



Texas Department
of Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

Internal Audit Annual Report
for Fiscal Year 2015

TxDMV 16-1

TxDMV Internal Audit Division
October 27, 2015

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October 27, 2015

Honorable Greg Abbott, Governor
Ms. Ursula Parks, Director, Legislative Budget Board
Mr. Ken Levine, Director, Sunset Advisory Commission
Mr. John Keel, State Auditor, State Auditor's Office
Ms. Laura Ryan, Chairman, TxDMV Board

Subject: *Internal Audit Annual Report for Fiscal Year 2015*, TxDMV 16-1

Attached is the annual report for the Internal Audit Division of the Texas Department of Motor Vehicles (TxDMV). This report includes a status update on the internal audit plan for fiscal year 2015, the board-approved audit plan for fiscal year 2016, and external audit services procured. The Internal Audit Division also successfully underwent its first peer review and received the highest rating possible (see Appendix A for the peer review report).

This report fulfills the requirements set forth in the Texas Internal Auditing Act and the State Auditor's Office guidelines for submitting the annual report. The TxDMV posts required reports at <http://www.txdmv.gov/reports-and-data>.

Please contact me at (512) 465-4118 or Sandra.Vice@txdmv.gov with questions about this report or internal audit activities.

Sincerely,

A handwritten signature in blue ink that reads "Sandra Vice".

Sandra H. Vice, CIA, CGAP, CISA
Internal Audit Director

cc: Members of the TxDMV Board
Whitney Brewster, TxDMV Executive Director
Shelly Mellott, TxDMV Deputy Executive Director
Kara Belew, Governor's Office of Budget, Planning, and Policy
Ed Osner, Legislative Budget Board
Kelly Linder, State Auditor's Office

Chapter 1: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the TxDMV Web Site

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 *TxDMV Internal Audit Plan for Fiscal Year 2016* on August 15, 2015, and the agency web master posted the plan to the agency's web site on August 18, 2015. The *Annual Internal Audit Report for Fiscal Year 2015* will be posted to the TxDMV web site following the November 2015 TxDMV Board meeting. These reports may be found at <http://www.txdmv.gov/reports-and-data>.

Government Code §2102.015 also requires an entity to post a summary of any weaknesses or concerns resulting from the audit plan or annual report and actions taken to address those issues. To address these requirements, the Internal Audit Division summarized fiscal year 2015 audit recommendations and the agency's progress in implementing corrective actions in Table 1 below. The Internal Audit Division will fulfill the requirement to post this information when the annual report is added to the TxDMV web site following the November 2015 TxDMV Board meeting.

Table 1

Summary of Fiscal Year 2015 Internal Audit Recommendations and Agency Implementation Status	
Recommendation	Implementation Status
<i>A Follow-up Audit Report on the Implementation of Recommendations</i> (Report Number P 14-14, Sept. 12, 2014)	
The TxDMV should either complete implementation of the following recommendations that are partially implemented or inform the TxDMV Board that it has decided not to implement a recommendation from the Organizational Assessment Report:	Substantially Implemented
<ul style="list-style-type: none"> • Create an Office of Strategic Planning and Policy Analysis • Design, develop, and deploy a Strategic Management System for the agency • Develop competency models for executive, professional, and support staff, and align Human Resources processes to the required competencies • Develop succession planning and talent management programs to ensure continuity and availability of needed skills and competencies 	

Summary of Fiscal Year 2015 Internal Audit
Recommendations and Agency Implementation Status

Recommendation	Implementation Status
<i>An Audit of the Automobile Burglary and Theft Prevention Authority (Report Number P 14-14, Sept. 12, 2014)</i>	
<p>The report included 4 recommendations to the ABTPA Board and 35 to the ABTPA Team to address issues with the grant award process, the grant monitoring process, and the ABTPA administrative functions.</p>	<p>Ongoing</p> <p>The ABTPA Redesign Team is addressing the audit report recommendations as follows:</p> <ul style="list-style-type: none"> • Proposed statute and rule changes to ensure their relevance and applicability in the ABTPA future state • Reinvented grant goals and objectives • Redesigned the grant award process. • Created an ABTPA Grant Administrative Manual • Developed an annual monitoring plan for its grantees • Revised reporting requirements • Acquired strategic partnerships to advance ABTPA's mission

*Audit of the Texas Department of Motor Vehicles' Use of Contract Workers
(Report Number TxDMV-15-1, Feb. 13, 2015)*

<p>The report included 12 recommendations to TxDMV management to address issues with managing contract workers, controlling contract workers' hours, and providing feedback to vendors.</p>	<p>Ongoing</p> <p>Agency management is addressing the audit report recommendations as follows:</p> <ul style="list-style-type: none"> • The Office of General Counsel and the Finance and Administrative Services divisions are revising existing guidance for contracts providing contract workers, which includes vendor feedback and asset management • The Finance and Administrative Services Division is revising requirements for contracts' statements of work and needs assessments • The Information Technology Services Division and Enterprise Project Management Office are working to monitor contract workers' hours and will use deliverable-based contracts, instead of hourly ones, when possible
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Summary of Fiscal Year 2015 Internal Audit
Recommendations and Agency Implementation Status

Recommendation	Implementation Status
<i>Audit of Internal Controls over the State of Texas Titling Process (Report Number TxDMV-15-2, August 2015)</i>	
<p>The report included 10 recommendations to TxDMV management to address issues in monitoring titling transactions, user security in the Registration and Titling System, and processes to ensure the agency processes title transactions appropriately.</p>	<p>Ongoing</p> <p>The Vehicle Title and Registration Division is addressing the audit report recommendations as follows:</p> <ul style="list-style-type: none"> • Revising processes to monitor title transactions and standardize regional offices procedures related to title transactions • Working with Information Technology Services to establish security profiles in the Registration and Titling System and emphasize proper security practices among users.

Chapter 2: Internal Audit Plan for Fiscal Year 2015

The status of the fiscal year 2015 audit plan engagements are in Table 2. The Internal Audit Division did not conduct consulting or nonaudit services during fiscal year 2015.

Table 2

Report Title	Report Number	Release Date
<i>Annual Internal Audit Report for Fiscal Year 2014</i>	N/A	October 27, 2014
<i>An Audit of the Texas Department of Motor Vehicles' Use of Contract Workers</i>	TxDMV-15-1	February 13, 2015
<i>Audit of Internal Controls over the State of Texas Titling Process (formerly Vehicle Titles and Registration Division Mission)</i>	TxDMV-15-2	August 14, 2015
<i>TxDMV Internal Audit Plan for Fiscal Year 2016</i>	TxDMV 15-3	August 14, 2015
<i>An Audit of the Texas Department of Motor Vehicles' Administration of Statute and Rules through Tax Assessor-Collectors (formerly Selected Tax Assessor-Collector Processes)</i>	TxDMV 15-4	November 13, 2015 (scheduled)
<i>A Confidential Follow-up Audit Report on the Information Security Standards Gap Assessment</i>	TxDMV 15-5	November 13, 2015 (scheduled)
Other Audit Plan Engagements	Status	
Texas International Registration Plan (TxIRP)	This audit was carried forward to the fiscal year 2016 audit plan when the TxDMV learned that the program was scheduled for a November 2015 external peer review. The internal audit staff will re-evaluate the potential scope for the audit after reviewing the results of the peer review.	

Chapter 3: External Quality Assurance Review

The Internal Audit Division underwent its inaugural external quality assurance review (peer review) in March 2015. Representatives of the State Agency Internal Audit Forum performed the peer review in accordance with its peer review policies and procedures effective February 2013. On April 1, 2015, the Internal Audit Division received a rating of “pass” out of three possible ratings: pass, pass with deficiencies, or fail. The report noted one opportunity for improvement; the opportunity and the Audit Director’s response is as follows:

Opportunity for Improvement:

In evaluating the impact of technology on the Agency’s future resource needs, consideration should be given to additional audit resources whose primary expertise and responsibility is auditing technology, including the complexities of contracts required for technology projects.

Director’s Response:

The Director agrees with the above opportunity for improvement. Current staff will take steps to increase their technology skills and knowledge through professional development. If an audit requires technical skills the audit team does not possess, the Division will request approval to hire a temporary contract IT auditor. Also, the Internal Audit Division will seek an auditor with information technology experience when it has a vacancy or if additional resources are assigned to the Division.

See the following page for the peer review opinion and certificate, excerpted from the *TxDMV Internal Audit Division External Quality Assurance Review* (see Appendix A for the report in its entirety).

OVERALL OPINION

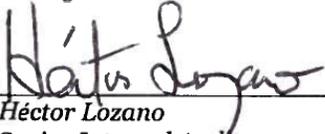
Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Department of Motor Vehicles (TxDMV) Internal Audit Division receives a rating of “pass” and is in compliance with the Institute of Internal Auditors (IIA) *International Professional Practices Framework (effective January 1, 2013)* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards (December 2011 Revision)*, 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.

ACKNOWLEDGEMENTS

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit staff, the Chairman of the Board and Finance and Audit Committee Chairman, the Executive Director, and the senior managers who participated in the interview process. We would also like to 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.



Héctor Lozano
Senior Internal Auditor
Texas Department of Family and
Protective Services
SAIAF Peer Review Team Leader

4/1/15
Date



Luis Solis
Audit Manager
Texas Workforce Commission
SAIAF Peer Review Team Member

4/1/15
Date



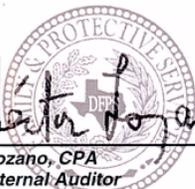
The Internal Audit Division of the Texas Department of Motor Vehicles

Receives a rating of

Pass

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 during the period of February 2015 through March 2015. The review was based on the methodology developed by the Texas State Agency Internal Audit Forum



Hector Lozano, CPA
Senior Internal Auditor
Texas Department of Family and Protective Services



Luis Solis, CGAP, CRMA
Audit Manager
Texas Workforce Commission

Chapter 4: Internal Audit Plan for Fiscal Year 2016

The TxDMV Board approved the *TxDMV Internal Audit Plan for Fiscal Year 2016* on August 14, 2015 as shown in Tables 3 and 4. The audit topics in Table 4, which also received “high” risk rankings, were approved by the TxDMV Board in case additional audit resources become available. As a result, these audits are not scheduled and may not be performed.

Table 3

Texas Department of Motor Vehicles Fiscal Year 2016 Internal Audit Plan		
Topic and Budgeted Hours	Division	Background and Preliminary Objectives
Required Reports under the Texas Internal Auditing Act		
1. Fiscal Year 2015 Annual Internal Audit Report 50 hours	Agency-wide	<u>Background:</u> A summary of internal audit activities, including the status of the FY 2015 audit plan, non-audit services provided, and external audit services procured; and the FY 2016 audit plan. This report must be submitted before November 1 of each year to the Governor, the Legislative Budget Board, the State Auditor’s Office, the Sunset Advisory Commission, and the TxDMV Board and be posted on the agency’s website (Government Code, Section 2102.009).
2. Fiscal Year 2017 Internal Audit Plan 100 hours	Agency-wide	<u>Background:</u> The annual audit plan is prepared using risk assessment techniques to identify individual audits to be conducted during the year. The TxDMV Board must review and approve the annual audit plan (Government Code, Section 2102.005).
Risk Based Audit and Advisory Services		
3. Texas International Registration Plan (TxIRP) 600 hours <i>Carry-over from Fiscal Year 2015 Internal Audit Plan</i>	Motor Carrier	<u>Background:</u> In calendar year 2014, Commercial Fleet Services oversaw over 20,633 active apportioned fleets through TxIRP with 158,449 apportioned vehicles; collected more than \$206 million in fees; and conducted 431 compliance audits. The Motor Carrier Division’s Commercial Fleet Services manages apportioned registration, also known as the International Registration Plan. The IRP is an agreement providing for registration reciprocity among member jurisdictions. Under this agreement, commercial carriers pay a proportionate, or “apportioned,” amount to each jurisdiction in which they intend to operate. This gives commercial vehicles the

**Texas Department of Motor Vehicles
Fiscal Year 2016 Internal Audit Plan**

Topic and Budgeted Hours	Division	Background and Preliminary Objectives
		<p>ability to travel interstate without having to purchase trip permits.</p> <p><u>Objective:</u> To be determined. Representatives from the IRP are scheduled to perform a peer review of the Texas program in November 2015. The peer review covers internal controls, including accounting procedures; a review of Texas compliance audits; and a review of records. The Internal Audit staff will reevaluate the potential scope and need for an audit after reviewing the results of the peer review.</p>
<p>4. Fraud Prevention Program (Advisory Service) 400 hours</p> <p><i>Advisory Service</i></p>	<p>Agency-wide</p>	<p><u>Background:</u> Advisory Services allow internal audit to assist management on special projects. An agency that proactively identifies and manages fraud risks can save money by preventing fraud and increasing external oversight and the public's confidence in the agency. The Association of Certified Fraud Examiners offers tools for agencies to take a fraud prevention check-up, conduct a fraud risk assessment, and develop a fraud risk response.</p> <p><u>Objectives:</u></p> <ul style="list-style-type: none"> (1) Assess the TxDMV staffs' preparedness and knowledge about their role in preventing, detecting, and reporting fraud, waste, and abuse. (2) Make recommendations to implement a robust agency-wide fraud prevention program.
<p>5. RTS Refactoring and Single Sticker Post-implementation Review 1,600 hours</p>	<p>Agency-wide</p>	<p><u>Background:</u> The TxDMV is making changes to processes and systems with significant impact to citizens and stakeholders. In the fall of 2015, the TxDMV anticipates launching the refactored Registration and Titling System to all users, including Tax Assessor-Collectors statewide. In March 2015, TxDMV implemented the consolidation of the State Vehicle Inspection Certificate and the State Vehicle Registration Stickers into a single sticker.</p>

**Texas Department of Motor Vehicles
Fiscal Year 2016 Internal Audit Plan**

Topic and Budgeted Hours	Division	Background and Preliminary Objectives
		<p><u>Objectives:</u></p> <ol style="list-style-type: none"> (1) Verify that TxDMV approved contract deliverables the lead RTS refactoring vendor and the independent validation and verification vendor submitted prior to making payments (2) Determine that fees are assessed, collected, and remitted accurately and timely (3) Review if capital budget controls and expenditure transfers complied with General Appropriations Act provisions (4) Verify the accuracy of reports (5) Compile lessons learned
<p>6. Oversize/Overweight Permitting 1,400 hours</p>	Motor Carrier	<p><u>Background:</u> The TxDMV regulates oversize vehicles and loads on highways and bridges. In fiscal year 2014, the Oversize/Overweight Permits Section issued over 836,000 permits; responded to over 198,000 permit-related calls from customers, and collected more than \$178 million in fees. The agency uses the Texas Permitting and Routing Optimization System (TxPROS), an online permitting and GIS-based mapping system, to allow customers to apply for and self-issue many permits.</p> <p><u>Objectives:</u></p> <ol style="list-style-type: none"> (1) Determine if TxDMV has data it needs to issue permits in accordance with laws and regulations and to ensure public safety (2) Review whether TxPROS has accurate and complete data (3) Determine if the contract with the hosting services vendor is managed in accordance with the Texas Contract Management Guide (4) Verify that TxDMV is assessing and collecting the appropriate fees
<p>7. Driver's Privacy Protection Act (DPPA) 600 hours</p>	Agency-wide	<p><u>Background:</u> The Congress enacted DPPA to protect the release and use of certain personal information in state motor vehicle records. The law provides some exceptions including the courts and law enforcement. The Texas Legislature passed protections under the Motor Vehicle Records Disclosure Act and the Public Information Act.</p>

**Texas Department of Motor Vehicles
Fiscal Year 2016 Internal Audit Plan**

Topic and Budgeted Hours	Division	Background and Preliminary Objectives
		<p>Objectives:</p> <ul style="list-style-type: none"> (1) Determine whether the TxDMV's process for allowing individuals and companies access to the motor vehicle title and registration database is in compliance with the DPPA (2) Analyze service contracts and inter-local agreements to determine if TxDMV is monitoring and enforcing contract terms (3) Determine if TxDMV is sharing information securely (4) Verify the reasonableness of processing fees and other fees
Total Budgeted Hours with TxIRP		4,750
Total Budgeted Hours without TxIRP		4,150

Table 4

Other Audit Topics if Additional Audit Resources are Available		
Topic and Budgeted Hours	Division	Background and Preliminary Objectives
<p>8. My Plates Contract 800 hours</p>	<p>Vehicle Titles and Registration</p>	<p>Background: TxDMV contracts with the vendor My Plates to design, market and sell specialty license plates. During its first award Registration period, My Plates satisfied its guarantee of \$25 million in state general revenue over 5 years. In April 2014, the TxDMV renewed its contract with the specialty plate vendor, My Plates, to design, market and sell new specialty license plates in the State of Texas. Under this new 5-year contract, the TxDMV anticipates a significant increase in revenue to the state.</p> <p>Objectives:</p> <ol style="list-style-type: none"> (1) Analyze the contract to determine if it contains required contract terms (2) Determine if TxDMV is monitoring vendor performance to ensure My Plates is in compliance with the contract (3) Verify the TxDMV is receiving the revenue it is due in a timely manner
<p>9. Enforcement Division 1,200 hours</p>	<p>Enforcement</p>	<p>Background: The Enforcement Division investigates complaints against licensees in industries TxDMV regulates and, when hours appropriate, files administrative charges alleging violation of laws. It also protects the public by enforcing the Lemon Law program.</p> <p>Objectives:</p> <ol style="list-style-type: none"> (1) Review key performance measures, such as number of motor vehicle consumer complaints completed and average number of weeks to complete a motor vehicle complaint, to determine whether TxDMV is accurately reporting measures to the Automated Budget and Evaluation System of Texas (ABEST) (2) Identify potential efficiencies to streamline the investigative process
Total Budgeted Hours		2,000

The Internal Audit Division developed the audit plan using a risk-based methodology, including obtaining input from TxDMV Board members and executive management. The Internal Audit Division also analyzed agency information to rank potential audit topics by risk, including expenditure transfers, capital budget controls, contract management and information technology risks. The proposed audits that address these risks are the following:

- RTS Refactoring and Single Sticker Post-Implementation Review will address expenditure transfers, capital budget controls, and contract management
- Oversize/Overweight Permitting will address contract management
- Drivers' Privacy Protection Act will address contract management and information technology risks related to Title 1, Texas Administrative Code, Chapter 202, Information Security Standards
- My Plates Contract, which will be conducted in fiscal year 2016 if resources are available, would address contract management

Chapter 5: External Audit Services Procured in Fiscal Year 2015

Table 5

Report Title	Provider	Report Number and Date Released
<p><i>State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2015</i></p> <p>A financial audit of the State of Texas' consolidated financial statements for fiscal year 2015</p>	<p>Texas State Auditor's Office</p>	<p>On-going</p>
<p><i>State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2014</i></p> <p>A financial audit of the State of Texas' consolidated financial statements for fiscal year 2014</p>	<p>Texas State Auditor's Office</p>	<p>SAO Report Number 15-555, February 2015</p>

Chapter 6: Reporting Suspected Fraud and Abuse

To comply with fraud reporting requirements in the General Appropriations Act (83rd Legislature, Article IX, 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

In addition, the Internal Audit Division included in its fiscal year 2016 audit plan a project to review the TxDMV's Fraud Prevention Program.

The Internal Audit Division coordinates compliance with Texas Government Code, Section 321.022 "Coordination of Investigations." Internal audit will evaluate all instances of fraud, waste or abuse reported to the Internal Audit Division 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 notify the SAO.

Also, the Internal Audit Division follows up on SAO hotline referrals to the TxDMV and reports results to the SAO in the prescribed form, content, and timing.

Appendix A:

Texas Department of Motor Vehicles Internal Audit
Division External Quality Assurance Review

**REPORT ON THE
EXTERNAL QUALITY ASSURANCE REVIEW
OF THE TEXAS DEPARTMENT OF MOTOR
VEHICLES**

INTERNAL AUDIT DIVISION

April 2015



PERFORMED BY

**HÉCTOR LOZANO, CPA
SENIOR INTERNAL AUDITOR
TEXAS DEPARTMENT OF FAMILY AND PROTECTIVE SERVICES**

**LUIS SOLIS, CGAP, CRMA
AUDIT MANAGER
TEXAS WORKFORCE COMMISSION**

**PERFORMED IN ACCORDANCE WITH THE
STATE AGENCY INTERNAL AUDIT FORUM
PEER REVIEW POLICIES AND PROCEDURES EFFECTIVE
FEBRUARY 2013**

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 (TxDMV) Internal Audit Division receives a rating of "pass" and is in compliance with the Institute of Internal Auditors (IIA) *International Professional Practices Framework (effective January 1, 2013)* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards (December 2011 Revision)*, 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.

ACKNOWLEDGEMENTS

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit staff, the Chairman of the Board and Finance and Audit Committee Chairman, the Executive Director, and the senior managers who participated in the interview process. We would also like to 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.



Héctor Lozano
Senior Internal Auditor
Texas Department of Family and
Protective Services
SAIAF Peer Review Team Leader

4/1/15

Date



Luis Solis
Audit Manager
Texas Workforce Commission
SAIAF Peer Review Team Member

4/1/15

Date

BACKGROUND

The Institute of Internal Auditors (IIA) *International Professional Practices Framework*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act require that internal audit functions obtain external quality assurance reviews to assess compliance with standards and the Act and to appraise the quality of their operations. *Government Auditing Standards* require these reviews at least every three years. A periodic external quality assurance review, or peer review, of the internal audit function is an essential part of a comprehensive quality assurance program. This quality assurance review was performed in accordance with *State Agency Internal Audit Forum (SAIAF) Peer Review Process Manual* (February 2013).

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of the quality assurance review was to evaluate the Texas Department of Motor Vehicles Internal Audit Division's compliance with auditing standards and the Texas Internal Auditing Act. Additional objectives included identifying best practices as well as areas where improvement may be needed. The review covered all completed audit and non-audit service projects performed by the Texas Department of Motor Vehicles Internal Audit Division from February 2014 through February 2015.

The work performed during the review included:

- Review, verification, and evaluation of the self-assessment prepared by the Internal Audit Division according to SAIAF guidelines.
- Review and evaluation of 15 responses to 17 e-mailed surveys completed by management.
- Interviews with the Internal Audit Director, Internal Audit Division staff, Executive Director, Deputy Executive Director, General Counsel, four Division Directors, Chairman of the Board, Finance and Audit Committee Chairman, and a former external auditor with knowledge of the Internal Audit Division.
- Review and evaluation of audit working papers for one audit project included in the self-assessment and the most recently completed audit project in February 2015.
- Review of Internal Audit's policies and procedures, annual risk assessment, annual audit plan, and other relevant documents.

DETAILED RESULTS

The results of the quality assurance review for the Texas Department of Motor Vehicles Internal Audit Division are presented in the order of the *International Standards for the Professional Practice of Internal Auditing (Standards)*. No significant weaknesses were identified during the review that would prevent the Division from fulfilling its responsibilities. The detailed results include identification of best practices.

IIA Code of Ethics

Internal Audit relies on and practices its policy for professional conduct which is consistent with the tone at the top that has been established by the Board and Executive Management regarding ethics and integrity in achieving the Agency's mission and goals. The Internal Audit Director shares articles with staff about ethical behavior. Also, the Agency has sent out memorandums to division directors reminding them of ethical and professional behavior requirements for the Agency. Internal Audit's charter states that Internal Audit will abide by the Code of Ethics. In conducting its work, Internal Audit communicates to the divisions the importance of ethical behavior in conducting operations.

Standard 1000: Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of Internal Audit have been defined in a charter that is consistent with auditing standards. The current charter was signed by the Chairman of the Board, Finance and Audit Committee Chairman, and the Executive Director in March 2014. It defines the nature of audit and consulting services and grants the Internal Audit Division authorized access to agency records, property, and personnel when performing their official duties.

Standard 1100: Independence and Objectivity

The Internal Audit Division is independent in terms of the agency's organizational structure and the Division's practices. To assure the independence of the internal audit function, the Internal Audit Director reports functionally to the Board and its Finance and Audit Committee and administratively to the Executive Director. Removal of the Internal Audit Director requires Board approval.

The charter helps ensure continued independence by specifying that internal auditors must remain free of operational and management responsibilities that could impair their ability to make independent reviews of all areas of the Agency's operations. None of the internal auditors has prior responsibility for any areas that the Division audits. In addition, auditors are required to evaluate and attest to the status of their independence on each audit performed.

Standard 1200: Proficiency and Due Professional Care

The internal auditors individually and collectively possess the knowledge, skills, and abilities to perform their responsibilities. Staff accreditations with professional organizations include the Institute of Internal Auditors, Information Systems Audit and Control Association, and the Association of Certified Fraud Examiners. All auditors are required to obtain at least 40 hours of continuing education every year, for a minimum total of 80 hours of each two-year reporting period.

As part of the documentation obtained by the Peer Review Team, the Agency's Strategic Plan for Fiscal Years 2015 - 2019 was reviewed, noting that the Texas Department of Motor Vehicles is establishing technology strategies to respond to key factors that will affect the

Agency over the next five years. The Agency's technology is intricately intertwined with that of the Texas Department of Transportation. This is a major factor affecting the Agency's

ability to become fully independent and agile enough to meet future needs. Furthermore, there were 19 business process analysis initiatives identified as part of the Texas Automation Systems Project that was conducted in Fiscal Year 2011.

Given the strategic priority and impact that technology will have on the Agency's future and day-to-day operations, the internal auditors will require knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work in an expanding technological and contract environment. Enhancing this area of audit proficiency would help the Agency in its strategy to mitigate the risks associated with complex technology initiatives and projects that are at the core of the Agency's business operations.

Opportunity for Improvement:

In evaluating the impact of technology on the Agency's future resource needs, consideration should be given to additional audit resources whose primary expertise and responsibility is auditing technology, including the complexities of contracts required for technology projects.

Director's Response:

The Director agrees with the above opportunity for improvement. Current staff will take steps to increase their technology skills and knowledge through professional development. If an audit requires technical skills the audit team does not possess, the Division will request approval to hire a temporary contract IT auditor. Also, the Internal Audit Division will seek an auditor with information technology experience when it has a vacancy or if additional resources are assigned to the division.

Standard 1300: Quality Assurance and Improvement Program

The Internal Audit Director implemented a quality assurance and improvement program to help ensure that Internal Audit adds value, improves the Agency's operations, and provides assurance that the Division complies with *Standards* and the IIA Code of Ethics.

The cornerstone of Internal Audit's quality assurance and improvement program is the experience, knowledge, and competency of its Internal Audit Director and audit staff. Under the Internal Audit Director's leadership, Internal Audit hired auditors with the skill sets needed to audit the Agency's operations in a timely and professional manner.

Another hallmark of quality assurance resides in the interpersonal and listening skills of the Internal Audit Director and her staff to ensure that risks and concerns of the Board and management are considered in the planning, field work, and reporting phases of an audit engagement. Feedback from auditees is sought and thoughtfully considered by Internal Audit in writing audit reports, developing audit findings that are easily understood, and providing recommendations that are agreeable to the auditee, reasonable, and can be implemented.

Standard 2000: Managing the Internal Audit Activity

The Internal Audit Director conducted an annual risk assessment that formed the basis for the Fiscal Year 2014 Annual Audit Plan, which was approved by the Board. Each internal audit report addressed risk and control issues within the Agency. The Director developed policies and procedures to guide the internal audit activity in accordance with the *Standards*. The Director reported the Division's performance relative to the Fiscal Year 2014 Annual Audit Plan in the Fiscal Year 2014 Annual Report on Internal Audit submitted to the

Executive Director, Deputy Executive Director, Board, and external oversight agencies, including the Governor's Office, Legislative Budget Board, Sunset Advisory Commission, and the State Auditor.

Standard 2100: Nature of Work

Internal Audit evaluates risks related to financial and operating information as well as the effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws and regulations. The Division also evaluates the extent to which operating and program objectives have been achieved. Internal Audit attends various governance and steering committee meetings to stay informed on Agency matters and initiatives that could have an impact on the nature of Internal Audit's work.

To comply with the January 2013 revision to the IIA *Standards* that requires Internal Audit to contribute to the organization's risk management and governance processes, the Division provides information and assistance to Executive Management and the Board about how the accomplishment of goals is monitored and how accountability is ensured. Internal Audit is included in the agenda of the Finance and Audit Committee Meetings to help ensure that the Board is kept informed of audit related issues.

Standard 2200: Engagement Planning

During planning, internal auditors consider the scope and objectives of the activity being reviewed and the related risks and controls. A project plan, which is prepared and documented in the work papers, includes the assignment of audit staff, milestones, and budget required for achieving the audit's objectives. Audit criteria and risk assessments are documented and used to develop the objectives of each audit.

Entrance conferences and engagement letters are documented and communicated to the auditees to help ensure the objectives of audits are clearly understood by the auditees, and auditees have an opportunity to provide input and feedback during the planning phase of the audit. Planning procedures, the project plan, and the audit procedures to be performed during field work are reviewed and approved by the Director and documented in the work papers.

Standard 2300: Performing the Engagement

The Internal Audit Director ensures that the auditors assigned to the project have the skills to perform the engagement, and the Director and Deputy Director closely supervise field work. The Director and Deputy Director review work papers as appropriate to ensure compliance with the *Standards*. Internal auditors gather, organize, and evaluate audit evidence that is sufficient, reliable, and relevant to their audit objectives and can support audit conclusions. Work papers are neat, legible, and well organized, including sources, purpose, procedures, results, and conclusions that make it easy for a reviewer to determine what the purpose of the work paper is.

Standard 2400: Communicating Results

Audit results are communicated in a timely manner, and the Peer Review Team was told in interviews that Internal Audit is very approachable, and it is easy to discuss potential findings and other audit issues with the auditors. The Peer Review Team was also told during interviews that Internal Audit is willing to listen to auditees to ensure that findings are accurate, complete, and understandable, incorporating wording changes when deemed necessary and appropriate. Internal Audit also gives management the opportunity to provide management responses to findings and recommendations. Auditees who were interviewed described Internal Audit's recommendations as reasonable for implementation.

Internal Audit has excellent templates for summarizing audit issues and preparing audit reports that are well organized and visually formatted. Audit reports contain the audit objectives, results, conclusions, recommendations, and management's responses and action plans. The results of our surveys and interviews with Board members and management indicated that internal audit reports are timely, accurate, clear, complete, and objective. The Internal Audit Director distributes internal audit reports to the Board, Executive Management, and management of the activity being audited. In addition, the Internal Audit Director complies with House Bill 16 (83rd Legislature, Regular Session), which amended the Texas Internal Auditing Act by adding the requirement that within 30 days of approval, an entity should post its audit plan and internal audit annual report on its Internet Web site.

Standard 2500: Monitoring Progress

The Agency has a system and database for monitoring the disposition of audit issues. Internal Audit tracks recommendations made to the Agency regardless of the source and periodically conducts an audit to follow up on the status of the implementation of the recommendations. Internal Audit will report to the Board annually on the *"Percent of Audit Recommendations Implemented."*

Standard 2600: Resolution of Senior Management's Acceptance of Risks

During the quality assurance review, no instances were identified of management accepting an inappropriate level of risk that would require the Internal Audit Director to notify the Board.

BEST PRACTICES

Internal Audit is a progressive division that is dedicated to continuous improvement. During the quality assurance review, we observed a number of practices that demonstrate outstanding commitment and professionalism. These leading practices include the following:

- The Internal Audit Director and staff have effective working and reporting relationships with the Board, executive management, and division management based on mutual respect, trust, and commitment to improving controls within the agency.
- Internal Audit offers a proactive perspective on business risks and how to mitigate them through its advisory role on the governance team, executive steering committees, and workgroups.
- The Internal Audit Director and staff have significant experience and expertise in governmental auditing and a working knowledge of the state government environment. The Director was appointed to the U.S. Government Accountability Office's Advisory Council on Government Auditing Standards, which reviews standards and recommends necessary changes.
- The internal auditors are professional and proficient. They are knowledgeable of and have a firm grasp of government and internal audit standards. They collectively hold professional certifications, including Certified Internal Auditor, Certified Government Auditing Professional, Certified Information Systems Auditor, and Certified Fraud Examiner.
- All internal audit staff members obtain at least 80 hours of continuing professional education each two-year period provided by recognized, professional auditing organizations. The division staff is implementing a succession plan that includes providing the deputy director with management and leadership training.
- There is an excellent and automated system for tracking and reporting the status of prior audit recommendations and communicating the percent of recommendations implemented on an annual basis.
- Internal Audit developed the *TxDMV Internal Audit Policies and Procedures Manual* and an audit template that incorporates procedures, excellent guides that provide direction to staff auditors, assuring consistent internal audit practices and compliance with audit standards.
- The Internal Audit Director participates in the State Agency Internal Audit Forum (SAIAF) and its Peer Review Committee. SAIAF is an organization designed to promote the role and importance of internal auditing and advancement of the internal auditing profession.
- Internal Audit uses audit software to manage, plan, execute, and report the results of audit engagements in a timely, efficient and effective manner.
- Internal Audit coordinates external audit engagements to assist management in responding to requests for information in a timely and complete manner.

REPORT DISTRIBUTION LIST

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Raymond Palacios, Jr., Chairman of the Finance and Audit Committee

Whitney Brewster, Executive Director

Sandra Vice, Chief Audit Executive