Texas Department of Motor Vehicles

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Fiscal Year (FY) 2021 First Half Internal Audit Plan

Internal Audit Division
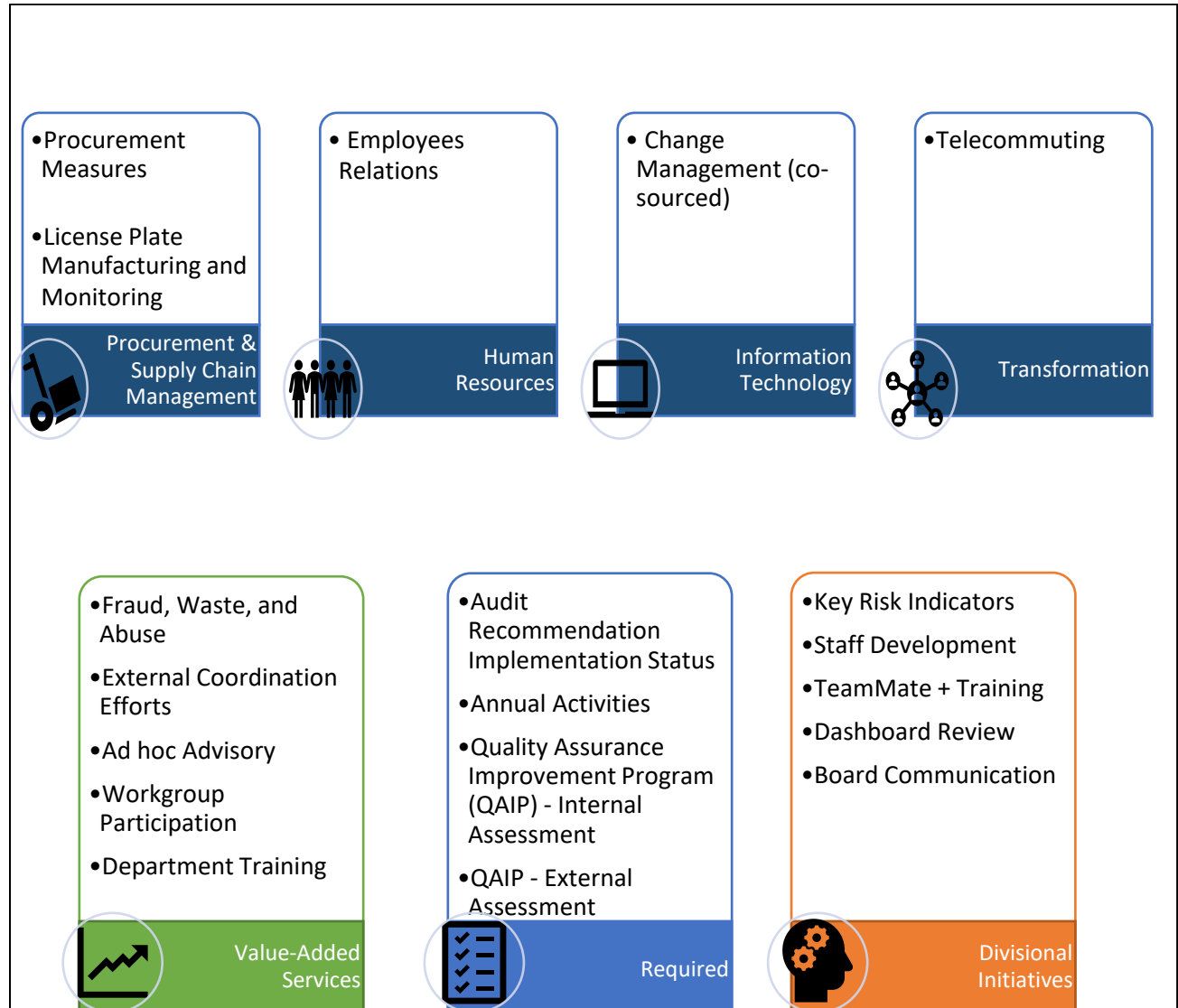
August 2020

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FY 2021 First Half Summary

The Internal Audit Division (IAD) audit plan for fiscal year (FY) 2021 is divided into two six-month plans. IAD moved to a six-month audit plan to allow for flexibility as Texas Department of Motor Vehicles' (TxDMV) risks change rapidly. The audit plan for the first half of the fiscal year includes five risk-based engagements and four required engagements tied to five themes. In addition, the plan includes division initiatives, and added-value services. The first half summary is illustrated in figure 1.

Figure 1. First Half Audit Plan Summary

- Procurement Measures
- License Plate Manufacturing and Monitoring

Procurement & Supply Chain Management

- Employees Relations

Human Resources

- Change Management (co-sourced)

Information Technology

- Telecommuting

Transformation

- Fraud, Waste, and Abuse
- External Coordination Efforts
- Ad hoc Advisory
- Workgroup Participation
- Department Training

Value-Added Services

- Audit Recommendation Implementation Status
- Annual Activities
- Quality Assurance Improvement Program (QAIP) - Internal Assessment
- QAIP - External Assessment

Required

- Key Risk Indicators
- Staff Development
- TeamMate + Training
- Dashboard Review
- Board Communication

Divisional Initiatives

Engagement and Services Information

Risk-Based Engagements

- **Procurement Measures:** This engagement will review procurement timelines and measures.

- **Telecommuting:** This engagement will evaluate the implementation of the telecommuting program, including mechanisms established to monitor remote workers.

- **Employee Relations:** This engagement will review processes set up to deal with employee performance issues.

- **License Plate Manufacturing and Monitoring:** This engagement will review the contract with the Texas Department of Criminal Justice (TDCJ) for the manufacturing of license plates, disabled placards, and other items. The engagement would review the processes established for the manufacturing, storage, disbursement, and monitoring of the manufacturing and supply of manufactured goods.

- **Information Technology Change Management***: This co-sourced engagement will review the change management processes within the Information Technology Services Division. Change management includes, but is not limited to implementation of new functionality, interruption of service, repair of existing functionality, and the removal of existing functionality.

Required Engagements

- **Audit Recommendation Implementation Status Follow-Up**: Verification of the implementation status for internal and external audit recommendation.

- **Annual Activities**: A statutorily required report that summarizes previous fiscal year's internal audit activities.

- **Quality Assurance and Improvement Program – Internal Assessment:** An internal review to determine whether the division compiled with audit standards and to provide information on the division's performance.

- **Quality Assurance and Improvement Program – External Assessment:** An external review to determine the division's compliance with internal audit standards. The review occurs every three years and the division must prepare a self-assessment report.

*This engagement is dependent on the availability of the vendor.

Divisional Initiatives

- **Key Risk Indicators**: IAD will be finalizing and providing quarterly reporting on the following indicators:

  - *Fraud Indicators*: IAD will monitor leave balances and payment information.

  - *Regional Service Center (RSC) Transactions*: IAD will be monitoring RSC transactions to identify potential fraud.

  - *Procurement and Contract Management Monitoring*: IAD will monitor procurement and high-risk contracts.

- **TeamMate Transition:** IAD will transition to TeamMate +, a web-based, audit software at the beginning of the fiscal year. Staff will receive training and provide support to the Department staff.

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

- **Dashboard Report Development**: IAD will develop an interactive dashboard style report to provide more focused information on results.

- **Board Communication:** IAD will continue refining dashboards and other items to provide a snapshot of the Department's risk management and governance information.

Added – Value Services

- **Fraud, Waste, and Abuse (FWA) Items:** IAD is responsible for reviewing, tracking, and investigating any internal FWA allegations, including those received through the State Auditor's Office Hotline**.**

- **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 150 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.

Detailed Engagement Information

Engagements

Tables 1 and 2 provide information on the risk-based and required engagements that will be conducted in the first half of the FY 2021. The information includes engagement name, engagement hours, TxDMV strategic goal alignment, impacted division(s), and background. The background includes information on how the engagement ties to Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Information on COSO can be found in Scope and Methodology section, under the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Methodology. Table 1 provides information on the risk-based engagement and table 2 provides information on the required engagements.

Table 1. Risk-Based Engagements

Engagement Area	Hours	Strategic Goal(s)	Impacted Division(s)	Background
Telecommuting	700	Optimized Services and Innovation	Department-wide Human Resources Division	Telecommuting, or remote work, has become the standard in the COVID-19 environment. Telecommuting must be set up properly to be effective for the organization and employees. Set up includes processes for monitoring employee productivity, program usage, and whether program objectives were properly articulated. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, and Monitoring.
Employee Relations	680	Performance Driven	Human Resources Division	Employee relations involves creating and maintaining a positive environment between the organization, its managers, and employees, where employees feel engaged and are accountable for their work. When employees may not be performing at expected levels, processes should exist to help management and the employee achieve output expectations. This engagement ties to COSO elements of Control Environment, Control Activities, Information and Communication, and Monitoring.

Engagement Area	Hours	Strategic Goal(s)	Impacted Division(s)	Background
Procurement Measures	750	Optimized Services and Innovation	Finance & Administrative Services Division	Procurements, or purchases, conducted by the Department range from consumable goods to complex information technology products. Regardless of the procurement, timelines, roles, and measures should be established to measure the effectiveness and performance of the procurement function. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, and Monitoring.
License Plate Manufacturing and Monitoring	850	Optimized Services and Innovation Customer Centric Performance Driven	Finance & Administrative Services Division Vehicle Titles & Registration Division Compliance & Investigations Division	The Department contracts with the Texas Department of Criminal Justice (TDCJ) to manufacture license plates, disabled placards, and other items. The Department's contract outlines the minimum requirements of goods produced and responsibilities between the departments. The goods are produced at the Wynne Unit, a facility owned and operated by the TDCJ. TxDMV has staff at the Wynne Unit to oversee the manufacturing, storage, and disbursement of manufactured goods. The engagement will be coordinated with the TDCJ's internal audit division. This engagement ties to COSO elements of Risk Assessment, Control Activities, and Monitoring.
Information Technology Change Management	N/A	Performance Driven	Information Technology Services Division	The initial engagement was selected using the Cybersecurity roadmap and will co-sourced. Change management is the process that ensures all changes are processed in a controlled manner, including standard changes and emergency maintenance relating to information technology. Changes include, but are not limited to interruption of service, implementation of new functionality, and the repair and/or removal of existing functionality. This engagement is

Engagement Area	Hours	Strategic Goal(s)	Impacted Division(s)	Background
				contingent on vendor availability. This engagement ties to COSO elements of Control Activities and Monitoring.

Table 2. Required Engagements

Engagement Area	Hours	Strategic Goal(s)	Impacted Division(s)	Background
Annual Audit Activities	35	Performance Driven	Department-wide	A statutorily required review that summarizes internal activities conducted in FY 2020. The State Auditor's Office prescribes the report format and information.
Quality Assurance and Improvement Program – Internal Assessment	75	Performance Driven	Internal Audit Division	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.
Quality Assurance and Improvement Program – External Assessment	50	Performance Driven	Internal Audit Division	Every three years, the division is required to obtain an External Assessment (Peer Review) on whether the internal audit function complies with the applicable professional auditing standards in all material aspects. The division produces a self-assessment report and the report is used to obtain information on how the IAD meets applicable auditing standards.
Audit Recommendation Implementation Status Follow-Up	125	Optimized Services and Innovation Customer Centric Performance Driven	Department-wide	An engagement to verify if outstanding audit recommendations have been fully implemented. Quarterly reporting for internal audit recommendations will be done.

Contingency Engagements

Table 3 denotes the potential engagements that could be done in the second half of the fiscal year or performed during the first half of the fiscal year if one of the risk-based engagements cannot be done.

Table 3. Contingency

Engagement Area	Strategic Goal(s)	Impacted Division(s)	Preliminary Engagement Information
Strategic Communication	Customer Centric Performance Driven	Government & Strategic Communication	The Department provides written communications, in various forms, to customers and employees with key information that impact the operations internally and externally and to employees. With the need to communicate quickly and effectively, processes should exist to ensure effective communication. This engagement ties to COSO elements of Control Environment and Information and Communication.
Payment Card Industry (PCI)	Performance Driven	Information Technology Services Division	The Department accepts credit cards and is required to meet PCI standards. This potential audit would evaluate PCI compliance with one of the 12 requirements. This audit was identified as an area of review in the Cybersecurity roadmap. This engagement ties to COSO elements of Risk Assessment, Control Activities, and Monitoring.
Staff Retention and Recruitment	Optimized Services and Innovation Performance Driven	Human Resources Division	Staff retention and recruitment begins with processes and policies that help divisions identify the talent needed to achieve organizational goals. It also includes those divisions using available policies and processes to keep employees. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.
Strategic Purchasing	Optimized Services and Innovation Performance Driven	Finance & Administrative Services Division	Purchasing is a key component to ensure the Department's needs and objectives are met. Without a purchasing strategy, needs and objectives may not be met. This includes key purchases, such as technology purchases. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Engagement Area	Strategic Goal(s)	Impacted Division(s)	Preliminary Engagement Information
Contract Development	Optimized Services and Innovation	Finance & Administrative Services Division Office of General Counsel	The state continues to evolve its procurement and contract rules and regulation and has begun focusing more on the development of contracts. This engagement would review processes that exist to develop contracts and amend contracts. This engagement ties to COSO elements of Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.
Placeholder	TBD	TBD	In case a risk emerges that requires immediate review, this engagement will be used to substitute one of the risk-based engagements. This engagement will only be conducted in consultation with the Finance & Audit Committee Chair and members and the Board Chair.

Scope and Methodology

Scope

The Internal Audit Plan covers activities and engagements for the first half of the fiscal year, September 2020 through February 2021, and identifies potential engagements for the second half of the fiscal year.

Risk Assessment

Risk 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:

- Revenue or expense impact

- Asset or liability 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

247 Department risks have been identified through the risk assessment, including an additional 75 risks that had not been identified in previous risk assessments or were new risks due to the changing environments. Each risk identified was scored using the above factors to determine the engagements for the first half of fiscal year 2021 and contingency engagements.

The risk scores ranged from zero, which is the lowest risk score, to ten, which is the highest risk score. Table 4 provides information on the risk scores for each item.

Table 4. Risk Scores

Very Low Risk	Low Risk	Medium Risk	High Risk	Very High Risk
0 - 1.5	1.5 – 2.5	2.5 – 3.5	3.5 – 4.5	4.5 +

Committee of Sponsoring Organizations of the Treadway Commission (COSO) Methodology

Once all risks were reviewed and ranked, the audit team evaluated each risk using the COSO *Internal Control – Integrated Framework*. The framework integrates three broad objectives (Operations, Reporting, and Compliance) and ties those objectives to risks and controls through five internal control components and four structural levels as depicted in Figure 2, COSO cube. The COSO cube depicts how the internal controls framework has a direct relationship between objectives, the components needed to achieve objectives, and a typical organizational structure.

Figure 2. COSO Cube
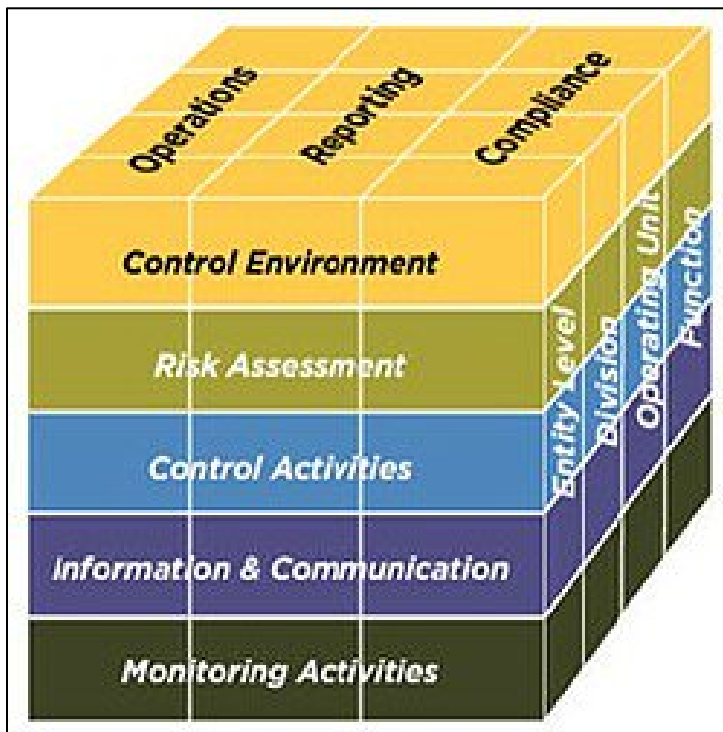
The definition for the COSO Internal Control Components are as follows:

- **Control Environment**: The foundation for an internal control system. The Control Environment is a set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. It provides the discipline and structure to help an entity achieve its objectives. The TxDMV Board and executive management establish the tone at the top regarding the importance of internal control including expected standards of conduct.

- **Risk Assessment**: The processes used to determine how risk is to be managed. TxDMV management assesses the risks facing the entity as it seeks to achieve its objectives.

- **Control Activities**: The actions TxDMV management established through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes information systems.

- **Information and Communication**: The quality of information TxDMV management and staff generate and use to communicate and support the internal control system on an ongoing and iterative basis**.**

- **Monitoring**: The activities TxDMV management established to assess the quality of performance over time. The activities include ongoing evaluations, separate evaluations, or some combination of the two. The activities are used to ascertain whether each of the five components of internal control, are present and functioning.

Themes

For the FY 2021, the Internal Audit Division introduced "themes" to help organize and categorize the internal audit plan. The themes include: Human Resources, Transformation, Information Technology, and Procurement & Supply Chain Management. In addition, the themes were significantly impacted by COVID-19:

- **Transformation**: Areas where new solutions are needed to address the post COVID-19 environment, which poses difficult problems that significantly disrupt current operations.

- **Human Resource**s: Areas within human resources that play a critical role in ensuring our organization has a competitive advantage in hiring and retaining staff, as well as improving morale and coaching staff.

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

- **Procurement & Supply Chain Management**: Areas in procurement and supply chain that are critical to ensure costs are being contained and services/goods are provided on time and as needed.

Hour Analysis

Hours were calculated using historical data and auditor's judgement. Hours are an estimate and could be adjusted. IAD anticipates about 1700 hours available for required and risk-based engagements for the second half of the fiscal year.