



Texas Department
of Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

Fiscal Year 2019 Quality Assurance
and Improvement Program Report
20 – 02

Internal Audit Division

September 2019



Fiscal Year 2019 Quality Assurance and Improvement Program, 20-02

Executive Summary

BACKGROUND

The Internal Audit Division (IAD) follows the audit standards prescribed by the (1) Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards), the Definition of Internal Auditing, the *Core Principles for the Professional Practice of Internal Auditing* and the *Code of Ethics*; (2) U.S. Government Accountability Office's (GAO) Generally Accepted Government Auditing Standards (GAGAS); and (3) Texas Internal Auditing Act, Texas Government Code, Chapter 2102 (Act). These audit standards require IAD develop and maintain a Quality Assurance and Improvement Program (QAIP) that includes both internal and external assessments.

Internal assessments are ongoing monitoring of the performance of the internal audit activity that includes an annual self-assessment review. The IIA Standards require the results of internal assessments be communicated to the governing board at least annually.

This report provides a summary of IAD's fiscal year 2019 activities and compliance with applicable audit standards.

RESULTS

IAD complies with the IIA Standards, the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, GAGAS, and the Act.

In addition, IAD met most of its Key Performance Indicators (KPIs) in fiscal year (FY) 2019. IAD met 9 of the 10 KPIs in FY 2019.

In addition, IAD made progress towards achieving its desired level in the Capability Model by finalizing the strategic plan and incorporating both quantitative and qualitative measures.

The report also includes a section related to the internal fraud, waste, and abuse allegations and dispositions and a section related to progress made on external assessment recommendations.

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Background

The Texas Department of Motor Vehicles (TxDMV) - Internal Audit Division (IAD) follows the audit standards prescribed by (1) the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards), the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing and the Code of Ethics; (2) U.S. Government Accountability Office's (GAO) Generally Accepted Government Auditing Standards (GAGAS); and (3) Texas Internal Auditing Act, Texas Government Code, Chapter 2102 (Act). These audit standards require IAD develop and maintain a Quality Assurance and Improvement Program (QAIP) that includes both internal and external assessments:

- Internal assessments are ongoing monitoring of the performance of the internal audit activity that includes an annual self-assessment review. The IIA Standards require the results of internal assessments be communicated to the governing board at least annually.
- External assessment (Peer Review) is a review of the IAD. A qualified, knowledgeable, and independent Peer Review team conducts the review. The Peer Review team will determine if the division is in conformance with applicable standards. The Peer Review team may provide feedback on operational and strategic issues. The last Peer Review was conducted in May 2018.

Internal Assessments

The IAD internal assessment includes ongoing monitoring as well as an annual self-assessment. The ongoing monitoring includes a review of all audit documentation, audit recommendations, and reports for each engagement conducted by IAD in a fiscal year prior to completing an engagement file.

The annual self-assessment includes verifying IAD followed all required compliance and performance audit standards. In addition, IAD provides progress and result information on the following:

- Key Performance Indicators (KPIs)
- Institute of Internal Auditors (IIA) – Internal Audit Capability Model for the Public Sector (Capability Model)
- Fraud, Waste, and Abuse allegations and dispositions
- External Assessment recommendation

External Assessments

Every three years, the IAD Director begins the process to obtain a Peer Review team. The Peer Review team issues a public report rendering an overall opinion on whether IAD complied with

the audit standards and whether QAIP provides reasonable assurance that IAD complies with applicable professional standards in all material aspects. IAD received its most recent Peer Review in May 2018.

Audit Engagement Team

The review was performed by Jennifer Weinstein (Audit Intern), Jacob Geray (Internal Auditor), Frances Barker (Internal Auditor), Jason Gonzalez (Senior Auditor), Derrick Miller (Senior Auditor), and Sandra Menjivar-Suddeath (Internal Audit Director).

Internal Assessment Results

IAD staff conducted a review to determine if the IAD followed all required applicable compliance and performance audit standards during fiscal year (FY) 2019. In addition, IAD staff analyzed data collected throughout the fiscal year to report on the division's KPIs, Capability Model, a fraud, waste, and abuse allegations, and progress made on implementing external assessment recommendations.

Overall Conclusion

Based on the review, IAD complies with the IIA Standards, the definition of internal auditing, the Core Principles for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, GAGAS, and the Act. No opportunities for improvement were noted in the review.

In addition, IAD met 9 of its 10 Key Performance Indicators and has made progress on achieving the optimized level of the Capability Model and implementing the external assessment recommendation. IAD also reviewed, investigated, or tracked 89 internal fraud, waste, and abuse allegations.

Compliance Audit Standards

A review of the IAD's audit charter, standard operating procedures, and engagement control programs was conducted to determine if the IAD followed all compliance audit standards. Compliance standards include the following items:

- **Purpose, Authority, and Responsibility** - The internal audit function must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Institute of Internal Auditors (IIA) Standards, and the Definition of Internal Auditing).
- **Independence and Objectivity** - The internal audit function must be independent and perform work in an objective manner.
- **Proficiency and Due Professional Care** - Engagements must be performed by staff that are proficient and have due professional care.
- **Quality Assurance and Improvement Program** - A quality assurance and improvement program must be established and must enable an evaluation of the internal audit function's conformance with the audit standards and any applicable other requirements. The program should, also, assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement for the function.
- **Managing the Internal Audit Activity** - The internal audit function must be effectively managed to ensure it adds value to the organization.

- **Nature of Work** - The internal audit function must evaluate and contribute to the improvement of the organization’s governance, risk management, and control processes using a systematic, disciplined, and risk-based approach.
- **Monitoring Progress** - A system to monitor the disposition of results must be established, maintained, and communicated.

Based on the review, IAD met all the compliance audit standards.

Performance Audit Standards

The IAD must also meet performance audit standards. To determine whether performance audit standards were met, the IAD Director selected one completed engagement (Employee Classification and Hiring audit) and reviewed it. Specifically, a staff member not associated with the engagement determined whether the audit engagement complied with performance audit standards. IAD must comply with the following performance audit standards:

- **Engagement Planning** - A plan must be developed and documented for each engagement.
- **Performing the Engagement** - Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.
- **Communicating Results** - Results from the audit engagements must be communicated to management and those in charge with governance.

Based on audit documentation, the IAD met all performance audit standards.

Key Performance Indicators

IAD has 10 Key Performance Indicators (KPIs) that it uses to measure the function’s effectiveness and efficiency. These KPIs were approved and developed in consultation with the TxDMV Board Chair and the Finance & Audit Committee Chair in FY 2018. The 10 KPIs and targets are noted in Table 1.

Table 1. Key Performance Indicators

KPI #	KPI	Target
1	Audit Recommendations Implemented	80%
2	Internal Audit Plan Completion	80%
3	Engagements within 10% of budgeted hours	90%
4	Percent of overall client satisfaction after an engagement	80%

KPI #	KPI	Target
5	Percent of client survey that agree audit had clear and timely communication on the audit results and report	80%
6	Percent of client survey that agree audit had sufficient knowledge about the audited area	80%
7	Percent of clients that believe that the audit recommendations were useful and beneficial after implementation	80%
8	Percent of relevant certifications held by staff	80%
9	Number of Internal Audit Division educational efforts conducted	2
10	Percent of staff working on operational initiatives	100%

Audit Recommendations Implemented

IAD tracks the number of internal audit recommendations implemented by TxDMV. The implementation rate shows TxDMV’s commitment to improving processes as well as IAD effectiveness.

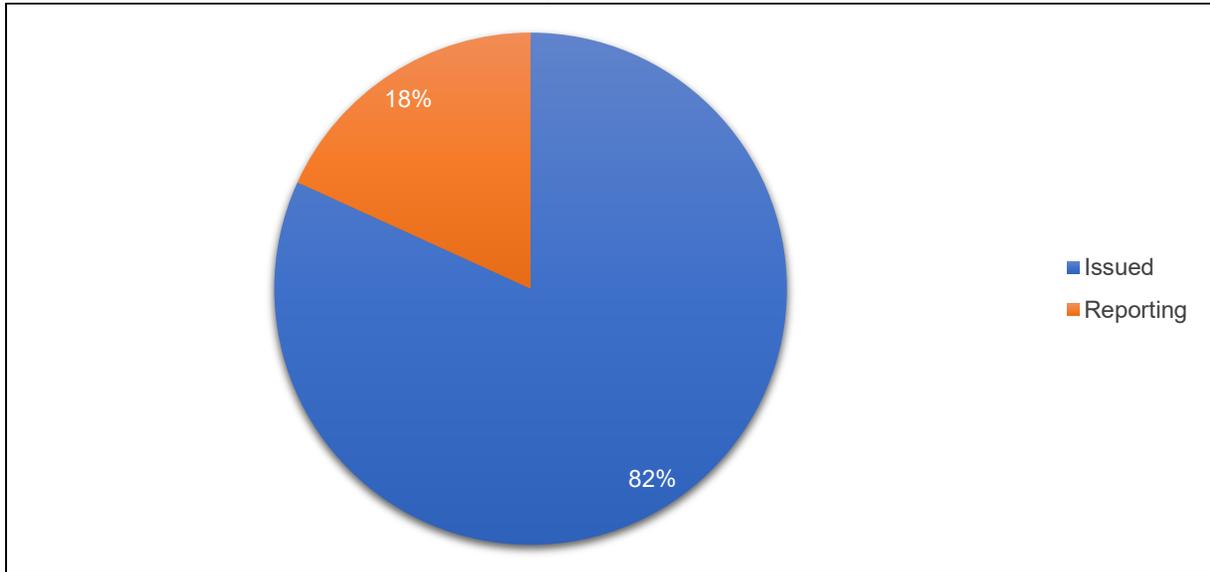
As reported in the FY 2019 Internal Audit Follow-Up report, IAD verified the implementation status of 62 internal audit recommendations. IAD verified TxDMV had fully implemented 56 internal audit recommendations (90%) and started 6 audit recommendations (10%).

Audit Plan Completion

IAD measures how well it tracked against the approved Internal Audit Plan. The IAD must complete at least 80% of the internal audit plan by the end of the fiscal year. Due to the nature of audit reporting, audit completion is defined by the number of engagements that were issued or in the reporting phase at the end of the fiscal year divided by the number of engagements listed on the audit plan.

In FY 2018, the IAD had completed the entire audit plan (11 audit engagements) by the end of the fiscal year. 9 engagements had been fully completed and two engagements were in the reporting phase as depicted Chart 2.

Chart 2. FY 2019 Internal Audit Plan Completion Status

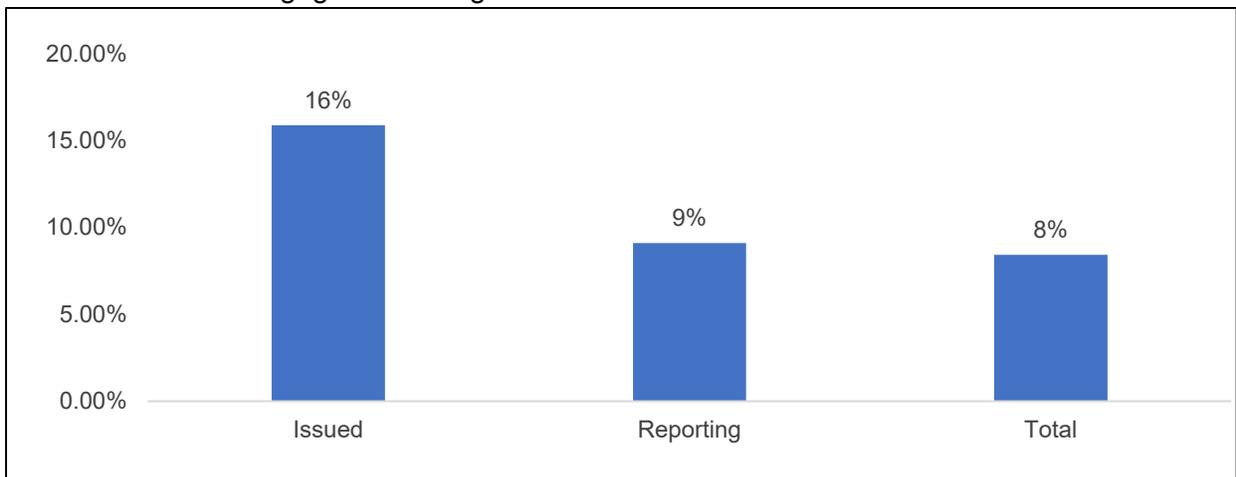


Engagement Budgets

To measure IAD's efficiency, the IAD monitors the hours spent on engagements against the initial engagement budget. Engagements must come within 10% of the initial engagement budget. The initial engagement budget is the budget given during the planning phase of the engagement.

In FY 2019, the IAD met its target for overall Engagement Budget. At the end of the FY 2019, the overall Engagement Budget variance was 8% for all engagements that were completed or in the reporting phase. The variance, however, grows when separating out issued and reporting phase engagements. Issued engagements had a 16% variance for budget hours and reporting phase engagements had a 9% variance. Chart 3 depicts the overall engagement budget, issued engagements, and reporting phase engagement variances.

Chart 3. FY 2019 Engagement Budget Variance



Further analysis of the data, by engagement, shows significant variability between planned and actual hours for each engagement. The variance per engagement is depicted in Chart 4.

Chart 4. Time Variance by Engagement



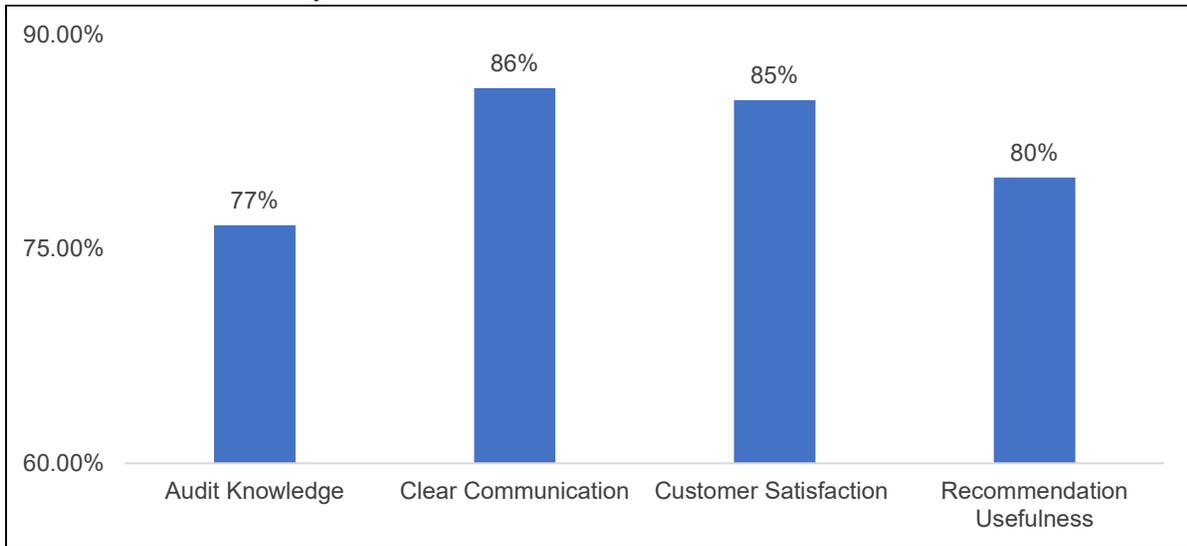
IAD had modified how it assigns engagement hours to improve this KPI.

Survey

For four KPIs, IAD uses surveys to determine if the TxDMV division staff feel that the IAD possessed sufficient knowledge to conduct engagements (audit knowledge); provided clear and timely communication (clear communication); performed satisfactory on the engagement (customer satisfaction); and, whether recommendations implemented were useful and beneficial after implementation (recommendation usefulness). The current KPI for each survey is at least 80% in agreement.

In FY 2019, IAD met its KPIs for customer satisfaction, clear communication, and recommendation usefulness. IAD did not meet its KPI related to audit knowledge. IAD believes the KPI was not met due its workload and the survey response rate. IAD only received 8 responses for 4 surveys although 7 surveys were sent to 39 recipients. Chart 5 depicts the overall survey results for the four KPIs.

Chart 5. FY 2019 Survey Results



Staff Certification

To ensure IAD has staff that can perform the necessary audit work, the IAD measures staff certifications. The current KPI is that 80% of the recognized certifications must be present with audit staff.

In FY 2019, 80% of the recognized certification were present with audit staff. Audit staff had the following certification:

- Certified Internal Auditor
- Certified Information Systems Auditor
- Certified Government Auditing Professional
- Certified Fraud Examiner

The only certification not present was the Certified Public Accountant.

Audit Educational Efforts

To ensure staff and stakeholders understand the role of the IAD, IAD measures how many educational efforts are completed in a fiscal year. The IAD should perform at least two education efforts a year.

In FY 2019, IAD conducted four internal audit educational efforts, but conducted an additional three education efforts on fraud to Tax-Assessor Collectors. The seven events are noted in Table 2.

Table 2. FY 2019 Educational Events

Date	Topic	Audience
September 2018	Ethics and Process Monitoring	Tax Assessor - Collectors
October 2018	TxDMV Fraud Topics	Tax Assessor – Collectors
October 2018	TxDMV Fraud Topics	County Auditors
March 2019	TeamCentral Recommendation Implementation	TxDMV Staff
May 2019	Internal Audit Month	TxDMV Staff
July 2019	TeamCentral Recommendation Implementation	TxDMV Staff
August 2019	Audit 101: You are being Audited, what now?	TxDMV Staff

Operational Initiatives

IAD had three Operational Initiatives it worked on during FY 2019. Those three initiatives were led and participated by staff members. The three initiatives and staff involved are listed in Table 3.

Table 3. Operational Initiatives Information

Initiative	Staff Involved	Time frame
Strategic Plan	Frances Barker, Jacob Geray	Single-Year
Record Management	Jason Gonzalez	Multi-Year
TeamCentral Reporting	Derrick Miller, Frances Barker	Single-Year; Carried-Forward

Internal Audit Capability Model for the Public Sector (Capability Model)

Since the 2018 Peer Review, IAD tracks its effectiveness progress through the *Capability Model for the Public Sector*. After the 2018 Peer Review, IAD was at a *Level 2, Infrastructure*. IAD improved to a *Level 3, Integrated* by the end of FY 2018. In FY 2019, IAD maintained its *Level 3, Integrated*. IAD did improve in two individual categories: Professional Practices and Performance Management and Accountability. The current progress on the Capability Model is denoted in Figure 1.

Figure 1. FY 2019 TxDMV IAD Capability Model

	Services and Role of IA	People Management	Professional Practices	Performance Management and Accountability	Organizational Relationships and Culture	Governance Structures
Level 5 - Optimizing	★ IA Recognized as Key Agent of Change	★ Leadership Involvement with Professional Bodies Workforce Projection	★ Continuous Improvement in Professional Practices Strategic IA Planning	★ Outcome Performance and Value to Organization Achieved	★ Effective and Ongoing Relationships	★ Independence, Power, and Authority of the IA Activity
Level 4 - Managed	Overall Assurance on Governance, Risk Management, and Control	Contributes to Management Development IA Activity Supports Professional Bodies Workforce Planning	Audit Strategy Leverages Organization's Management of Risk	Integration of Qualitative and Quantitative Performance Measures	CAE Advises and Influences Top-level Management	Independent Oversight of the IA Activity CAE Reports to Top-level Authority
Level 3 - Integrated	Advisory Services Performance/Value-for-Money Audits	Team Building and Competency Professionally Qualified Staff	Quality Management Framework Risk-based Audit Plans	Performance Measures Cost Information IA Management Reports	Coordination with Other Review Groups Integral Component of Management Team	Management Oversight of the IA Activity Funding Mechanism
Level 2 - Infrastructure	Compliance Auditing	Individual Professional Development Skilled People Identified and Recruited	Professional Practices and Processes Framework Audit Plan Based on Management/ Stakeholder Priorities	IA Operating Budget IA Business Plan	Managing within the IA Activity	Full Access to the Organization's Information, Assets, and People Reporting Relationship Established
Level 1 - Initial	Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organizational unit; no established capabilities; therefore, no specific key process areas					
★	Indicates the Internal Audit Division Desired State					
	Indicates the activity has been fully institutionalized by the Internal Audit Division					
	Indicates the activity is in progress by the Internal Audit Division					
	Indicates the activity has not been started by the Internal Audit Division					
Circle indicates current maturity level						

IAD conducted the following activities to help maintain and improve in two categories on the *Capability Model*:

- Documenting Strategic Vision through the Strategic Plan
- Linking IAD vision with the Department's vision
- Measuring against all established KPIs

- Increased involvement in professional bodies

IAD continues to work towards a *Level 5, Optimizing*. In FY 2020 Internal Audit Plan, IAD discussed its Key Risk Indicator and TeamCentral Reporting initiatives. These initiatives will help IAD achieve its desired state. IAD, however, will not achieve its desired state until the Department has fully formalized its risk appetite and risk management processes. The Department continues to work towards formalizing those processes.

Fraud, Waste, and Abuse Allegations and Dispositions

As part of IAD's role, the division investigates and tracks internal fraud, waste, and abuse allegations. The allegations are received from multiple sources, including internal complaints, State Auditor's Office, and internal reviews.

In FY 2019, the IAD reviewed, investigated, or tracked 89 internal fraud, waste, and abuse allegations. Most of these allegations came through the State Auditor's Office and dealt with consumer issues, such as title transfer. Chart 6 and 7 provide information on the types of complaints received from the State Auditor's Office as well as complaint referral source.

Chart 6. Fraud, Waste, and Abuse Referrals

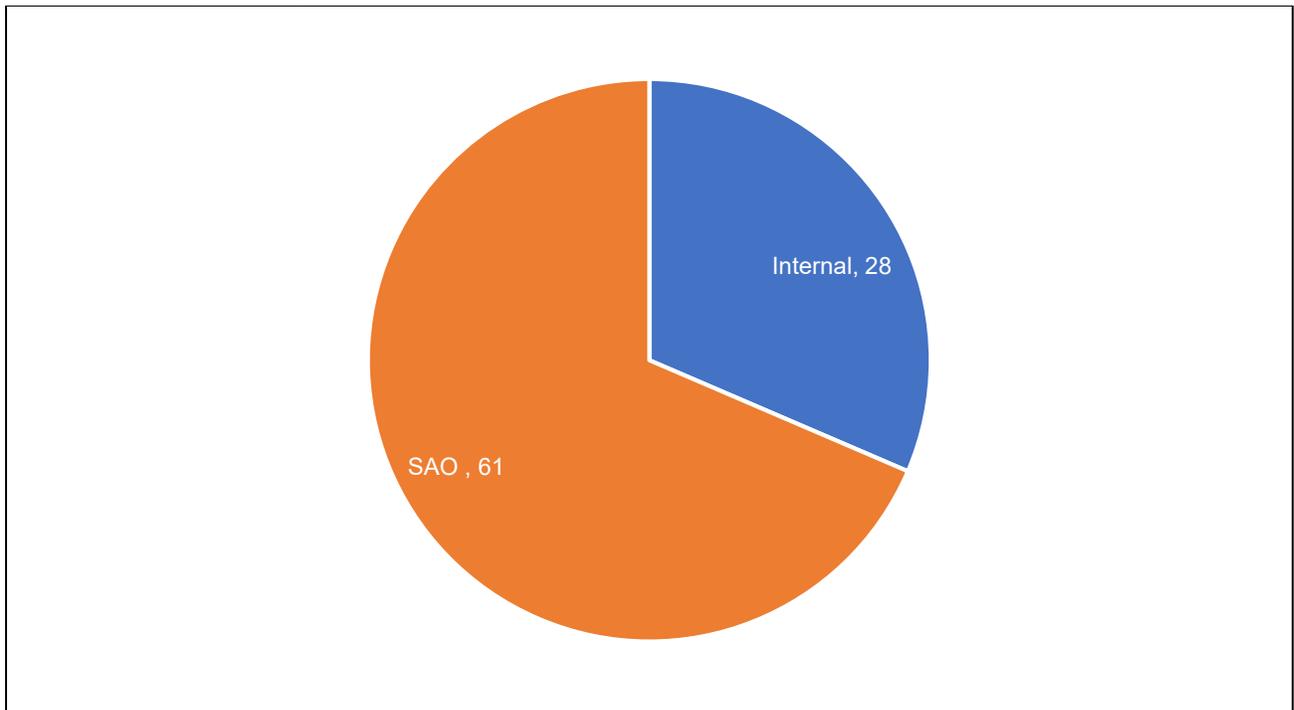
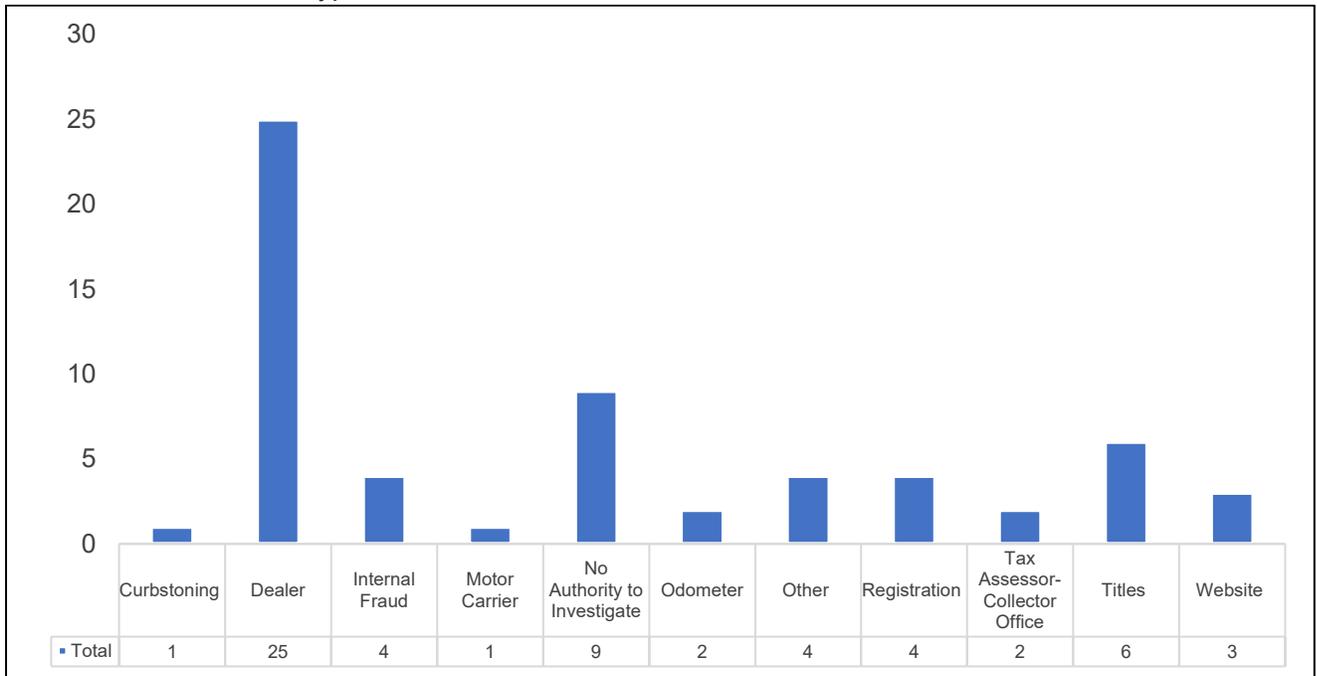
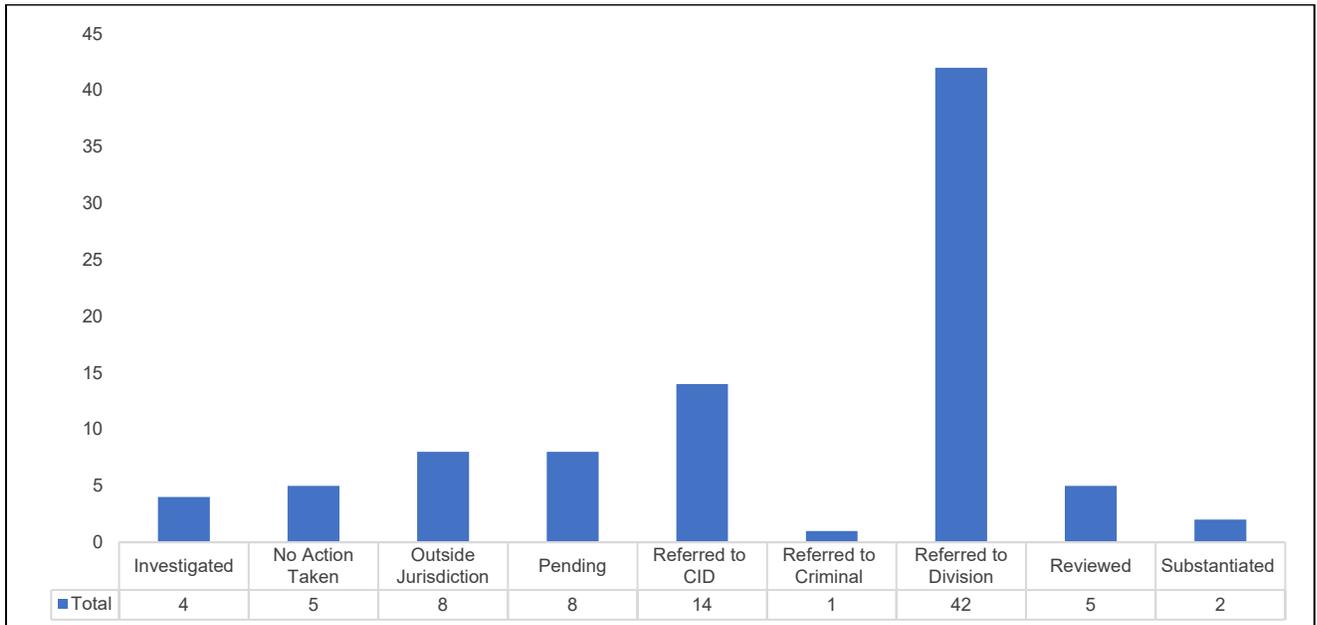


Chart 7. SAO Referral Type



For each complaint received, IAD, in consultation with the Office of General Counsel, triages the complaints and decides whether the complaint needs to be investigated by IAD, referred to a division, or referred externally. Chart 8 provides information on the final disposition of each allegation received.

Chart 8. Fraud, Waste, and Abuse Disposition



External Assessment Recommendation

The IAD obtained a Peer Review in early 2018 and released the Peer Review report in May 2018. The Peer Review team rated IAD as “pass”. The following is an excerpt from the peer review report’s 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 Internal Audit Division receives a rating of “pass” and is in compliance with the Institute of Internal Auditors (IIA) International Professional Practices Framework and Code of Ethics, the United States Government Accountability Office (GAO) Government Auditing Standards 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.

The report noted one opportunity for improvement; the opportunity and the Internal Audit Director’s response is as follows:

Opportunity for Improvement:

The Internal Audit Division should consider performing a periodic project related to the agency's ethics-related objectives, programs, and activities.

Director's Response:

The Internal Audit Division (IAD) will consider performing a project related to the agency's ethics-related objectives, programs, and activities. The Internal Audit Division is currently conducting a fraud, waste, and abuse risk assessment for the Department to determine if we have sufficient processes to mitigate current fraud, waste, and abuse risks. In addition, the Internal Audit Division plans on periodically performing informational campaigns on ethics for the Department.

The IAD is actively working on addressing this opportunity of improvement. In FY 2019, IAD began participating in an agency-wide work group to update the ethics policy. As an advisor on the work group, IAD provides input on the ethics policy and reporting structure and provides potential risk areas.

Appendix 1: Objective, Scope, and Methodology

Objective

The objective of the Quality Assurance and Improvement Program is to provide a summary of the Internal Audit Division activities and compliance with applicable audit standards.

Scope and Methodology

The scope of the audit included FY2019 Internal Audit Division Activities.

Information and documents reviewed in the audit included the following:

- Survey Results
- Audit Charter
- IAD Standard Operating Procedures
- IAD Engagement Control Programs
- Human Resource Records
- TxDMV IAD 2018 Peer Review Report
- TxDMV Operational Plan
- TeamCentral Reports
- IIA's Capability Model

Report Distribution

This report is distributed to the Board of the Texas Department of Motor Vehicles and the executive management team.