Texas Department of Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

Annual Internal Audit Report For Fiscal Year 2016

TxDMV 17-01

Internal Audit Division

November 1, 2016

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Texas Department of Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

November 1, 2016

Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Lisa R. Collier, CPA, CFE, CIDA, First Assistant State Auditor
Mr. Raymond Palacios, Jr., Chairman, TxDMV Board

Subject: Annual Internal Audit Report for Fiscal Year 2016

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 2016, the audit plan for fiscal year 2017, and external audit services procured.

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 at Sandra.Menjivar-Suddeath@txdmv.gov with questions about this report or internal audit activities.

Sincerely,

Sandra T. Menjivar-Suddeath, CIA, CISA, CGAP
Internal Audit Director

cc: Ms. Luanne Caraway, Chair, Finance and Audit Committee
Mr. Brett Graham, Member, Finance and Audit Committee
Ms. Kate Hardy, Member, Finance and Audit Committee
Mr. John Henry Walker III, Member, Finance and Audit Committee
Mr. Guillermo "Memo" Trevino, Board Member
Mr. Robert "Barney" Barnwell, Board Member
Mr. Blake Ingram, Board Member
Mr. Gary Wayne Painter, Board Member
Ms. Whitney Brewster, TxDMV Executive Director
Ms. Shelly Mellott, TxDMV Deputy Executive Director

Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the Internet 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 2017* on September 1, 2016 and the agency web master posted the plan to the agency's web site on September 1, 2016. The *Annual Internal Audit Report for Fiscal Year 2016* will be posted to the TxDMV web site following the November 2016 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 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 2016 audit recommendations to findings and the agency's progress in implementing corrective actions in the table 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 2016 TxDMV Board meeting.

Summary of Fiscal Year 2016 Internal Audit Recommendations and Agency Implementation Status	
An Audit of the Texas Department of Motor Vehicles' Administration of Statutes and Rules Through Tax Assessor-Collectors (Report Number TxDMV 15-4, November 13, 2015)	
Audit Summary	**Implementation Status**
The audit objectives were to evaluate internal controls the TxDMV has established to administer agency rules and statutes to register and title motor vehicles through Tax Assessor-Collectors (TAC) and to compile TAC offices' practices for the TxDMV's consideration in developing the TAC Gold Standard, with input from stakeholders. The Internal Audit Division made 5 recommendations to strengthen the enforcement over late registrations and remittances and to establish a recognition program (the Gold Standard) for TAC offices and Regional Service Centers.	On-going. Recommendations will be implemented by November 30, 2016.
A Confidential Follow-up Audit on the Information Security Standards Gap Assessment (Report Number TxDMV 15-5, November 13, 2015)	
Audit Summary	**Implementation Status**
The audit objective was to determine the implementation status of recommendations from the Texas Administrative Code Title 1, Chapter 202 (TAC 202) gap assessment. The Internal Audit Division made 16 recommendations to remove the TAC 202 gaps. The audit report was issued as a confidential report due to the discussion of information security controls and was not made available for public release.	On-going. Recommendations will be addressed in 2017.

Fiscal Year 2016 Internal Audit Plan

The status of the fiscal year 2016 audit plan engagements are outlined below. No deviations from the fiscal year 2016 annual plan occurred.

Report Title	Report Number	Release Date
Annual Internal Audit Report for Fiscal Year 2015	N/A	October 27, 2015
Fiscal Year 2017 Internal Audit Plan	N/A	September 1, 2016
An Audit on the Efficiency of the Texas International Registration Plan Compliance Audit Process	TxDMV 16-03	September 1, 2016
A Confidential Audit of Texas Department of Motor Vehicles' Internal Controls Related to the Driver's Privacy Protection Act	TxDMV 16-04	November 3, 2016
Oversize and Overweight Permitting	TxDMV 16-05	January 2017
Other Audit Plan Engagements	**Status**	
Registration and Titling System (RTS) Refactoring and Single Sticker Post-Implementation Review	This audit was carried forward to the fiscal year 2017 audit plan due to staffing changes and division transition. The audit began in October 2016.	

Consulting Services and Nonaudit Services Completed

Consulting Services

The Internal Audit Division (IAD) conducted one consulting engagement during fiscal year 2016. The consulting engagement related to reviewing the TxDMV fraud, waste, and abuse program. The title of the report was named *Implementing an Anti-Fraud, Waste, and Abuse Program* (report number TxDMV 16-2). The report was issued on February 4, 2016 and the audit had two objectives:

- To assess the TxDMV staffs' preparedness and knowledge about their role in preventing, detecting, and reporting fraud, waste, and abuse.
- To make recommendations to implement a robust agency-wide fraud prevent program.

The consulting engagement found that TxDMV had various activities to prevent, detect, investigate, and report fraud, waste and abuse (fraud). These activities, however, generally have not been coordinated or been part of a cohesive agency anti-fraud program. The IAD recommended that the TxDMV update its existing fraud policy and adopt a fraud risk management framework to develop a more robust anti-fraud program.

Specifically, the IAD compiled 18 best practices on fraud policies and compared them with the TxDMV Human Resources Manual to identify potential gaps in the agency's fraud policy. IAD identified that the TxDMV Human Resources Manual contained 72 percent of best practices for a fraud policy.

The IAD also administered a survey to the TxDMV employees to assess their general knowledge of fraud and the TxDMV's fraud reporting procedures, and their confidence in the TxDMV's treatment of reported fraud. Survey responses indicated the following:

- Employees want fraud awareness training.
- Employees are most likely to report suspicions of fraudulent activity to a supervisor.
- 83 percent of employees are very or somewhat confident the TxDMV would conduct a thorough and fair fraud investigation.

Nonaudit Services

In addition to the consulting engagement conducted in fiscal year 2016, the IAD is an advisor on the TxDMV Executive Steering Committees and Governance Committee for technology and capital projects. In the committees, the IAD only provided risk perspective on issues and followed the Generally Accepted Government Auditing Standards (GAGAS) 3.45-3.47 and 3.56.

External Quality Assurance Review

The IAD underwent an 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.*

TEXAS DEPARTMENT OF MOTOR VEHICLES
INTERNAL AUDIT DIVISION
EXTERNAL QUALITY ASSURANCE REVIEW - April 2015

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.

4/1/15
Date

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

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

Fiscal Year 2017 Internal Audit Plan

The TxDMV Board approved the *TxDMV Internal Audit Plan for Fiscal Year 2017* on September 1, 2016.

Texas Department of Motor Vehicles Fiscal Year 2017 Internal Audit Plan		
Topic	**Division**	**Background and Preliminary Objectives**
Required Reports under the Texas Internal Auditing Act		
1. Fiscal Year 2016 Annual Internal Audit Report 35 hours	Agency-wide	Background: A summary of internal audit activities, including the status of the FY 2016 audit plan, nonaudit services provided, and external audit services procured; and the FY 2017 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 2018 Internal Audit Plan 100 hours	Agency-wide	Background: 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).
Audits and Advisory Services		
1. Oversize/ Overweight Permitting 250 hours *Carry-over from Fiscal Year 2016 Internal Audit Plan*	Motor Carrier	Background: 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 & mapping system, to allow customers to apply for and self-issue many permits. Tentative Objectives: (1) Determine whether the TxDMV issues Oversize/Overweight permits and collects the appropriate fees in accordance with laws and regulations (2) Determine whether the TxDMV validates, updates, and communicates route restriction information on a timely basis to ensure routes are safe for permitted Oversize/Overweight loads

Texas Department of Motor Vehicles Fiscal Year 2017 Internal Audit Plan		
Topic	**Division**	**Background and Preliminary Objectives**
2. Registration and Title System (RTS) Refactoring and Single Sticker Post-implementation Review 1400 hours *Carry-over from Fiscal Year 2016 Internal Audit Plan*	Agency-wide	Background: Refactored RTS included Cognos reports that replaced standard reports from legacy RTS and included updated ad hoc reporting capabilities. Staff and management use information from Cognos reports to make strategic and operational decisions. Tentative Objectives: (1) Determine whether Cognos reports provide management and staff with complete and accurate information from RTS (2) Determine whether Cognos reports provide at least the same level of information or service as reports from the legacy RTS
3. Texas Department of Motor Vehicles (TxDMV) Fund tables and Processing & Handling (P&H) Fees 1150 hours	Finance & Administrative Services (FAS) Information Technology Services (ITS) Vehicle Titles and Registration (VTR)	Background: SB 1512 (84th Texas Legislature) re-directs revenue sources to the newly created TxDMV fund starting September 1, 2016. HB 6 exempts the fund and its revenues from consolidation. The intent of the bill is to separate the fund from the General Revenue and State Highway funds, allowing the TxDMV to fund its operations. The TxDMV Board of Directors used its authority to adopt a P&H fee structure to fund agency operations during its June 2016 board meeting. The P&H fees are effective for motor vehicle registrations starting January 2017. Tentative Objectives: (1) Determine whether appropriate revenues, including registration fees, are deposited to the TxDMV fund appropriately (2) Determine whether appropriate amounts are transferred to counties per agency rule
4. Continuous Monitoring of Vehicle Registration and Title Transactions 1000 hours *Advisory Project*	VTR ITS	Background: Fiscal year 2016 had a number of suspicious and fraudulent registration and title transaction activities within the agency and through Tax-Assessor Collectors offices across the state, including high visibility arrests related to alleged fraud. The agency employs 1 investigator to investigate suspected title fraud. Auditors would analyze registration and title transactions from the RTS on a scheduled basis to identify suspicious and possibly fraudulent transactions processed through agency or Tax-Assessor Collectors offices. Refer suspicious and possible fraudulent transactions to VTR to investigate.

Texas Department of Motor Vehicles Fiscal Year 2017 Internal Audit Plan		
Topic	**Division**	**Background and Preliminary Objectives**
5. Management or Board Request 350 hours	TBD	Time has been allotted to management and the Board for a special request or to review a new and emerging risk for the agency. If no request is received, one of the audits from the other possible project list will be conducted.
Other Internal Audit Division Duties		
• Coordinating with external auditors and reviewers (25 hours) • Investigating allegations of fraud, waste, and abuse that Internal Audit receives or that the State Auditor's Office refers from its fraud hotline and advising on the Anti-Fraud, Waste, and Abuse Workgroup (300 hours) • Conducting an annual Quality Assurance and Improvement Program as required by auditing standards (75 hours) • Tracking and monitoring the status of prior-year audit recommendations (100 hours) • Advising the agency's Governance Team and Executive Steering Committees (425 hours)		
Total Budgeted Hours on Required Reports, Audits ,and Advisory Service: 4,285 **Total Budgeted Hours on Other Internal Audit Division Duties: 925** **Total Budgeted Hours: 5,210**		

Contingency Audits, 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.

Contingency Audits		
1. Planning and Requirements Analysis Process for Major Projects 1000 hours *Advisory Project*	Agency-wide	Background: The TxDMV has experienced changes in scope, budget, and schedule in developing major systems. This project would review major project documentation to evaluate activities conducted during the planning and requirements analysis phases to determine what actions could be changed to facilitate a smoother system development in the future.
2. MyPlates Contract 600 hours	FAS	Background: Executive Management Team rated this project for considerations for future audit plans during the FY2015 IAD risk assessment. Tentative Objective: Determine whether TxDMV and MyPlates adhere to contract provisions—including requirements related to fee collections and distributions.

3. Motor Vehicle Division (MVD) Licensing Process and eLicensing 1400 hours	MVD	Background: The MVD adjusted its process to license independent, franchise, and salvage dealers starting in 2013, which greatly reduced the time for applicants to receive a license (from as much as 6 months). The eLicensing system is scheduled to go live in 2016. This project would evaluate MVD's process after go live. Tentative Objectives: (1) Determine if MVD's licensing process complies with statutory and rule requirements (2) Review eLicensing's impact on the licensing process post-implementation.
4. Enforcement Division's (ENF) Investigations Process 600 hours	ENF	Background: The Enforcement Division investigates complaints against licensees regulated by TxDMV, and files administrative charges alleging violation of laws. Tentative Objectives: (1) Determine whether investigations are conducted according to statutes, rules, and policies and procedures (2) Determine how the division's key performance indicators affect investigations

The IAD developed the audit plan using a risk-based methodology, including obtaining input from TxDMV Board members and executive management. The IAD 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 contract management and information technology risks.
- TxDMV Fund tables and Processing & Handling Fee will address expenditure transfers, capital budget controls, and information technology risks.
- Planning and Requirements for Analysis Process for Major Project, which will be conducted in fiscal year 2017 if resources are available, would address contract management and information technology risks.
- My Plates Contract, which will be conducted in fiscal year 2017 if resources are available, would address contract management.

External Audit Services Procured in Fiscal Year 2016

Internal Audit assisted in several external audit reviews during Fiscal Year 2016.

Report Title	Provider's Name	Report Number and Released Date
Heavy Vehicle Use Tax (HVUT) Triennial Review for the State of Texas	Federal Highway Administration	HPP-TX October 14, 2015
International Registration Plan (IRP) Peer Review Final Report for: Texas November 18-19, 2015	International Registration Plan, Inc	No Report Number Provided February 26, 2016
On-site Consultations for Austin Headquarters	State Office of Risk Management (SORM)	16-02 March 8, 2016
State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2015	State Auditor's Office (SAO)	16-555 March 14, 2016
On-site Consultations for Beaumont Regional Service Center	SORM	16-03 March 31, 2016
Analysis of Quality Assurance Team Projects	SAO	16-026 May 10, 2016
On-site Consultations for Carrollton Regional Service Center	SORM	16-05 June 7,2016
On-site Consultations for Longview Regional Service Center	SORM	16-07 July 27, 2016
On-site Consultations for Waco Regional Service Center	SORM	16-08 August 30, 2016

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 IAD conducted a consulting engagement to assess the TxDMV staffs' preparedness and knowledge about their role in preventing, detecting, and reporting fraud, waste, and abuse and to make recommendations to implement a robust agency-wide fraud prevent program. Since the engagement, the TxDMV created a work group to develop an anti-fraud, waste, and abuse program within the agency and is in the process of outlining the process for reporting and investigating fraud and developing training for employees.

The IAD also coordinates compliance with Texas Government Code, Section 321.022 (Coordination of Investigations) by submitting a quarterly report to the State Auditor's Office on the disposition of allegations received.

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.