Texas Department of Motor Vehicles

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Fiscal Year 2021 Annual Audit Activities Report
22 – 01

Internal Audit Division
October 2021

Texas Department *of* Motor Vehicles

Fiscal Year 2021 Annual Audit Activities, 22-01

Executive Summary

BACKGROUND

On an annual basis, the Internal Audit Division (IAD) submits its internal audit report to statutorily required parties. The parties that receive a copy of this report include the State Auditor's Office, Legislative Budget Board, and the Governor's Office. In addition, the report is posted on the Texas Department of Motor Vehicles (TxDMV) website.

The report provides information on the assurance (audit) services, consulting (advisory) services, and other activities that were conducted in fiscal year 2021.

The report is developed using the guidelines set forth by the State Auditor's Office. The guidelines require the report to include information on engagements conducted, the audit plan, and external reviews.

RESULTS

In fiscal year (FY) 2021, IAD completed 10 audit, advisory service, follow-up, and compliance engagements. The 10 engagements conducted by IAD included 6 audit engagements, 1 advisory service engagement, 1 follow-up engagement, and 2 compliance engagements.

The FY 2022 audit plan was approved by the TxDMV Board on August 6, 2021. The approved audit plan includes engagements for the first six months and contingency/potential engagements for the second half of the fiscal year. The plan includes division initiatives and added-value services as well. These items listed in the audit plan were identified using a risk-based methodology and cover risks related to contract management and information technology.

Finally, this report includes information on the external reviews coordinated by the IAD as well as a brief description of actions taken by TxDMV to comply with fraud reporting and investigation coordination requirements.

Contents

Compliance with Texas Government Code Section 2102.015

The Internal Auditing Act, Texas Government Code §2102.015, requires that within 30 days of approval an entity should post its audit plan and internal audit annual report. It also requires that any actions taken by the Department to address the concerns identified in the audit plan (e.g., recommendations) be posted on the Department's website.

FY 2021 Postings

In fiscal year (FY) 2021, the *FY 2021 First and Second Six Month Internal Audit Plans* were posted on the website after the Texas Department of Motor Vehicles (TxDMV) Board approved them. Similarly, the annual report was posted on the website after it was submitted to the TxDMV Board.

The Internal Audit Division (IAD) posted the Quality Assurance and Improvement Program (QAIP) – Internal Assessment report on the website. This report provides information on how many recommendations were implemented by the Department.

The internal audit plans, annual reports, and QAIP reports can be found at https://ww.txdmv.gov/motorists/consumer-protection/internal-audit-division.

FY 2022 Postings

The TxDMV Board approved the *Fiscal Year 2022 First Six Month Internal Audit Plan* on August 5, 2021, and the TxDMV web master posted the plan to the website after that. Similarly, the annual report will be presented to the TxDMV Board on October 29, 2021, and the TxDMV webmaster will post the report on the TxDMV website after that date.

The QAIP report will be posted on the TxDMV website after issuance.

Internal Audit Plan for Fiscal Year 2021

The status of the FY 2021 audit plan engagements is outlined below in Table 1.

Table 1. FY 2021 Internal Audit Plan Status

Engagement Number and Name	Status	Executive Summary
21-00: Audit Recommendation Implementation Status Follow-Up	Final Report Issued	IAD reviewed 30 internal audit recommendations that were due or implemented in FY 2021. The results will be available in the FY 2022 Quality Assurance and Improvement Program – Internal Assessment report.
21-01: Annual Activities	Final Report Issued	IAD submitted the required annual report to the Governor's Office, State Auditor's Office, and the Legislative Budget Board. The report included all activity conducted in FY 2020.
21-02: Quality Assurance - Internal Assessment	Final Report Issued	This report provided information on the division's compliance and performance for FY 2020. In that fiscal year, the division complied with all internal audit standards and met many of its Key Performance Indicators and maintained an overall Level 3 in the Capability Model while improving in individual categories of the model. While the division complied with all audit standards, two opportunities of improvement were identified in the review: 1) Define the Finance & Audit Committee's role in the internal audit charter and 2) Revise Board training to focus on the role of internal audit. Both opportunities have been implemented.
21-03: Procurement Measures	Final Report Issued	This advisory service focused on the procurement processes conducted by the Purchasing Section in the Finance and Administrative Services Division (FAS), FAS Budget Section, Office of General Counsel (OGC), and Department staff. This advisory service helped the Department understand if it had any procurement process gaps and evaluated the new measures put in place for the procurement function. IAD provided information on potential process gaps that exist. The results of this engagement are only included in this report.
21-04: Employee Relations	Final Report Issued	IAD conducted an audit on the employee relations. IAD found that the employee relations processes are at a level 3 – Defined maturity rating. The employee relations process focuses upon advising the manager rather than staff when an issue is raised. Employees are referred to their immediate supervisors and management chain to resolve issues before taking formal action. The audit contained two recommendations. One recommendation has been implemented.
21-05: Telecommuting Program	Final Report Issued	IAD conducted an audit on the telecommuting program. IAD found the telecommuting program is at a level 2 - Repeatable but Intuitive maturity rating. IAD gathered data and information that showed staff felt a positive impact from the expanded telecommuting program. Staff reported better work-life balance and increased productivity because of the program. IAD issued two recommendations to improve information about cybersecurity risks. Both recommendations have been implemented.

Engagement Number and Name	Status	Executive Summary
21-06: License Plate Manufacturing and Monitoring	Final Report Issued	IAD conducted an audit on the license plate manufacturing and monitoring process. IAD found that the license plate manufacturing and monitoring process is at a level 2 - Repeatable but Intuitive maturity rating. The audit identified concerns on how the Department monitors license plate sequencing and monitoring needs and how IT systems are used to support the processes. The audit also reviewed the TxDMV's interagency agreement and identified potential improvements to clarify roles and service level within the contract. Nine recommendations were issued.
21-07: Change Management	Final Report Issued	IAD conducted an audit on Information Technology (IT) change management. The audit was co-sourced with a vendor. IAD found the change management process at a 3 - Defined maturity rating. The process is supported by members of management who have a good understanding of the systems maintained by the TxDMV and are skilled and experienced in their respective fields. The audit identified that a limited number of individuals could bypass the process and potentially implement changes without going through the established controls and improvements related to monitoring the change management process. Seven recommendations were issued to strengthen change management processes. One recommendation has been implemented.
21-08: Internal Communications	Final Report Issued	IAD conducted an audit on internal communication processes. IAD found internal communications processes are at a level 2 – Repeatable but Intuitive maturity rating. IAD identified that each division is expected to clarify communications about TxDMV activities that directly impact their staff. Each division uses its own processes to pass on information and the processes change depending on the information being communicated. This may result in staff's not knowing when to expect information and may cause perceptions that management is not being transparent. Although there is no standardized process at the divisional level, Executive-level communication has been more standardized and has been focused on improving transparency of communication to staff. Two recommendations were issued.
21-09: Payment Card Industry (PCI) Compliance - Requirement 1 (Firewalls)	Final Report Issued	IAD conducted its annual PCI audit and focused on the firewall requirement. The objective of the audit was to determine compliance with Payment Card Industry (PCI) requirement 1: Install and maintain a firewall. IAD identified some noncompliance issues and issued two recommendations.

Internal Audit Plan Deviation

No deviations occurred in FY 2021.

Consulting Services and Nonaudit Services Completed

Consulting Services

The IAD conducted one advisory service, or consulting service, during FY 2021. The advisory service engagement related to Procurement Measures.

Procurement Measures

The advisory service had two main objectives: 1) Determine whether the procurement process has clearly defined roles and responsibilities and 2) Evaluate whether the 180 - day procurement completion period established by the Department for most procurements is reasonable.

The advisory service identified the Department developed a procurement process with assigned responsibilities and has updated its processes to meet new and current demands. These changes have not been fully understood by staff and led to gaps in communication as well as some misunderstanding of procurement process responsibilities.

In addition, the Department has tentatively set a 180 - day timeframe to complete most of its procurements and contracts, regardless of complexity, as part of its procurement performance measures. IAD reviewed a sample of contracts and provided feedback on the limitations of the measure.

Nonaudit Services

IAD performed nonaudit services during FY 2021. The nonaudit services include facilitating external coordination, providing advice on several agency workgroups, and participating as a non-voting member in the enterprise project governance process.

External Quality Assurance Review

IAD underwent an external quality assurance review (peer review) in FY 2021. Representatives of the State Agency Internal Audit Forum performed the peer review in accordance with current peer review policies and procedures. On March 2021, IAD received a rating of "pass" out of three possible ratings: pass, pass with deficiencies, or fail (see Figure 1).

The report noted one opportunity for improvement to better document sample selections in engagements. IAD agreed to the recommendation and already implemented it by updating its engagement templates and procedures.

Figure 1. Peer Review Opinion

Texas Department of Motor Vehicles Internal Audit Division
External Quality Assurance Review – March 2021

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/Generally Conforms**" and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* 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 Internal Audit Division is independent, objective, and provides impartial and unbiased judgments on the audit work performed. Division staff 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 clear and concise.

The Internal Audit Division is well managed. 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 Department operations and finds that the audit process and report recommendations add value and help improve the Department's operations.

The Internal Audit Division has reviewed the results of the peer review team's work and has accepted them to be an accurate representation of the Division's operations.

Acknowledgements

We appreciate the courtesy and cooperation extended to us by the Internal Audit Division Director, Internal Audit staff, the Chairman of the Board and the Chair of the Finance and Audit Committee, 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.

Arby James Gonzales, CPA, CFE	April 21, 2021	Harold Rogers, CIA, CISA	April 21, 2021
Internal Audit Director	Date	Internal Auditor	Date
Texas Division of Insurance		Texas Workforce Commission	
SAIAF Peer Review Team Leader		SAIAF Peer Review Team Member	

Internal Audit Plan for Fiscal Year 2022

The TxDMV Board approved the Fiscal Year 2022 First Six Month Internal Audit Plan on August 6, 2021. The audit plan included nine engagements for the first half of the fiscal year, five potential engagements for the second half of the fiscal year, division initiatives, and added value services. Table 1 and Table 3 provide information on the engagements.

FY 2022 Engagements

Table 2. FY 2021 Engagements – First Half

Engagement Area	Hours	Background
Incident Response	TBD	Over the past few years, organization's incident response plans have been used more often. As natural disasters and cybersecurity events, as well as normal incident handling become more common, having an effective incident response plan is key. This engagement would look at the Department's incident response plan. This engagement ties to COSO elements of Control Environment, Risk Assessment, and Information and Communication. This engagement will be co-sourced with the Department's vendor and may not be conducted due to schedule or other unforeseen issue with the vendor.
Facilities	900	With approval from the Legislature, the Department will begin evaluating building consolidation and facilities construction planning for headquarters. Additionally, the Department maintains Regional Services Center (RSC) facilities. This engagement would look at the Department's capacity to maintain headquarter buildings, as well as evaluate the Department's capabilities to meet Departmental needs at RSCs. This engagement ties to COSO elements of Control Environment, Risk Assessment, and Control Activities.
SB-15: Data Contracts	900	Texas Senate Bill 15 requires enhanced consumer protection and data privacy. This advisory service engagement would evaluate the design of monitoring processes concerning vehicle data usage and the appropriateness of data usage to help with the implementation of SB15. This engagement ties to COSO elements of Control Environment, Risk Assessment, and Monitoring.
Dealer Licensing Processes	750	The Department is responsible for determining license eligibility for a multitude of dealer licenses. The engagement will evaluate the Department's processes designed to ensure the verification of dealer applicant's identities and applicant's criminal history through the dealer licensing process. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, and Monitoring.
Access Management	600	The engagement will evaluate the how access is managed through the Department as access management is designed to protect user confidentiality, integrity, and user authenticity. This engagement ties to COSO elements of Control Activities and Monitoring.

Engagement Area	Hours	Background
Annual Activities	25	A statutorily required review that summarizes internal activities conducted in FY 2021. The State Auditor's Office prescribes the report format and information.
Quality Assurance and Improvement Program – Internal Assessment	100	An internal assessment to determine compliance with audit standards and provide information on IAD's performance. IAD's performance includes an evaluation of Key Performance Indicators and Capability Model.
Audit Recommendation Implementation Status Follow-Up	75	An engagement to verify if outstanding audit recommendations have been fully implemented. Quarterly reporting for internal audit recommendations will be done. This engagement addresses contract management requirements.
FY 2022 Risk Assessment and Second Half Internal Audit Plan	200	An engagement to identify high risks areas where an engagement may be warranted in the upcoming year.

Table 3.FY 2022 Engagements – Potential Second Half and Contingency

Engagement Area	Preliminary Engagement Information
Payment Card Industry (PCI) Compliance	The Department accepts credit cards and is required to meet PCI standards. This engagement would evaluate PCI compliance with one of the requirements. This audit was identified as an area of review in the Cybersecurity roadmap.
Motor Carrier Division	The Motor Carrier Division operates its own call center that provides information and services to motor carriers. The call center deals with obtaining permits for motor carriers as well as getting credentials to motor carriers. At the end of FY 2021, the Commercial Fleet Services was reorganized with Credentialing. This caused a change in how customers are served in the call center. This potential engagement would look at the reorganization and its impact to the call center.
Strategic Communication (External Communication)	Communication strategies are a key component to delivering consistent information to external customers. The engagement would evaluate the Department's communication strategies to ensure they are designed to deliver accurate and critical information to stakeholders.

Division Initiatives

In addition to audit engagements, IAD conducts several divisional initiatives to help the division provide more risk coverage. In the first half of the fiscal year, IAD will be conducting the following division initiatives:

- **TeamMate +**: IAD continues to enhance and support its audit software.

- **Staff Development Plans and Training:** IAD staff take training and create development plans to obtain required knowledge, skills, and abilities.

- **Communication Plans:** IAD continues refining dashboards, communication sites, and other items to provide a snapshot of the Department's risk management, gove**r**nance, and engagement information to the Department.

- **Automation & Technology Improvement:** IAD will continue to work on automating routing process and leverage technology to be more efficient.

Value-Added Services

IAD also provides added value services throughout the years. These added value services include fraud, waste, and abuse items, external audit coordination, ad hoc advisory, workgroup participation, and department training.

- **Fraud, Waste, and Abuse (FWA) Items:** IAD works on detecting, tracking, and reviewing internal FWA allegations or State Auditor's Office Hotline complaints**.** IAD investigates internal FWA allegations.

- **External Coordination Efforts:** IAD coordinates and facilitates any external audits. External coordination efforts include providing audit status update and coordinating responses.

- **Ad hoc Advisory:** IAD sets aside 250 hours to address any short-term assessment or information requests by TxDMV staff during the first half of the fiscal year.

- **Workgroup Participation:** IAD participates in TxDMV work groups to help identify any unforeseen risk in enterprise projects or activities.

- **Department Training:** IAD provides training to help TxDMV staff understand their responsibilities for audits, recommendation implementation, and preventing fraud, waste, and abuse.

- **Key Risk Indicators**: IAD will be monitoring the Fraud, Regional Service Centers, and Procurement & Contract Management risk indicators on a quarterly basis to help with risk mitigation. This Value-Added Service addresses contract management requirements.

Risk Assessment Methodology

The audit plan was developed using a risk-based methodology, which incorporated input from TxDMV board members, executive management, division management, and risks identified by audit staff through previous fiscal year engagements and observations. IAD also analyzed TxDMV information and reviewed internal audit and industry publications to identify and rank potential audit topics by risk. In addition, IAD collected information on the potential controls that were in place to mitigate the identified risks.

Each risk was reviewed using approved Department risk guidance that included the following factors:

- Financial impact

- Operational effectiveness and efficiency impact

- Legal or regulatory impact

- Brand or reputational impact

- Degree of change in the program, function, or process

- Degree of complexity

- Degree of centralization

- Control design strength

354 Department operational risks have been identified through the risk assessment. Each risk was scored using the factors above to determine the engagements for the first six-month internal audit plan and contingency engagements.

The risk scores go up to seven and half, which is the highest risk score. Table 4 provides information on the risk scores and definitions for each category.

*Table 4.*Risk Scores

Risk Category	Score	Definition
Very High	> 4.50	The risk may substantially hinder the Department's, division's, and/or function's achieving its objectives or goals.
High	3.50 – 4.49	The risk may significantly hinder to the Department, division, or function achieving its objectives or goals.
Medium	2.50 – 3.49	The risk should be monitored on a regular basis to ensure it does not become an issue; however, it is not currently hindering the Department, division, or function from achieving its objectives or goals.
Low	1.50 – 2.49	The risk is mostly mitigated and may not hinder the Department, division, or function from achieving its objectives or goals.
Very Low	< 1.50	The risk is mitigated and is not hindering the Department, division, or function from achieving its objectives or goals.

Themes

For the FY 2022, three themes were developed to help provide an overall perspective on internal audit's focus for the first six months:

- **Legislative Implementation Readiness**: Areas and functions significantly impacted by legislation changes.

- **Operational effectiveness**: Areas and functions where processes and overall operations had significant change in management or processes are expected to be changed.

- **Information Technology**: Areas where the spread of new technologies, data collection methodologies, and automation increases risks to our organization and customers.

Hour Analysis

Engagement hours were calculated using historical data and auditor's judgement. Hours are an estimate and could be adjusted at the beginning of an engagement. IAD identified 1500 hours available for the second six months.

External Audit Services Procured in Fiscal Year 2021

TxDMV procured two external audit services during FY 2021:

- **Co-sourced Vendor** - IAD obtained a vendor, Weaver, to conduct a co-source audit for the division. The audit focused on information technology change management for applications. The audit had two objectives: 1) Determine whether the IT change management processes and procedures provide adequate control, monitoring, and compliance with policies, regulations, and best practices and 2) Determine whether access rights for personnel responsible for developing, testing, and publishing changes to Texas Department of Motor Vehicle (TxDMV) systems is controlled, monitored, and compliant with policies, regulations, and access management best practices.

- **Contractor Services** – IAD obtained a contractor to help on audit engagements throughout FY 2021. The contractor worked on multiple audits, including Employee Relations, Internal Communications, and Telecommuting. The contractor also assisted in the Procurement Measures advisory service.

Reporting Suspected Fraud and Abuse

Fraud Reporting Requirements

To comply with fraud reporting requirements in the General Appropriations Act (86th Legislature, Article IX-37, 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 Fraud, Waste, and Abuse policies 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.

- Provides information on the Internal Audit Division's internet page about reporting fraud.

Investigation Coordination Requirements

IAD 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 as described in agency procedures.

IAD also evaluates all instances of fraud, waste, or abuse reported to the IAD 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 work with appropriate parties and notify the SAO.

Appendix 1: Report Distribution and Rating Information

Report Distribution

In accordance with the Texas Internal Auditing Act, this report is distributed to the Board of the Texas Department of Motor Vehicles, Governor's Office of Budget, Planning, and Policy, Legislative Budget Board, and the State Auditor's Office. The report will also be distributed to the executive management team.