



Texas Department  
*of* Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

Fiscal Year (FY) 2020 Internal Audit  
Plan  
19 – 12

Internal Audit Division

August 2019

## Contents

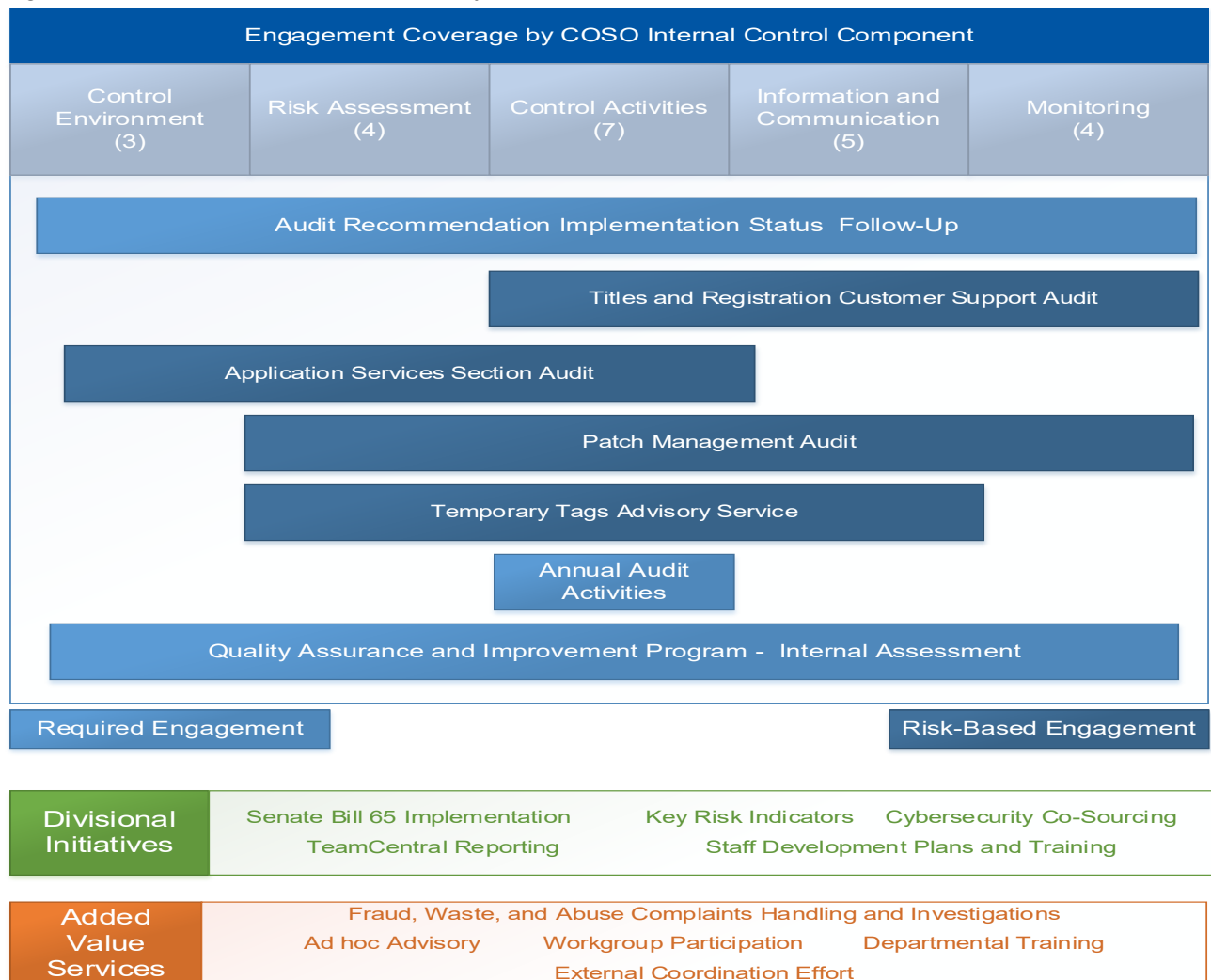
<b>FY 2020 First Half Summary</b> .....	<b>1</b>
<b>Engagement and Services Information</b> .....	<b>2</b>
<b>Detailed Engagement Information</b> .....	<b>4</b>
FY 2020 First Half Engagements.....	4
Alternative and Potential Second Half Engagements.....	5
<b>Scope and Methodology</b> .....	<b>7</b>
Scope .....	7
Risk Assessment.....	7
Hour Analysis .....	9

## FY 2020 First Half Summary

The Internal Audit Division (IAD) annual audit plan for fiscal year (FY) 2020 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 four risk-based engagements, three required engagements, division initiatives, and added-value services. The first half summary is depicted in figure 1 and it includes information on how each engagement relates to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) – Integrated Control Framework.

The COSO Framework was designed to help organizations improve business and operating environments by establishing effective internal control, enterprise risk management, and fraud deterrence. More information on the COSO Framework, including the five components of internal controls, can be found in the Scope and Methodology section of the plan: [COSO Framework Information](#).

Figure 1. First Half Audit Plan Summary



## Engagement and Services Information



### Risk-Based Engagements

- **Applications Services Section Audit:** Application Services Section supports Department applications. The audit will evaluate how the section prioritizes and balances support needs.
- **Patch Management Audit:** Texas Cybersecurity Framework identifies patch management as a key process. The audit will assess how application and server configurations are kept current.
- **Title and Registration Customer Support Audit:** Multiple divisions answer questions and provide services on title and registration programs. This audit will evaluate the consistency of customer support.
- **Temporary Tags Advisory Service:** TxDMV issues temporary tags for vehicles subject to Texas registration laws, but not authorized to travel on Texas highways. This advisory service will provide strategies to further combat temporary tag fraud.

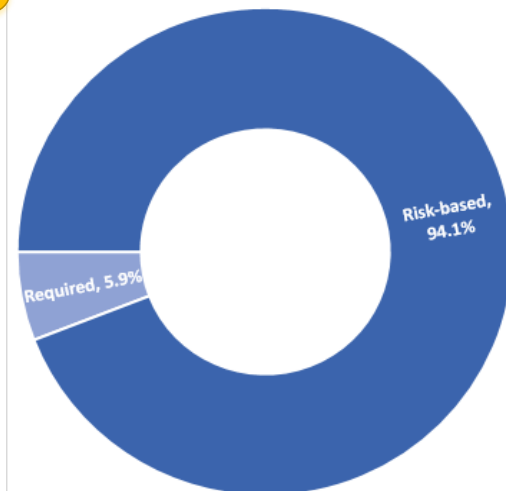


### Required Engagements

- **Audit Recommendation Implementation Status Follow-Up:** IAD verifies the implementation status of internal audit recommendation by fiscal year quarter.
- **Annual Activities:** A statutorily required report that summarizes IAD's activities for fiscal year 2019.
- **Quality Assurance and Improvement Program – Internal Assessment:** An internal IAD review to determine whether the division complied with audit standards and to provide information on IAD's performance.



### Resource Allocation





## Divisional Initiatives

- **Senate Bill 65 Implementation:** IAD will identify how to implement statutorily required monitoring of procurement and contract functions.
- **Key Risk Indicators:** IAD will be finalizing processes to conduct continuous risk evaluation for the following items:
  - *Fraud Indicators:* IAD will monitor TxDMV leave balances and payment information.
  - *Regional Service Center (RSC) Transactions:* IAD will be monitoring RSC transactions to identify potential fraud or inefficiencies.
  - *Procurement and Contract Management Monitoring:* IAD will monitor procurement and contracts to identify potential high-risk procurements that might warrant additional review.
  - *ITS Division Monitoring:* IAD will evaluate how to monitor ITS Division workload.
- **Cybersecurity Co-Sourcing:** IAD is in the process of procuring audit services to conduct cyber security engagements.
- **TeamCentral Reporting:** IAD is working on developing customized reporting from its audit software.
- **Staff Development Plans and Training:** IAD staff take training and create development plans to obtain required knowledge, skills, and abilities.



## 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.
- **Work Group 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

### FY 2020 First Half Engagements

The tables below provide information on the risk-based and required engagements that will be conducted in the first half of the FY 2020. The information includes engagement information, engagement hours, TxDMV strategic goal alignment, and impacted division(s). 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	Engagement Information	Strategic Goal	Impacted Division(s)
<b>Application Services Section Audit</b> 750 hours	The audit will evaluate how the section prioritizes and balances support needs. In addition, it will evaluate communication and planning processes.	Customer Centric  Optimized Services and Innovation	Information Technology Services Division (ITSD)
<b>Patch Management Audit</b>  700 hours	The audit will assess how application and server configurations are current. In addition, the audit will evaluate communication and planning processes. This audit was identified as an area of review in the Cybersecurity road map.	Optimized Services and Innovation	ITSD
<b>Title and Registration Customer Support Audit</b>  1000 hours	The audit will evaluate the consistency of customer support. In addition, it will evaluate communication and planning processes.	Customer Centric	Consumer Relations Division (CRD)  Vehicle Titles & Registration (VTR) Division  Finance & Administrative Services (FAS) Division  ITSD
<b>Temporary Tags Advisory Service</b> 625 hours	This advisory service will provide strategies to further combat temporary tag fraud.	Optimized Services and Innovation	VTR  ITSD  Compliance & Investigations Division (CID)

Table 2. Required Engagements

Engagement Area	Engagement Information	Strategic Goal(s)	Impacted Division(s)
<b>Annual Audit Activities</b>  25 hours	A statutorily required review that summarizes internal activities conducted in FY 2019. The State Auditor's Office prescribes the report format and information.	Performance Driven	Department-wide
<b>Quality Assurance and Improvement Program</b>  50 hours	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.	Performance Driven	IAD
<b>Audit Recommendation Implementation Status Follow-Up</b>  75 hours	An engagement to verify if outstanding audit recommendations have been fully implemented. Quarterly reporting for internal audit recommendations will be done.	Optimized Services and Innovation  Customer Centric  Performance Driven	Department-wide

## Alternative and Potential Second Half Engagements

The IAD has identified alternate, or contingency, engagements that it can perform as well as potential engagements for the second half of the fiscal year.

These engagements were identified through the annual risk assessment process. Table 3 provides information on the contingent engagements for FY 2020, including preliminary engagement information, strategic goal alignment, and impacted division(s).

Table 3. Alternative and Second Half Engagements

Engagement Area	Preliminary Engagement Information	Strategic Goal(s)	Impacted Division(s)
<b>VTR Strategic Alignment Audit</b>	A potential audit to evaluate whether VTR sufficiently plans to achieve objectives.	Customer Centric Performance Driven	VTR
<b>Title Litigation Advisory Service</b>	A potential advisory service to evaluate the title litigation processes.	Customer Centric	Office of General Counsel (OGC) VTR
<b>Payment Card Industry (PCI) Audit</b>	A potential audit to evaluate whether the Department is compliant with PCI Requirement 2: Vendor-supplied defaults. This audit was identified as an area of review in the Cybersecurity roadmap.	Performance Driven	ITSD
<b>Mailroom Audit</b>	A potential audit to evaluate mail room operations.	Performance Driven	FAS
<b>OGC Structure Audit</b>	A potential audit to evaluate whether the Office of General Counsel is appropriately structured to achieve objectives.	Customer Centric Optimized Services and Innovation	OGC
<b>Staff Recruitment and Workforce Planning Audit</b>	A potential audit to evaluate if the Department appropriately plans to recruit and retain staff.	Optimized Services and Innovation Performance Driven	Human Resources Division
<b>Supervisory Training Audit</b>	A potential audit to evaluate supervisory training to ensure supervisors understand their roles and responsibilities.	Performance Driven	Human Resources Division



## Scope and Methodology

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### Scope

The Internal Audit Plan covers the period of September 1, 2019 to January 31, 2020. The Internal Audit Plan for the remainder of the fiscal year will be presented and evaluated in February 2020.

### 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. Projects' risk rankings were developed using the following factors and risk guidelines reviewed and discussed with TxDMV executive management:

- 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

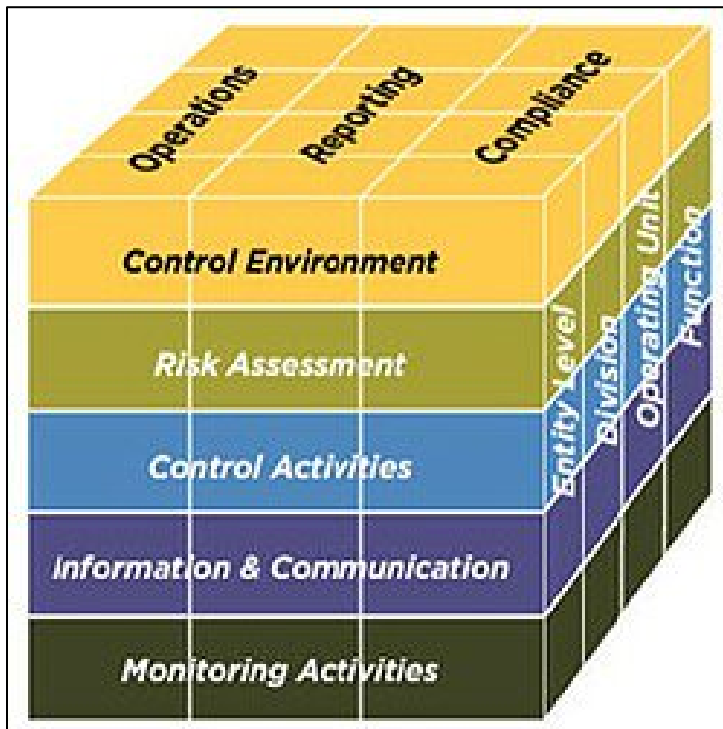
In total, 162 Department risks were identified through the risk assessment. Each risk was scored using the above factors. The risk scores ranged from zero, which is the lowest risk score, to six, which is the highest risk score. An inherent risk score of four or higher is considered high risk for the Department. Low and medium risk scores range from 0 to 4, as depicted below.

Low Risk	Medium Risk	High Risk
0 – 2.00	2.01 – 4	4.01 - 6

## 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.

## Hour Analysis

Hours were calculated using historical data and auditor's judgement. Hours are an estimate and could be adjusted during the fiscal year. As the internal audit plan only includes the first half of the fiscal year, the IAD has identified the hours that are available for the second half of the year.

Currently, the IAD estimates that 1,300 hours are available for the second half of the internal audit plan.