agent of change by contributing to the Department’s objective and vision through its focus on client services, innovation, and value delivery.
- Strengthening the internal audit activity capacity to meet the needs of the Department by adding and modifying staff skillset and co-sourcing.
- Creating reports and dashboard that substantively describe the contribution and impact made by the internal audit activity.
- Developing communication plans to keep the Executive Office, TxDMV Board, and the Finance and Audit Committee informed of activities.

With those four categories, IAD has achieved a *Level 5* in five of the six categories. IAD continues to work towards a *Level 5* in the Professional Practice category. IAD has adopted a flexible audit approach and dynamic audit and services plan that aligns with the organization’s strategic directions and addresses emerging and potential issues and risks. However, IAD will not be able to achieve a *Level 5* until the Department further organizes and manages its risk. The Department is working on further organizing and keeping up with its risks. The current progress on the Capability Model is denoted in Figure 1.

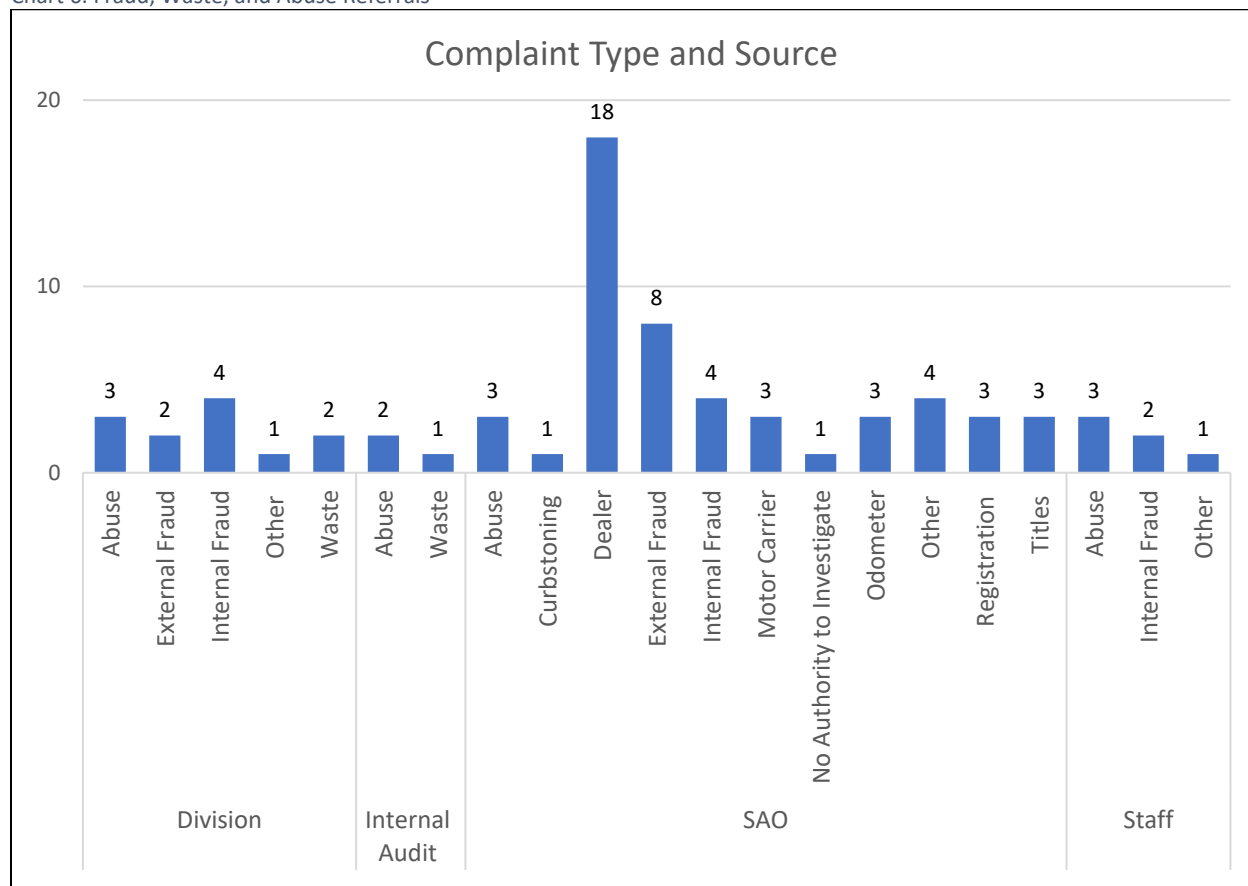
Figure 1. FY 2020 TxDMV IAD Capability Model

	Services and Role of IA	People Management	Professional Practices	Performance Management and Accountability	Organizational Relationships and Culture	Governance Structures
Level 5 – Optimizing	★ IA Recognized as Key Agent of Change	★ Leadership Involvement with Professional Bodies Workforce Projection	★ Continuous Improvement in Professional Practices Strategic IA Planning	★ Outcome Performance and Value to Organization Achieved	★ Effective and Ongoing Relationships	★ Independence, Power, and Authority of the IA Activity
Level 4 – Managed	Overall Assurance on Governance, Risk Management, and Control	Contributes to Management Development IA Activity Supports Professional Bodies Workforce Planning	Audit Strategy Leverages Organization’s Management of Risk	Integration of Qualitative and Quantitative Performance Measures	CAE Advises and Influences Top-level Management	Independent Oversight of the IA Activity CAE Reports to Top-level Authority
Level 3 – Integrated	Advisory Services Performance/Value-for-Money Audits	Team Building and Competency Professionally Qualified Staff	Quality Management Framework Risk-based Audit Plans	Performance Measures Cost Information IA Management Reports	Coordination with Other Review Groups Integral Component of Management Team	Management Oversight of the IA Activity Funding Mechanism
Level 2 – Infrastructure	Compliance Auditing	Individual Professional Development Skilled People Identified and Recruited	Professional Practices and Processes Framework Audit Plan Based on Management/ Stakeholder Priorities	IA Operating Budget IA Business Plan	Managing within the IA Activity	Full Access to the Organization’s Information, Assets, and People Reporting Relationship Established
Level 1 – Initial	Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organizational unit; no established capabilities; therefore, no specific key process areas					
★	Indicates the Internal Audit Division Desired State					
	Indicates the activity has been fully institutionalized by the Internal Audit Division					
	Indicates the activity is in progress by the Internal Audit Division					
	Indicates the activity has not been started by the Internal Audit Division					
Circle indicates current maturity level						

Fraud, Waste, and Abuse Allegations and Disposition

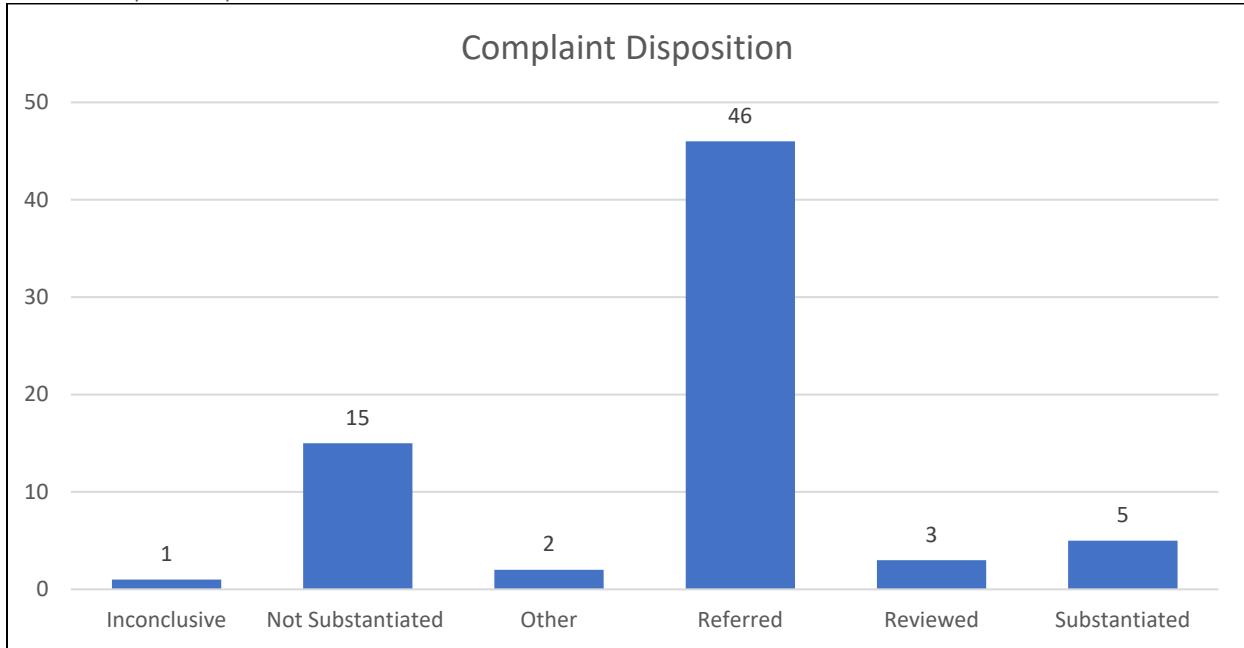
As part of IAD’s role, the division investigates and tracks fraud, waste, and abuse allegations. The allegations are received from multiple sources, including internal complaints, State Auditor’s Office, and internal reviews. In this role, IAD dedicated 1098 hours to fraud, waste, and abuse in FY 2020. Most of those hours, about 950 hours, were spent investigating 24 internal fraud, waste, and abuse allegations. While only 24 allegations were related to internal fraud, waste, and abuse, IAD participated and tracked a total of 72 fraud, waste, and abuse allegations received from the State Auditor’s Office, internal referral, or through IAD’s detection methods. Most of these allegations dealt with external fraud and consumer issues, such as title transfers. Chart 6 documents the complaint type and where the complaint was received.

Chart 6. Fraud, Waste, and Abuse Referrals



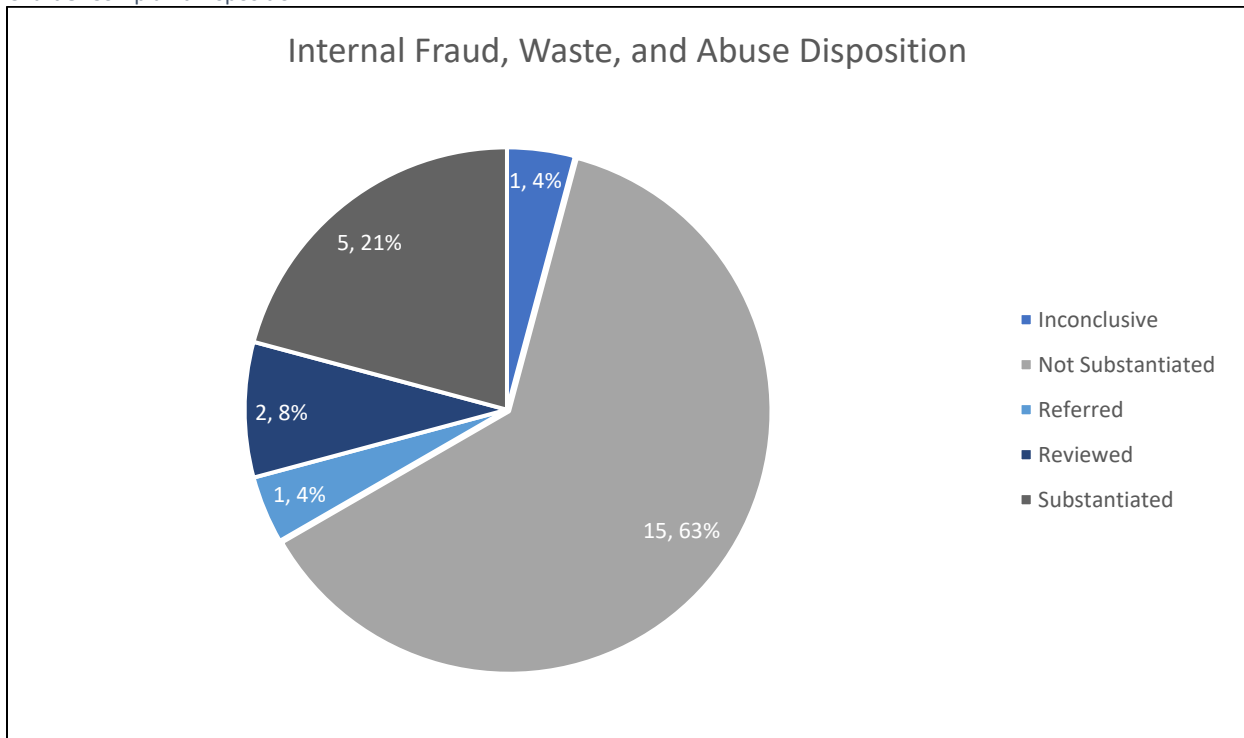
For each complaint received, IAD, in consultation with the Office of General Counsel, triages the complaints to determine whether the complaint needs to be investigated by IAD, referred to a division, or referred externally. Chart 7 provides information on the final disposition of each complaint received.

Chart 7. Complaint Disposition



For the 24 investigations IAD conducted, chart 8 provides information on the final disposition.

Chart 8. Complaint Disposition



External assessment recommendations progress

IAD has implemented the audit recommendation from its External Assessment. The IAD obtained a Peer Review in early 2018 and released the Peer Review report in May 2018. The Peer Review team rated IAD as “pass”. The following is an excerpt from the peer review report’s 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” and is in compliance with the Institute of Internal Auditors (IIA) International Professional Practices Framework 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.

The report noted one opportunity for improvement; the opportunity and the Internal Audit 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.

IAD actively participated in an agency-wide work group to update the ethics policy. As an advisor on the work group, IAD provided input on the ethics policy and reporting structure and provides potential risk areas. The Department signed and adopted its new Ethics Policy in this past fiscal year. In addition, IAD plays an active role in the fraud, waste, and abuse program.

Appendix 1: Objective, Scope, and Methodology

Objective

The objective of the Quality Assurance and Improvement Program is to provide a summary of the Internal Audit Division activities and compliance with applicable audit standards.

Scope and Methodology

The scope of the audit included FY 2020 Internal Audit Division Activities.

Information and documents reviewed in the audit included the following:

- Survey Results
- Audit Charter
- IAD Standard Operating Procedures
- IAD Engagement Control Programs
- Human Resource Records
- TxDMV IAD 2018 Peer Review Report
- TxDMV Operational Plan
- TeamCentral Reports
- IIA's Capability Model
- State Agency Internal Audit Form – Peer Review Forms

Report Distribution

This report is distributed to the Board of the Texas Department of Motor Vehicles and the executive management team.