



**Texas Department
of Motor Vehicles**

HELPING TEXANS GO. HELPING TEXAS GROW.

Annual Internal Audit Report

Fiscal Year 2014

October 28, 2014



Texas Department of Motor Vehicles

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Honorable Rick Perry, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Mr. John Keel, State Auditor
Mr. John H. Walker, III, Chairman, TxDMV Board

Subject: Annual Internal Audit Report for Fiscal Year 2014

Attached is the annual report of the Internal Audit Division of the Texas Department of Motor Vehicles (TxDMV). This report provides information on compliance with House Bill 16 (83rd Legislature, Regular Session), the status of the internal audit plan for fiscal year 2014, nonaudit services completed, the audit plan for fiscal year 2015, external audit services procured, and other internal audit activities. 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.

Through its various activities, the Internal Audit Division provided the TxDMV assurances that the organization is operating as management intends and recommends corrective action to improve controls and business processes. These outcomes were possible because of the strong support of the TxDMV Board and the executive team.

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

Sincerely,

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

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Fiscal Year 2014

Internal Audit Division

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I. Compliance with House Bill 16

House Bill 16 (83rd Legislature, Regular Session) 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.

The Texas Department of Motor Vehicles (TxDMV) Board approved the fiscal year 2015 audit plan on July 25, 2014, and the agency web master posted the plan to the agency's Web site on July 30, 2014. The fiscal year 2014 internal audit annual report will be posted to the TxDMV Web site following the November 2014 TxDMV Board meeting.

House Bill 16 also added a requirement for 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, Internal Audit summarized fiscal year 2014 audit recommendations and the agency's progress in implementing corrective actions in Table 1 below. The requirement to post this information will be fulfilled when this annual report is added to the TxDMV Web site following the November 2014 TxDMV Board meeting.

TABLE 1

Summary of FY 2014 Internal Audit Recommendations and Agency Implementation Status	
Recommendation	Implementation Status
<i>Follow-up Audit to State Auditor's Office Report 12-043 (Report Number P 13-09, Sept. 27, 2013)</i>	
The asset recording and tagging policy should be approved by an appropriate level of agency management, indicate the date the policy was both approved and implemented, and contain an element of version control.	Fully Implemented
The IT policy for granting and reviewing access should be approved by an appropriate level of agency management, indicate the date the policy was both approved and implemented, and contain an element of version control.	Fully Implemented
Require a needs assessment for contracts exceeding an established threshold amount.	Fully Implemented

**Summary of FY 2014 Internal Audit Recommendations
and Agency Implementation Status**

Recommendation	Implementation Status
<p><i>A Follow-up Audit Report on the Implementation of Recommendations</i> (Report Number P 14-14, Sept. 12, 2014)</p>	
<p>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:</p> <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 	<p>Substantially Implemented</p>
<p><i>An Audit of the Automobile Burglary and Theft Prevention Authority</i> (Report Number P 14-15, Sept. 12, 2014)</p>	
<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>Incomplete/Ongoing</p> <p>The ABTPA Redesign Team is in the process of addressing the audit report recommendations. The ABTPA's actions include the following: (1) proposed statute and rule changes to ensure their relevance and applicability in the ABTPA future state, (2) reinvented grant goals and objectives, and (3) redesigned the grant award process. The ABTPA is also in the process of (1) creating an ABTPA Grant Administrative Manual, (2) developing an annual monitoring plan for its grantees, (3) revising reporting requirements, and (4) acquiring strategic partnerships to advance ABTPA's mission.</p>

II. Internal Audit Plan for Fiscal Year 2014

TABLE 2

Report Title	Report Number and Date Released	Status
<p><i>Follow up Audit to SAO Report 12-043</i></p> <p>This audit was carried forward from the FY 2013 Audit Plan.</p>	P 13-09 Sept. 27, 2013	Completed
<p><i>A Follow up Audit Report on the Implementation of Recommendations</i></p>	P 14-14 Sept. 12, 2014	Completed
<p><i>An Audit of the Automobile Burglary and Theft Prevention Authority</i> (performed under Executive Management Request for Internal Audit Services)</p>	P 14-15 Sept. 12, 2014	Completed
Audit Plan Engagements	Status	
<p>Information Security Review (Texas Administrative Code, Chapter 202 "Information Security Standards")</p> <p>SLAIT Consulting completed a detailed review of compliance with TAC 202 as of Oct. 30, 2013. Internal Audit will perform a follow up on recommendations in fiscal year 2015.</p>	Fiscal Year 2015 Audit Plan	
<p>An Audit of the Texas Department of Motor Vehicles Contract Workers (formerly A Review of Agency Approved Contracts)</p> <p>This audit was in the planning phase when it was postponed until fiscal year 2015 due to unexpected audit resource shortages.</p>	Fiscal Year 2015 Audit Plan	
<p>ABTPA Single Audit Desk Reviews</p> <p>Transferred responsibility for conducting Single Audit desk reviews to the Automobile Burglary and Theft Prevention Authority.</p>	Transferred	
<p>Data Integrity of Selected Registration and Titling System Information</p> <p>Due to revised project timeframes for data cleanup, integrity testing will not be possible until 2015.</p>	Cancelled	
<p>Web Sub Application Controls</p> <p>This audit was cancelled due to unexpected audit resource shortages.</p>	Cancelled	

III. Consulting Services and Nonaudit Services Completed

TABLE 3

Report Title	Report Number and Date Released	Status
<i>Registration and Titling System (RTS) Refactoring Project Internal Audit Status Report</i>	P 14-10 May 8, 2014	Completed

The Internal Audit Division provided the TxDMV Board with a status report on the Registration and Titling System Refactoring (RTS) project from inception to April 2014. Because this was performed as a nonaudit service, the information in the report was not subjected to all the tests and confirmations that would be performed in an audit. However, the information was subject to certain quality control procedures to help ensure accuracy. The report did not include recommendations.

A summary of the observations and results of the RTS project--in its second year of a potentially six-year schedule--in terms of vendor performance, budget, and schedule is as follows:

- The lead project vendor (Deloitte Consulting LLP) was meeting performance expectations and its deliverables have been verified by the Independent Verification and Validation vendor (Greentree Group).
- The project budget was \$71.6 million and expenditures were approximately \$23.7 million as of April 2014. RTS is a critical agency application. For the 2014 – 2015 biennium, the TxDMV estimates it will collect approximately \$3.3 billion in revenue. Approximately 88 percent of the \$3.3 billion will be transacted in the TxDMV’s RTS for certificates of title and registration fees.
- The RTS Refactoring Project was on schedule, but TxDMV submitted monitoring reports to the Quality Assurance Team late five out of eight times from March 2012 to March 2014. This resulted in increased frequency of monitoring report requirements from quarterly to monthly.

TxDmv experienced some issues with internal financial reporting inconsistencies, resource scheduling, and timely external project reporting. Executive management has addressed these issues by defining the problem, implementing cost-effective controls, and monitoring results. The greatest risk to the project continuing on track is competing enterprise projects and turnover in key management positions. TxDMV executive management is aware that resource constraints must continue to be managed to keep the project on schedule and has implemented a strong governance structure to monitor this and other projects.

IV. External Quality Assurance Review

The TxDMV Internal Audit Division is scheduled to undergo its inaugural external quality assurance review (peer review) in the spring of 2015. The peer review will be performed by representatives of the State Agency Internal Audit Forum. The Internal Audit function has not had a peer review to date because the function was formed in fiscal year 2012.

V. Internal Audit Plan for Fiscal Year 2015

The TxDMV Board approved the audit plan for fiscal year 2015 on July 25, 2014.

TABLE 4

Texas Department of Motor Vehicles Fiscal Year 2015 Internal Audit Plan		
Audit Topic	Budget Hours	Comment/Description
Board and Executive Management Requests for Internal Audit Services	300	Topic to be determined at the discretion of the Board and Executive Management.
Fiscal Year 2014 Annual Internal Audit Report	50	Texas Internal Auditing Act requirement.
Fiscal Year 2016 Internal Audit Plan	100	Texas Internal Auditing Act requirement.
TxDMV Contract Workers	600	Carry-over from Fiscal Year 2014 Audit Plan. To verify that contractors are performing in accordance with contract terms, laws, and policies and procedures. This audit will also provide assurances about the Registration and Titling System Refactoring (RTS) project expenditures because many of the contract workers are assigned to the RTS project.
Follow-up Audit on the Information Security Standards (TAC 202) Gap Assessment	300	To determine the implementation status of recommendations from the Information Security Standards Gap Assessment.
Vehicle Titles & Registration (VTR) Division Mission	1,000	(1) To review selected VTR processes to identify opportunities for improvement and (2) to determine whether VTR has established effective communications with tax assessor-collectors and other stakeholders to promote accurate and efficient motor vehicle title and registration services.
Selected Tax Assessor-Collector (TAC) Processes	1,200	(1) To compare selected tax assessor-collectors' processes for the registration and licensing of motor vehicles and collection of special TxDMV fees to determine compliance with TxDMV rules and state law and (2) to identify best practices among TACs (i.e., Gold Standard).
Texas International Registration Plan (TxIRP)	1,000	To determine whether TxIRP applications are processed in accordance with the International Registration Plan and if TxIRP fees are assessed and collected correctly and timely.
TOTAL	4,550	

The audit topics below, which also received “high” risk rankings, have been 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 5

Other Audit Topics If Additional Audit Resources are Available		
Audit Topic	Budget Hours	Comment/Description
Oversize/Overweight (OS/OW) Permit	1,000	To determine if OS/OW permits are issued in compliance with agency rules to protect the traveling public, transported loads, and transportation infrastructure.
Motor Carrier Credentialing	800	To determine if intrastate and interstate registration certificates are issued in compliance with agency rules and if related fees are assessed and collected correctly and timely.
Organizational Assignment of Selected Job Classifications	600	To review how selected job classifications (e.g., customer service representatives, administrative assistants, investigators, and attorneys) are assigned throughout TxDMV to identify efficiency opportunities through consolidation.
Total	2,400	

The Fiscal Year 2015 Internal Audit Plan was developed using a risk-based methodology including input from TxDMV Board members and executive management. Internal Audit also analyzed agency information to rank potential audit topics by risk, including contract management and information technology risks. The Plan includes an Audit of TxDMV Contract Workers (contract management risk) and a Follow-up Audit on the Information Security Standards Gap Assessment (information technology risk). Also, contract management and information technology risks will be considered during the planning phase of other scheduled audits.

The Audit of TxDMV Contract Workers may relate to limitations in the General Appropriations Act (Limitation on State Employment Levels).

VI. External Audit Services Procured in Fiscal Year 2014

TABLE 6

Engagement	Provider
<p><i>TAC 202 Gap Assessment</i> (November 2013)</p> <p>A review of TxDMV’s compliance with the Texas Administrative Code, Chapter 202 “Information Security Standards”</p>	<p>Slait Consulting, LLC</p>
<p><i>State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2013</i> (SAO Report Number 14-555, February 2014)</p> <p>A financial audit of the State of Texas’ consolidated financial statements for fiscal year 2013</p>	<p>Texas State Auditor’s Office</p>
<p><i>Personnel Policies and Procedures Review</i> (July 2014)</p> <p>A review of TxDMV’s compliance with Subchapter I “Personnel Policies and Procedures” of the Texas Labor Code, Chapter 21</p>	<p>Texas Workforce Commission Civil Rights Division</p>
<p>Comprehensive Annual Financial Report for Fiscal Year 2014 (on-going)</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>

VII. 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.

The TxDMV 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 division to determine appropriate action. If the division has reasonable cause to believe that fraudulent or unlawful conduct has occurred in relation to the operation of the TxDMV, the Internal Audit Director will notify the SAO.

Also, the Internal Audit Division followed up on all SAO hotline reports referred to the TxDMV during fiscal year 2014 in the SAO prescribed form, content, and timing.