



Internal Audit Charter

PURPOSE AND MISSION

The purpose of the Texas Department of Motor Vehicle's (TxDMV or Department) Internal Audit Division is to provide independent, objective assurance and consulting services designed to add value and improve the Department's operations. The Internal Audit Division will also investigate suspected internal fraud, waste, or abuse allegations as necessary. The Internal Audit Division helps TxDMV accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

AUDITING STANDARDS

The Internal Audit Division will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' (IIA) 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. The Internal Audit Division 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 periodically to the TxDMV Board (Board) and the TxDMV Executive Director (Executive Director) regarding the Internal Audit Division's conformance to the auditing standards.

AUTHORITY

The Internal Audit Director will report functionally to the Board and administratively to the Executive Director. The Board delegates management of the Internal Audit Division to the Internal Audit Director, who fulfills the activity's mission and objectives through authorization to:

- Communicate and interact directly with the Board and present any matter that may warrant immediate attention or action without management present.
- Present any matter and have direct access to the Executive Director and General Counsel that may warrant immediate attention or action.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain the necessary assistance of TxDMV personnel as appropriate, as well as other specialized services from within or outside of TxDMV for internal audit engagements in accordance with departmental policies and procedures.

The Board authorizes the Internal Audit Director and the Internal Audit Division staff to:

- Have unrestricted access to all TxDMV divisions, personnel, activities, confidential and non-confidential data and records, information systems, physical property, and contractors relevant to the performance of engagements and subject to applicable state and federal laws.
- Audit or review any function, activity, or unit of the TxDMV, including vendors, contractors, and subcontractors in accordance with contract terms
- Obtain timely reports from management on actions proposed and taken pertaining to audit recommendations.
- Be prudent in the use and safeguarding of information acquired in performing the engagements.

The Director and Internal Audit Division staff shall not direct the activities of any TxDMV employee not employed by the Internal Audit Division, except to the extent such personnel have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

SCOPE OF INTERNAL AUDIT DIVISION ACTIVITIES

The Internal Audit Division can provide a wide range of quality, independent assessments to the Board, management, and oversight entities which includes but is not limited to:

- **Assurance Objectives:** To provide independent assurance over TxDMV's governance, risk management, and control processes with the goal of safeguarding assets, enhancing operational efficiency, and complying with applicable laws and the Department's policies.
- **Consulting and Advisory Objectives:** To provide assessments and advice for improving TxDMV's governance, risk management, and control processes with management's agreement on the nature and scope of the service. Examples of advisory services include participating on internal workgroups or committees in a non-voting capacity, providing routine advice on policies and internal controls, and providing training.
- **Investigations:** To conduct or assist in the investigation of suspected internal fraud, waste, or abuse.

The Internal Audit Director also coordinates 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.

INDEPENDENCE AND OBJECTIVITY

The Internal Audit Division will remain independent and free from control on matters of audit selection, scope, procedures, frequency, timing, and report content. The Internal Audit Division will also perform its duties with objectivity so that opinions, conclusions, and recommendations are impartial and viewed as impartial by knowledgeable third parties.

Organizational Placement

To assure the independence of the Internal Audit Division, the Internal Auditor reports functionally to the Board and administratively to the Executive Director.

Operational Duties

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

Potential Impairment of Independence

The Internal Audit Director will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate TxDMV personnel, the Board, or agencies as appropriate.
- Exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

Where the Internal Audit Director has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

The Internal Audit Director will disclose to the Board any potential interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results. The Internal Audit Director will annually confirm to the Board the organizational independence of the Internal Audit Division.

ROLES AND RESPONSIBILITIES

Certain roles and responsibilities of the Internal Audit Director, Board, Finance & Audit Committee, and Management, and are critical to the success of the internal audit activity.

Internal Audit Director

The Internal Audit Director's responsibilities are defined by the Board as part of their oversight and include the following:

1. **Internal Audit Charter:** Reviewing the Internal Audit Division Charter periodically and proposing amendments for the Board's approval as necessary.
2. **Internal Audit Plan:** Submitting, at least annually, a risk-based internal audit plan for review and approval. This includes monitoring the progress of the plan, determining appropriate resources with regard to staff competency and skill, and communicating the impact of resource limitations and resources needed to complete the internal audit plan. The Internal Audit Director will also

review and adjust the internal audit plan as necessary in response to changes in TxDMV's business, risks, operations, programs, systems, and controls. These changes will be communicated to the Board and the Executive Director.

3. **Quality Assurance and Improvement Program:** Maintaining a quality assurance and improvement program that covers all aspects of the Internal Audit Division. The program will include (a) an evaluation on conformance with audit standards and an evaluation on whether internal auditors apply the IIA's Code of Ethics and (b) an assessment on the efficiency and effectiveness of the Internal Audit Division and identify opportunities for improvement. The Internal Audit Director will communicate to the Board and Executive Director on this program, including results of ongoing internal assessments and external assessments conducted at least once every three years.
4. **Risk assessment:** Working with the Board and management to review and refine risk appetite for strategic, operational, and fraud, waste, and abuse risks. The Internal Audit Division will keep a list of risks and their scores as well as any additional information provided by management on risk mitigation. The Internal Audit Director will alert the Board of any risk accepted by management which may be unacceptable. The Internal Audit Director will also communicate emerging trends and issues.
5. **External Liaison:** Acting as the external liaison for all external auditors and monitoring external engagements, including in the disposition of any external recommendations issued to the Department.
6. **Investigations:** Serving as the main contact for internal fraud, waste, and abuse allegations, including any complaints received from the State Auditor's Office, and take action as needed.
7. **Communication:** Communicating at least monthly to the Finance and Audit Committee, the Board Chair, and Executive Director and quarterly to the Board on internal audit activities. Significant risk exposures and control issues, such as fraud, waste, and abuse risks, governance issues, recommendation implementation status, and other matters requiring the attention of, or requested by the Board, will also be communicated. The Internal Audit Division will provide training to the Department and Board on the role and purpose of internal audit activities.

Board

The Board, as part of its role in overseeing the Internal Audit Division, is responsible for the following:

1. **Internal Audit Documents:** The Board will approve documents such as the internal audit charter, risk-based internal audit plan(s), and the annual internal audit budget and resource plan.
2. **Internal Audit Director:** The Board will approve decisions regarding the appointment and removal of the Internal Audit Director. The Board will also be responsible for providing an annual performance evaluation and approving the remuneration of the Internal Audit Director.
3. **Internal Audit Performance:** The Board will review and approve the budget and resources dedicated to the Internal Audit Division to adequately cover the activity's scope.

Finance & Audit Committee

The Board has charged the Finance and Audit Committee with oversight of the Internal Audit Division. As such, the Committee is responsible for the following:

1. **Internal Audit Performance:** The Committee will monitor and assess the Internal Audit Division's performance relative to the internal audit plan.
2. **Governance:** The Committee will review documents presented to them and stay abreast on all internal audit activities, including those that do not result in a report, and stay informed on all significant matters arising from work performed. The Committee can make inquiries to determine whether there is inappropriate scope or resource limitation that impact the results of the internal audit activities.
3. **Risk Assessment:** The Committee will review risk information and use the information to oversee the effectiveness of risk management and risk reporting.

Management

Management is responsible for the following:

1. Establishing and maintaining effective controls to ensure that goals and objectives are met, services are provided effectively, and assets are safeguarded.
2. Cooperating with the Internal Audit Division during the performance of internal audits and advisory projects by providing information as requested.
3. Reviewing draft reports from the Internal Audit Division and providing timely, written management responses to address issues and recommendations, including management actions planned.
4. Informing the Internal Audit Division of external reviews, evaluations, assessments, audits, or inspections and coordinating with the Internal Audit Division to respond to issues and recommendations contained in those reports.

APPROVALS

The charter was approved by the Board of the Texas Department of Motor Vehicles on August 11, 2022.

Charles Bacarisse

Charles Bacarisse
Chairman, TxDMV Board

Brett N. Graham

Brett Graham, Chair
Chair, TxDMV Finance & Audit Committee

Daniel Avitia

Daniel Avitia
TxDMV Executive Director

Salem Chuah

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TxDMV, Internal Audit Director