Internal Audit Charter

Introduction

This charter sets forth the mission, purpose, authority, and responsibility of the internal audit activity (i.e., Internal Audit Division) at the Texas Department of Motor Vehicles (TxDMV). The charter establishes the Internal Audit Division's position within the TxDMV; authorizes access to records, personnel, and physical properties needed to conduct engagements; and defines the scope of the internal audit activities. The Internal Audit Division helps enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Internal Audit Division also helps TxDMV accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Audit Standards

The Internal Audit Division will govern itself by adherence to the mandatory elements of the Institute of Internal Auditors' *International Professional Practices Framework*, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. Internal Audit will also follow the *Generally Accepted Government Auditing Standards* (GAGAS) as promulgated by the U.S. Government Accountability Office (GAO). The Internal Audit Director will report annually to TxDMV executive management and the TxDMV Board regarding the Internal Audit Division's conformance to the auditing standards.

In addition, Internal Audit Division will adhere to the TxDMV's policies and procedures and the Internal Audit Division's standard operating procedures.

Vision, Mission, and Goals

Vision

To be a future focused internal audit function protecting and serving the Department and its customers.

Mission

To identify emerging strategic risks, support adaptability in an evolving environment, and foster trusted relationships and an ethical environment.

Goals

The Internal Audit Division will use a proactive future-based approach to provide opinions on industry risks, current events, and the anticipated impacts to the Department through audits and advisory services. The Internal Audit Division will also strategically assess its effectiveness and progressively improve roles through actively engaging in outreach and
providing opportunities for feedback. In addition, the Internal Audit Division will conduct informational campaigns, including training on detecting fraud, waste and abuse; and investigate internal fraud, waste, and abuse allegations.

**Purpose**

The Internal Audit Division provides assurance services to the TxDMV Board by conducting audits of the Department's functions, operations, and information systems. Assurance services may include financial audits, compliance audits, economy and efficiency audits, effectiveness audits, and investigations. The Internal Audit Division also offers advisory services, the nature and scope of which may be agreed upon with TxDMV executive management or the Board. An advisory service is intended to add value and improve agency operations and may include, but are not limited to, advice and counsel, facilitation, and training. In addition, the Division will investigate suspected internal fraud, waste, or abuse allegations as necessary.

**Authority**

The Internal Audit Division, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to all of TxDMV records, physical properties, and personnel pertinent to carrying out any engagement. All employees are expected to assist the Internal Audit Division in any assessment, engagement, or audit, as appropriate. The Internal Audit Division will also have free and unrestricted access to the TxDMV Board and its members and any TxDMV related records they possess for assessments, engagements, or audits, as appropriate.

The Internal Audit Director is authorized to do the following:

- Access (unrestricted), in the performance of authorized audits and other engagements and with strict accountability for safekeeping and confidentiality, to all TxDMV activities, records, manual and automated systems, properties, and personnel, as appropriate.

- Audit or review any function, activity, or unit of the TxDMV, including vendors, contractors, and subcontractors (to the extent as related to the vendor/contractor/subcontractor deliverables and/or statements of work in applicable TxDMV contracts).

- Communicate and interact directly with the TxDMV Board and present any matter that may warrant immediate attention or action.

- Present any matter and have direct access to the TxDMV Executive Director and General Counsel that may warrant immediate attention or action.

- Allocate audit resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish the audit objectives, and issue reports.

- Obtain the necessary assistance of personnel in TxDMV units as appropriate, as well as other specialized services from within or outside of TxDMV that the Internal Audit Director engages for consulting with internal audit or providing assurance services in accordance
with departmental policies and procedures.

The Internal Audit Division is not authorized to complete the following:

- Perform any operational duties for TxDMV.
- Initiate or approve financial transactions external to the internal audit function.
- Direct the activities of any TxDMV employee not employed by the Internal Audit Division, except to the extent such employees have been assigned to the internal audit function or to otherwise assist the Internal Audit Director.

**Independence and Objectivity**

To assure the independence of the internal audit function, the Internal Audit Director reports functionally to the TxDMV Board and its Finance and Audit Committee and administratively to the Executive Director.

In carrying out authorized assessments, engagements, or audits, the Internal Audit Division will remain independent and free from control on matters of audit selection, scope, procedures, frequency, timing, or final report content to permit maintenance of an independent and objective state of mind. The Internal Audit Division will also remain free from all restrictions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner.

The Internal Audit Division and its staff will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all relevant circumstances and not be influenced by their own interests or by others in forming judgments.

The Internal Audit Division and its staff will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity related to non-audit functions that may impair internal auditor's independence. Internal auditor will not assess specific operations for which they had responsibility within the previous year.

The Internal Audit Division and its staff will conduct the following:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate TxDMV staff, the board, or agencies as appropriate.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.
- Establish safeguards to limit impairments to independence or objectivity if the Internal
Audit Director has or is expected to have roles and/or responsibilities that fall outside of internal auditing.

The Internal Audit Director will confirm to the TxDMV Board at least annually, the organizational independence of the Internal Audit Division.

The Internal Audit Director will disclose to the TxDMV Board or the Finance & Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope

The scope of Internal Audit Division encompasses, but is not limited to, objective examinations of information for the purpose of providing independent assessments to the TxDMV Board, management, and oversight entities on the adequacy and effectiveness of governance, risk management, and control processes for TxDMV and fraud, waste, and abuse activities. Internal audit assessments include collaborating with appropriate TxDMV legal staff and division employees in evaluating whether:

- Risks, relating to the achievement of TxDMV’s strategic objectives, are appropriately identified and managed.
- Actions of TxDMV staff and contractors follow TxDMV’s policies, procedures, and applicable laws, regulations, and governance standards.
- Results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact TxDMV
- Fraud, waste, and abuse may have occurred.

The Internal Audit Director will report periodically to TxDMV executive management and the TxDMV Board regarding:

- The Internal Audit Division’s purpose, authority, and responsibility
- The Internal Audit Division’s plan and performance relative to its plan
- The Internal Audit Division’s conformance with audit standards
- Significant risk exposures and control issues, including fraud, waste, and abuse risks, governance issues, and other matters requiring the attention of, or requested by, the
TxDMV Board

- Results of audit engagements or other activities
- Resource requirements
- Any risk accepted that may be unacceptable

The Internal Audit Director will also coordinate activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibilities

The TxDMV Board will perform the following duties:

- Approve the internal audit charter.
- Approve the risk-based internal audit plan.
- Approve the annual internal audit budget and resource plan.
- Receive communications from the Internal Audit Director on the Internal Audit Division's performance relative to the plan and other matters.
- Approve decisions regarding the appointment and removal of the Internal Audit Director.
- Provide an annual performance evaluation of the Internal Audit Director.
- Approve the remuneration of the Internal Audit Director.
- Review the resources dedicated to the internal audit program and determine if adequate resources exist to ensure that risks identified in the annual risk assessment are adequately covered within a reasonable time frame.
- Make appropriate inquiries of management and the Internal Audit Director to determine whether there is inappropriate scope or resource limitation.

The Internal Audit Director will perform the following duties:

- Submit, at least annually, a risk-based internal audit plan for review and approval.
- Communicate the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in TxDMV's business, risks, operations, programs, systems, and controls.
- Communicate any significant interim changes to the internal audit plan to the TxDMV Board and executive management.
- Ensure each engagement of the internal audit plan is executed, including the
establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.

- Follow up on engagement results and management action plans, and reporting periodically any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the Internal Audit Division collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact TxDMV are considered and communicated as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit Division.
- Ensure conformance of the Internal Audit Division with audit standards.
- Act as agency liaison for all external auditors and monitors.
- Establish a quality assurance program by which the Internal Auditor assures the TxDMV Board that operations of internal auditing activities are acceptable.
- Prepare final reports of findings and recommendations for review by the TxDMV Executive Director, the TxDMV Board, and subsequent distribution to the Office of the Governor, Legislative Budget TxDMV Board, Sunset Advisory Commission, and State Auditor's Office as specified by the Texas Internal Auditing Act.
- Prepare an annual report for review by the TxDMV Board and submission pursuant to the requirements of the Act.
- Conduct, annually, a Quality Assurance and Improvement Program (QAIP) and participate in comprehensive external peer reviews.
- Conduct economy and efficiency audits and program results audits as directed by the TxDMV Board.
- Serve as a contact for fraud, waste and abuse allegations.
- Investigates internal fraud, waste, and abuse allegations.
- Notify the TxDMV Board and management of the results for any fraud, waste, and abuse activities or investigations.
- Review State Auditor's Office Hotline complaints, taking appropriate action, and reporting out results.
- Carry out advisory services as may be requested by the TxDMV Board that are not
prohibited by statute or professional standards.

- Carry out any advisory services as may be requested by management that are not prohibited by statute or professional standards and for which resources are available as determined by the Internal Audit Director.

**TxDMV management** is responsible for the following activities:

- Establishing and maintaining effective controls to ensure that goals and objectives are met, services are provided effectively, and assets are safeguarded
- Providing information to internal audit as requested
- Maintaining a process to ensure timely management responses and that appropriate action is taken on audit recommendations
- Informing the Internal Audit Director of reviews, evaluations, assessments, audits, or inspections scheduled by local, state, or national agencies and/or external consultants or auditors evaluating programs or controls

**Quality Assurance and Improvement Program**

The Internal Audit Division will maintain a quality assurance and improvement program that covers all aspects of the Internal Audit Division. The program will include an evaluation of the Internal Audit Division’s conformance with audit standards on an annual basis. The program will also assess the efficiency and effectiveness of the Internal Audit Division and identify opportunities for improvement, including reporting on key performance indicators. The Internal Audit Director will communicate to TxDMV executive management and the TxDMV Board on the Internal Audit Division’s quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) on an annual basis and external assessments conducted at least once every three years by a qualified, independent assessor or assessment team from outside TxDMV.

**APPROVAL**

**Whitney H. Brewer**
Executive Director

**Sandra Menjivar-Suddealth, CIA, CISA, CGAP**
Internal Audit Director

This charter is approved by the Board of the Texas Department of Motor Vehicles on October 3, 2019.

**Guillermo "Memo" Treviño, Chairman**
Board of Texas Department of Motor Vehicles

**Brett Graham, Chair**
Finance and Audit Committee
Board of Texas Department of Motor Vehicles