November 1, 2012

The Honorable Rick Perry
Governor, State of Texas
State Capitol Extension, Room E1.304
Austin, TX 78701

Dear Governor Perry:

I am pleased to present the Internal Audit Division's Annual Report for the Texas Department of Motor Vehicles for fiscal year 2012.

This report fulfills the requirements set out in the Texas Internal Auditing Act (Government Code Section 2102) and provides the information in the format prescribed by the State Auditor's Office.

For further information about the contents of this report, please call (512) 465-7556.

Respectfully,

William H. Lawler, CPA
Director, Internal Audit Division

cc: Mr. John Keel, CPA, State Auditor
        TxDMV Chairman Victor Vandergriff
        TxDMV Finance and Audit Chair Raymond Palacios
        Members of the TxDMV Board
        Members of the Texas Sunset Commission
        Members of the Texas Legislative Budget Board
        Whitney Brewster, Executive Director TxDMV

Annual Internal Audit Report
Fiscal Year 2012

Internal Audit Division

November 1st, 2012

_____

Executive Summary

In accordance with the requirements of the Texas Internal Auditing Act, as set forth in Chapter 2102 of the Texas Government Code, the Internal Audit Division of the Texas Department of Motor Vehicles (TxDMV) has prepared its annual report on internal audit activity for Fiscal Year 2012.

Internal Audit Plan for Fiscal Year (FY) 2012

The Texas Department of Motor Vehicles (TxDMV) was created under the provisions of HB 3097 of the 81st Texas Legislature. The agency began operations on November 1st, 2009 as a result of the transfer of programs and staff from the Texas Department of Transportation (TxDOT). The position of Internal Audit Director was vacant until October 1st, 2011 and as a result the FY 2012 Internal Audit Plan was not approved by the TxDMV Board until April 12th, 2012. A copy of the approved plan has been included as **Appendix I**.

For the abbreviated 2012 Fiscal Year IAD scheduled three audit engagements. As of August 31st, 2012, a draft report had been prepared and submitted to agency executive management for one audit, one audit was in the fieldwork phase, and one audit had been postponed based on delays in final acceptance of the application to be audited. A more detailed status is provided in **Section I**.

External Quality Assurance Review (Peer Review)

As the Internal Audit function was formed in FY 2012, there has been no External Quality Assurance Review completed to date. The Internal Audit Division will participate in the State Agency Internal Audit Forum (SAIAF) Quality Review process and the Internal Audit Director anticipates scheduling a peer review for FY 2015.

Consulting Engagements and Non-audit Services Completed

The FY 2012 Audit Plan included three Non-audit/Consulting engagements. Due to the nature of two of these projects, neither engagement resulted in a formal report. The third project was the creation of the FY 2013 Internal Audit Plan. A more detailed status is provided in **Section III**.

Internal Audit Plan for Fiscal Year 2013

The FY 2013 Audit Plan was approved by the TxDMV Board of Directors on September 13th, 2012. A copy of the plan has been included as **Appendix II**.

External Audit Services

There were no External Audit Services in Fiscal Year 2012.

Reporting Suspected Fraud and Abuse

The TxDMV includes fraud and abuse reporting in its policies, including contact information for the State Auditor's Office (SAO) fraud hotline and fraud website. Additionally, employees are directed by agency policy to report any suspected incidents of fraud to their manager, Agency Internal Audit Director, and the SAO.

The TxDMV homepage also contains a link directly to the SAO's fraud, waste, and abuse reporting system.

Contact Person

For more information on this report, contact the Director of Internal Audit William Lawler, CPA at (512) 465-7556.

Annual Internal Audit Report
Fiscal Year 2012

Table of Contents

Section I – Internal Audit Plan for Fiscal Year 2012

Using the risk assessment techniques outlined in the FY12 Internal Audit Plan, IAD identified and prioritized all major audit areas within the TxDMV. For the truncated 2012 Fiscal Year (April – August), IAD received approval to conduct three audit engagements based on the results of the risk assessment and the needs of the TxDMV Board and Executive Management. The approved engagements, along with their current status and budget include:

Audit Engagements

- County Equipment Refresh Project Audit – A draft report (P12-15) was prepared and submitted to the applicable divisions on August 21st, 2012. At fiscal year-end, IAD was awaiting management responses to the proposed recommendations. Responses have since been received and the final completed audit report will be presented to the TxDMV Board during the November 2012 Board Meeting. The audit was completed in 890 Hours.

- Web Agent Application Controls Audit – Audit was started in August 2012 and is currently in fieldwork status. IAD anticipates completing this audit during the 2013 Fiscal Year. Project is budgeted for 450 hours.

- TxPros Permitting System Application Controls Audit – Audit was postponed as the application was not formally accepted by the agency until August 30th, 2012. IAD anticipates beginning this audit in the 2013 Fiscal Year. Project is budgeted for 350 hours.

Section II – External Quality Assurance Review

As the Internal Audit function was formed in FY 2012, there has been no External Quality Assurance Review completed to date. The Internal Audit Division will participate in the State Agency Internal Audit Forum (SAIAF) Quality Review process and the Internal Audit Director anticipates scheduling a peer review for FY 2015.

Section III – Consulting Engagements and Non-Audit Services Completed

In the 2012 Fiscal Year Audit Plan IAD received approval and performed three non-audit/consulting engagements. These engagements include:

Non-Audit/Consulting Engagements

- Automation Project – This consulting engagement allows IAD to monitor, and provide advisory services related to the on-going update to the Registration and Title System (RTS) platform.   As part of this monitoring, IAD will work to identify future potential areas of audit.   No formal report was produced related to this engagement as the primary focus of the engagement was information gathering for future planning purposes.

- Automobile Burglary and Theft Prevention Authority Single Audit Reviews – This non-audit engagement is focused on the monitoring of grantee compliance with State Uniform Grant Management Standards. The Texas Automobile Burglary and Theft Prevention Authority (ABTPA) provides grants to local governments to combat automobile theft. ABTPA's funding agreements require local governments that receive ABTPA funds to comply with the Single Audit Act (and comparable state regulations) if their annual expenditures exceed the minimum amounts set by regulations. IAD verifies that the Single Audit reports are submitted to the agency and reviews the opinions of the independent auditors issuing the report. No formal report is issued related to this engagement.

- Internal Audit Plan – This non-audit engagement is focused on the development of the 2013 Internal Audit Plan. Plan was completed and approved by the TxDMV Board of Directors during the September 2012 Board Meeting and has been included as **Appendix II**.

Section IV – Internal Audit Plan for Fiscal Year 2013

The FY 2013 Audit Plan was approved by the TxDMV Board of Directors on September 13th, 2012. A copy of the plan including budgeted hours has been included as **Appendix II**.

All potential areas identified as high risk have been included in the work plan for the 2013 Fiscal Year. Additionally, the methodology used to develop the risk assessment which forms the basis of the plan was identical to the methodology used in developing the 2012 Internal Audit Plan, and which is discussed in detail in **Appendix I.**

Section V – External Audit Services

There were no External Audit Services either procured or on-going in Fiscal Year 2012.

Section VI – Reporting Suspected Fraud and Abuse

The TxDMV includes fraud and abuse reporting in its policies, including contact information for the State Auditor's Office (SAO) fraud hotline and fraud website. Additionally, employees are directed by agency policy to report any suspected incidents of fraud to their manager, Agency Internal Audit Director, and the SAO.

The TxDMV homepage also contains a link directly to the SAO's fraud, waste, and abuse reporting system.

Appendices

Appendix I

Internal Audit Plan
FY 2012

Internal Audit Division

Internal Audit Plan - FY 2012

Risk Assessment

The primary purpose of the risk assessment process is to facilitate the development of the annual internal audit plan.

Table of Contents

_____

Introduction and Background

The Texas Internal Auditing Act[1] and *the International Professional Practices Framework*[2] require the Internal Audit function of an organization to develop an annual Internal Audit Plan. The Internal Audit Plan establishes the framework for the audit and consulting activities to be performed by the Texas Department of Motor Vehicles (TxDMV) Internal Audit Division (IAD) during the 2012 Fiscal Year.

As with any operational environment, the Internal Audit Division is faced with limited audit resources and budget constraints. The risk assessment process provides for a rational methodology to allocate the finite audit resources to those programs and areas most critical to the success of the agency and its programs.

To that end, a well-developed risk assessment model will provide an efficient and systematic procedure to:

- Determine the potential auditable areas of the agency;

- Identify and measure those activities susceptible to higher risk;

- Rank the units by the risk

- Determine the estimated time needed to complete each engagement;

- Distribute the available resources in the most efficient manner

Scope and Objective

This Internal Audit Plan covers the period of April 1st, 2012 to August 31st, 2012.

The preparation of the Internal Audit Plan serves as the process by which the Internal Audit Division accumulates the data necessary to identify and rank potential engagement areas according to risk. The ultimate objective of IAD is to provide management and the Board of Directors with information to reduce exposure to the negative effects that may be associated with operations of the agency. The degree or materiality of exposure can be viewed as risks mitigated by establishing sound internal control.

---

[1] Texas Government Code, Section 2102.005.
[2] International Professional Practices Framework (Altamonte Springs, Florida; IIA, 2011 Edition Standard 2010)

Responsibilities

The Internal Audit Division is responsible for preparing the Annual Audit Plan and submitting it to the Board of Directors for review and approval. Periodic updates relating to project status, schedules and significant interim changes will also be communicated.

Agency Goals

In preparing the annual audit plan IAD takes into consideration the stated goals of the agency. For FY 2012 TxDMV has outlined three strategic goals:

Economic Development - To provide an attractive economic climate for current and emerging industries that fosters economic opportunity, job creation, capital investment, and infrastructure development by:

- Promoting a favorable and fair system to fund necessary state services;
- Addressing transportation needs;
- Promoting a favorable business climate; and
- Developing a well-trained, educated and productive workforce.

Regulatory - To ensure Texans are effectively and efficiently served by high-quality professionals and businesses by:

- Implementing clear standards;
- Ensuring compliance;
- Establishing market-based solutions; and
- Reducing the regulatory burden on people and business.

General Government - To provide citizens with greater access to government services while reducing service delivery costs and protecting the fiscal resources for current and future taxpayers by:

- Supporting effective, efficient, and accountable state government operations;
- Ensuring the state's bonds attain the highest possible bond rating; and
- Conservatively managing the state's debt.

Audit Groups and Areas

Audit Groups

The Texas Department of Motor Vehicles is organized with eight divisions comprising the main core of agency operations. For purposes of assessing risk within the agency, IAD has divided the audit universe into seven audit groups as well as one group for Non-Audit work engagements. Six of the audit groups map directly to the six core agency program areas and include:

- Vehicle Titles and Registration (VTR)

- Motor Vehicle (MVD)

- Enforcement (ENF)

- Consumer Relations (CRL)

- Motor Carrier (MCD)

- Auto Burglary and Theft Prevention Authority (ABTPA)

The seventh audit group is comprised of those enterprise-wide infrastructure assets and processes required to support overall operations. These areas include but are not limited to those functions such as Budget, Purchasing, Accounting, Information Technology and Human Resources which cut across all aspects of agency operations.

Non-Audit work engagements, as defined by IAD for planning purposes, consist of several types of engagements, ranging from statutorily required projects such as the annual audit plan and the annual audit report to ad hoc technical assistance and in-depth consulting services. Other non-audit work engagements may be conducted at the request of the Board of Directors or agency Executive Management.   The non-audit work engagements identified for the FY 2012 have been listed separately on page 6.

Audit Areas

Audit areas refer to the specific processes or projects which IAD has identified for risk assessment within a defined audit group. For the 2012 FY IAD has identified the following potential engagements:

Audit Groups and Audit Areas Assessed for Risk - FY 2012	
Audit Group	**Audit Area**
Enterprise - wide Audits	Revenue Processing Controls
	Asset Management/Inventory Control
	TAC Equipment Refresh
	Procurement Process
	Payment Processing Controls
	Vehicle Consumer Complaints
	Implementation of Organizational Assessment
Vehicle Titles and Registration	Web Agent (Web Sub)
	Vehicle Titling
	Vehicle Registration
	Specialty Plate Testing and Implementation
	Temporary Permits
Motor Vehicle	Licensing Function
Motor Carrier	Credentialing
	IRP Administration
	TxPros
ABTPA	Grant Administration
Consumer Relations	Customer Service
Enforcement	Investigations

Audit Groups and Audit Areas Assessed for Risk - FY 2012	
Audit Group	**Audit Area**
Non-Audit Work Engagements	Internal Audit Plan (FY 2013)
	ABTPA Single Audit Reviews
	Business Process Analysis (BPA)
	Automation Project

Risk Assessment

The risk assessment process is the means by which the Audit Division prioritizes the potential engagements identified above based upon attributes and other risk factors inherent to all agency operations or programs. The process includes the identification of the potential risk factors and the assignment of a relative weight based on the assessed importance of the particular risk factor. The ending result of this process is a Risk Assessment Score (RAS) for each potential engagement. This numerical score provides both the Internal Audit Division and the Board of Directors with an easy-to-understand indicator to rank project priorities.

Risk Analysis Overview

The first step in the risk analysis process is to seek input from management and those charged with governance. This includes soliciting input from the Board of Directors as well as surveying the various agency Division Directors. IAD also reviews prior State Auditor's Office (SAO) audits of TxDMV to incorporate the issues and risks identified as factors (as potential engagements) within the Annual Audit Plan.

After compiling the various sources of input, IAD staff creates a list of potential engagements, known as the audit universe. As indicated above, the identified audit areas fall conceptually into the six core agency program areas, as well as an enterprise-wide audit area and a non-audit work group for a total of eight audit areas.

The Internal Audit Division has identified 13 Risk Attributes important to the measurement of risk exposure. The 13 Risk Attributes have also been ranked for importance to the organization with the assignment of a weight value. The more significant the attribute on its potential impact to agency operations, the higher the weight value assigned. The table on the next page lists the 13 Risk Attributes along with the relative weight assigned.

Risk Attributes and Significance Ranking for FY 2012			
Assigned Weight	**Defined Attribute**	**Assigned Weight**	**Defined Attribute**
5	Transaction Volume	3	Complexity of Operations
5	Potential for Impact on Agency-Wide Operations	3	Information & Communication
5	Public Disclosure Implications	3	Monitoring
4	Control Environment	2	Results & Time Since Last Engagement
4	Asset Liquidity	2	Extent of Government Regulation
4	Changes in Systems, Processes, Policies, or Procedures	1	External Interest & Oversight
3	Extent of Control Activities		

Attributes and Descriptive Values

The next step in the risk assessment process is to assign to each risk attribute a Descriptive Value for each potential engagement area. Descriptive Values vary in range from 0 to 5 with the 5 representing the highest level of risk associated with that particulate attribute. The assignment of Descriptive Values serves to express the inherent risks associated with a particular program or process in quantifiable terms.

Attribute 1: Transaction Volume (Funds or Data)

Significant funds (including commitments to pay) or data transactions flowing through a function or division increase the risk of exposure to a diversion or misapplication.

Value	Criteria
5	Substantial inflow or outflow
4	Large inflow or outflow
3	Moderate inflow or outflow
2	Low inflow or outflow
1	Amount small or no flow
0	Not applicable

Attribute 2: Potential for Impact on Agency-wide Operations

The potential for severity of agency impact in event of failure in an identified audit area's processes is factored into the risk analysis.

Value	Criteria
5	Failure would shut-down all aspects of agency operations
4	Failure would cause major disruptions in all aspects of agency operations
3	Failure would cause significant interruptions in more than one core area
2	Failure would cause moderate disruptions in a single core area
1	Failure would cause minimal or no disruptions to overall agency operations
0	Not applicable

Attribute 3: Public Disclosure Implications

A significant concern to the Board or management is the impact of public perception to any revelation of possible error or impropriety.

Value	Criteria
5	Major importance and wide or average distribution
4	Major importance and limited distribution
3	Minor importance and wide distribution
2	Minor importance and average or limited distribution
1	No significant importance and limited distribution
0	Not applicable

Attribute 4: Control Environment

The Control Environment encompasses human elements including control consciousness and cognizance, management style, experience and commitment to competence and ethics. The organizational structure of the entity is also an important factor.

Value	Criteria
5	Control environment considered weak, or no basis for assessment
4	Control environment considered less than average
3	Control environment considered average
2	Control environment considered better than average
1	Control environment considered strong
0	Not applicable

Attribute 5: Asset Liquidity (Physical or Data)

This attribute must encompass liquidity, security, size of the subject asset pool as compared with total assets and the adequacy of controls built into record-keeping systems.

Value	Criteria
5	Asset value substantial and very liquid
4	Asset value large and very liquid
3	Asset value moderate and liquid
2	Asset value low and liquid
1	Asset value non-liquid
0	Not applicable

Attribute 6: Changes in Systems, Processes, Policies, or Procedures

Changes in these areas or management may invalidate previous findings, increase the need to examine internal controls or create new tasks requiring inspection.

Value	Criteria
5	Major changes within six months
4	Major changes from six months to two years
3	Minor changes within six months
2	Minor changes from six months to two years
1	No changes recently
0	Not applicable

Attribute 7: Extent of Control Activities

Control activities are actions taken by management toward the achievement of goals and objectives. Adequate internal control requires management planning, organizing, directing, and monitoring. Evaluation of the extent of control activities considers the policies and procedures in place to assist management in achieving its objectives.

Value	Criteria
5	Controls are nonexistent, or no basis for assessment
4	Controls are known to be weak
3	Controls thought to be weak
2	Controls adequate
1	Controls appear to be strong
0	Not applicable

Attribute 8: Complexity of Operations

With complexity comes increased opportunity for error and the need for greater scrutiny. Complexity can be defined as transaction volume coupled with frequency of access to financial instruments, data, or other assets.

Value	Criteria
5	Extremely high volume of both transactions and frequency of access
4	High volume of transactions and high frequency of access
3	High volume of transactions with low frequency of access
2	Low volume of transactions with high frequency of access
1	Low volume of transactions and low frequency of access
0	Not applicable

Attribute 9: Information and Communication

Pertinent information must be identified, captured, and communicated in a form and within a time frame that enables all staff to carry out their responsibilities. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from the Board of Directors and Agency Management that control responsibilities must be taken seriously.

Value	Criteria
5	Flow of information is nonexistent, or no basis for assessment
4	Flow of information is known to be weak and ineffective
3	Flow of information is thought to be weak and ineffective
2	Flow of information is adequate
1	Flow of information is highly effective and efficient
0	Not applicable

Attribute 10: Monitoring

Internal control systems need to be monitored, a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two.

Value	Criteria
5	No monitoring of internal control systems
4	Little or infrequent monitoring of internal control systems
3	Moderate monitoring of internal control systems
2	Frequent monitoring of internal control systems
1	Continuous and in-depth monitoring of internal control systems
0	Not applicable

Attribute 11: Results and Time since Last Engagement

Risk is assumed to increase with an increase in elapsed time since the last engagement. Both the duration of the intervening period since the last engagement, as well as the need to monitor findings and recommendations of previous engagements influence this risk analysis factor.

Value	Criteria
5	Major findings and more than two years
4	Major findings and less than two years
3	No prior audits or minor findings and more than two years
2	Minor findings and less than two years
1	No findings and less than two years
0	Not applicable

Attribute 12: Extent of Government Regulation

The extent of regulation by entities external to the organization is directly proportional to the likelihood of public disclosure. Regulation, in some cases, may also impose limitations on management initiated efforts to implement control.

Value	Criteria
5	Highly regulated with little procedural flexibility
4	Moderately regulated but some flexibility in procedure allowed
3	Output regulated but not policy or procedure
2	Oversight only
1	Not extensively affected by regulation
0	Not applicable

Attribute 13: External Interest and Oversight

This attribute recognizes the influence of external entities' interest in agency operations. External entities with interest in the TxDMV's operations include the Texas Legislature, State Auditor's Office, Texas Department of Transportation and the Comptroller of Public Accounts.

Value	Criteria
5	Strong external interest and oversight
4	Moderate external interest and oversight
3	No basis for assessing external interest and oversight
2	Low external interest and oversight
1	No external interest and oversight
0	Not applicable

Computing the Risk Assessment Score

The final step in the risk assessment process is the calculation of the Risk Assessment Score (RAS). This calculation occurs once each engagement has been assigned Descriptive Values for all 13 attributes. The RAS for any given audit/engagement area is the sum of each Risk Attribute Descriptive Value weighted by its attribute's respective Significance Rankings and normalized against the sum of Significance Rankings. The formula is illustrated below.

<div style="border:1px solid black; padding:1em;">

The Risk Assessment Score

To following formula is used to compute the Risk Assessment Score:

$$RAS = \sum_{i=1}^{n} (Sr_i * Dv_i) \, / \, \sum_{i=1}^{n} Sr_i$$

Where: RAS = The Risk Assessment Score
n = The Number of Risk Attributes
Sr_i = The Significance Ranking for Each Risk Attribute
Dv_i = The Descriptive Value for Each Risk Attribute

</div>

Calculation of available Audit Resources

Based on current division staffing, IAD estimates that the division will have a total of 1,460 project hours available in FY 2012.

Calculation of Hours by Position (3 FTE's)

	Director	Auditor V	Auditor IV
Total Hours Available	2,080	2,080	2,080
Less:			
Vacation	80	80	80
Sick Leave	80	80	80
Holidays	104	104	104
Continuing Education	64	64	64
Total Non-Office Hours	328	328	328
Net Hours Available	1,752	1,752	1,752
Administrative Activities	700	150	150
Audit Support	350	200	200
Direct Audit Hours	702	1,402	1,402
Total Direct Audit Hours			3,506
Adjustment for Abbreviated Fiscal Year[3]			1,460

---

[3] Scope of FY 2012 Audit Plan is April 1st, 2012 through August 31st, 2012.

Recommended Engagements and Allocation of Direct Audit Hours

Once the Risk Assessment Scores (RAS) are computed for each of the 23 potential engagements detailed above, IAD ranked the engagements in descending order of the RAS. Based on this ranking, IAD is recommending the projects detailed below to comprise the Internal Audit Plan for the remainder of the 2012 Fiscal Year. This listing includes the four projects which had the highest calculated RAS, as well as two projects which are statutorily required.

The final step in developing the Annual Audit Plan for FY 2012 was developing an estimate of the number of hours needed for each project. Based on the estimates used, the total amount of direct audit hours required for the recommended engagements (1,850) exceeds the projected audit resources (1,460) for the remainder of the year by 390 hours. This over scheduling is designed to allow for the possibility that some engagements may be completed with less audit hours than anticipated, or that some engagements may need to be rescheduled.

IAD will track and monitor the status of engagements as well as the availability of audit resources on an ongoing basis and will adjust project schedules and assignments as conditions dictate. As circumstances occur which necessitate adjustments, IAD will include these changes in the audit plan for the following fiscal year.

Engagement Risk Assessment Scores for Planned Projects - FY 2012				
Audit Group	**Audit Area**	**RAS**	**Summary Description**	**Estimated Hours**
Enterprise - Wide	TAC Equipment Refresh	4.20	This audit will focus on contract compliance, asset control, and lessons learned.	650
Non - Audit	Automation Project	4.09	This consulting engagement will allow audit team members the opportunity to provide advisory services related to the automation project.	150
Motor Carrier Division	TxPros – Permitting System	4.00	This audit will focus on the application controls of the new permitting system.	400
VTR	Web Agent (Web Sub)	3.93	This audit will focus on the application controls of the new substation registration renewal program.	350
Non - Audit	ABTPA Single Audit Reviews	2.32	Statutory Mandate[4]	150
Non - Audit	Internal Audit Plan (FY 2013)	1.64	Statutory Mandate[5]	150
			Total Hours Required	1,850

[4] Texas Government Code, Section 783.010.
[5] Texas Government Code, Section 2102.007 (2).

Appendix II

Texas Department of Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

Internal Audit Plan
FY 2013

Internal Audit Plan - FY 2013

Table of Contents

Introduction

The Texas Internal Auditing Act[6] and *the International Professional Practices Framework*[7] require the Internal Audit function of an organization to develop an annual Internal Audit Plan. The Internal Audit Plan establishes the framework for the audit and consulting activities to be performed by the Texas Department of Motor Vehicles (TxDMV) Internal Audit Division (IAD) during the 2013 Fiscal Year.

Scope and Objective

This Internal Audit Plan covers the period of September 1st, 2012 to August 31st, 2013.

The preparation of the Internal Audit Plan serves as the process by which the Internal Audit Division accumulates the data necessary to identify and rank potential engagement areas according to risk. The ultimate objective of IAD is to provide the Board of Directors and management with information to reduce exposure to the negative effects that may be associated with operations of the agency. The degree or materiality (size) of exposure can be viewed as risks mitigated by establishing sound internal control.

Responsibilities

The Internal Audit Division is responsible for preparing the Annual Audit Plan and submitting it to the Board of Directors for review and approval. Periodic updates relating to project status, schedules and significant interim changes will also be communicated.

---

[6] Texas Government Code, Section 2102.005.
[7] International Professional Practices Framework (Altamonte Springs, Florida; IIA, 2011 Edition Standard 2010)

Recommended Engagements

Based on the results of the risk assessment process performed (Appendix A), IAD is recommending the engagements detailed in Tables 1 and 2 below, to comprise the Internal Audit Plan for the 2013 Fiscal Year.

Table 1

FY 2013 Audit Engagements with reports to the Board	
Audit Area	**Identified Risks and Summary of Work to be Performed**
Follow-up Engagement to SAO Report 12-043	Potential Risks – As noted in the SAO Report, control weaknesses were found in the areas related to contract management, and procurement. Work Plan – This audit will ascertain the implementation status of actions taken on the recommendations in the SAO Report.
Cash Handling Phase 1[8] (VTR Regions)	Potential Risks – The VTR Regional Offices routinely deal with large volumes of highly liquid transactions. Work Plan – This audit will review and identify the controls related to cash handling in the VTR Regional Offices.
Cash Handling Phase 2 (Headquarters)	Potential Risks – The Austin Headquarters routinely deals with large volumes of highly liquid transactions as well as the reconciliation of funds collected by the VTR Regional Offices. Work Plan – This audit will review and identify the controls related to cash handling in the Austin Headquarters.
TxPros - Permitting and Routing System	Potential Risks – TxDMV is relying on a new permitting system which has not been formally accepted by the agency. Work Plan – This post-implementation audit will focus on the completeness, budget, and implementation of TxPros.
Web-enabled Subcontractor Renewals (Web Sub)	Potential Risks – This is a new program for processing a large volume of registration renewal transactions via the internet. Work Plan – This engagement is a continuation of the audit previously started and will focus on reviewing the application controls over data.
Internal Audit Plan (FY 2014)	Potential Risks – This is a statutorily[9] required engagement. Work Plan – Propose the engagements which will comprise the FY 2014 Internal Audit Plan.

---

[8] Due to the size and disparate nature of the activities performed in the Regional Offices versus the Austin Headquarters, this audit will be split into two separate phases.
[9] Statutory Mandate – Texas Government Code, Section 2102.007 (2).

Annual Audit Report (FY 2012)	Potential Risks – This is a statutorily[10] required engagement. Work Plan – Report on the FY 2012 activities of the Internal Audit Division to the appropriate oversight agencies by November 1st, 2012.

Table 2

FY 2013 Other Activities (Final Deliverable to be determined)	
Project Area	**Summary Description**
Board and Executive Management Requests	Potential Risks – Varied, depending on the nature of the request. Work Plan –In anticipation of requests during the 2013 Fiscal Year, IAD is allocating time to assist the Board and Executive Management.
Registration and Titling Quality Assurance Review	Potential Risks – Based on an analysis of monthly RTS transaction reports, areas of concern have been identified. Work Plan – This consulting engagement will focus on assisting VTR with developing a risk based plan to mitigate identified vulnerabilities.
Monitoring of TASP Projects	Potential Risks – As major agency projects and initiatives are placed into development many risks can arise that either increase costs or delay production and implementation. Work Plan – On-going monitoring of the development of projects and assistance as needed related to contract procurement, and Independent Verification and Validation (IV&V) vendor selection.
ABTPA Single Audit Reviews	Potential Risks – Statutorily[11] required engagement. Work Plan – On-going monitoring of grantee compliance with Uniform Grant Management Standards.
State Agency Peer Review	Potential Risks – The Texas Internal Auditing Act[12] requires each State Agency Internal Audit Division to periodically take part in a comprehensive external peer review. Work Plan – IAD has been requested to perform a comprehensive external review of another State Agency Internal Audit Division.
Implementation of Audit Management Software	Work Plan – IAD is anticipating the licensing of Audit Management Software from the State Auditor's Office during FY 2013.

---

[10] Statutory Mandate – Texas Government Code, Section 2102.009.
[11] Statutory Mandate – Texas Government Code, Section 783.010.
[12] Statutory Mandate – Texas Government Code, Section 2102.007 (5).

Board and Executive Management Requests

During the abbreviated 2012 audit year, IAD fielded multiple requests from both the Board and agency Executive Management for assistance related to various areas of agency operations. As TxDMV operations and staffing continue to evolve, IAD anticipates a similar need for these ad hoc assistance engagements during FY 2013. To ensure that IAD is able to meet these ongoing requests as they arise on a timely basis, IAD will be allocating approximately 15% of available direct audit hours to serve Board and Executive Management requests.

Some of the value added consulting services provided by IAD to address these requests during this fiscal year include:

1. Reviewed processes related to the MVD dealer licensing model and provided results; enabling Executive Management to obtain an understanding of the issues and address application backlogs and work-loads.

2. Worked with Finance Division to develop cost models for agency fees and operations.

3. Provided comparative analysis between the Date of Sale and Date of Transaction, including the associated potential dollar value impact to the agency, related to vehicle registrations.

4. Conducted analysis of monthly vehicle registration and license plate inventory transaction reports to identify potential risk areas related to agency operations.

5. Provided analysis to ensure compliance with State requirements regarding applicable website hyperlinks to the State Auditor's Office (SAO) Fraud, Waste and Abuse Reporting System.

6. Functioned as a liaison between the TxDMV and the SAO during its contracting and procurement audit of the agency.

7. Reviewed four complaints received from the SAO hotline to determine the merit and potential impact (if any) to agency operations.

8. Assisted the Finance Division with the analysis and review of TxDOT billing documentation, as well as provided input into the revised FY 2013 Memorandum of Understanding (MOU) between TxDMV and TxDOT.

Appendix A – Risk Assessment Scores

Listed below are the results of the risk assessment scoring (RAS) process conducted by IAD. Those engagements in red have been included in the FY 2013 Audit Plan.

Table 3

	Risk Assessment Scores for identified Engagement Audit Areas - FY 2013		
	Engagement Area	**RAS Score**	**Assessed Risk[13]**
1	Follow-up Engagement to SAO Report 12-043	4.51	
2	Cash Handling Controls	4.33	
3	Registration and Titling Quality Assurance	4.27	
4	Monitoring of TASP Projects	4.08	
5	TxPros Permitting and Routing System	4.06	
6	Licensing Function	3.90	
7	Vehicle Registrations	3.61	
8	Permits	3.51	
9	Review of HR Processes	3.47	
10	Vehicle Titling	3.35	
11	Revenue Processing Controls	3.33	
12	Regional Operations	3.27	
13	Grant Administration (Compliance with HB 1541)	3.10	
14	Vendor Payment Processing Controls	2.96	
15	OS/OW Operations	2.94	
16	Customer Service Process Review	2.84	
17	IRP Administration	2.78	
18	Credentialing	2.61	
19	Vehicle Consumer Complaints	2.33	
20	Specialty Plate Testing and Implementation	2.27	
21	Investigations	2.12	

[13] Legend – Red represents Risk Scores > 4.0 (Highest Assessed Risk), Yellow represents Risk Score between 3.0 and 3.99 (Intermediate Risk), Green represents Risk Scores < 3.0 (Lowest Assessed Risk)

Appendix B - Status of FY 2012 Engagements

An update on the status of those engagements approved by the Board as part of the 2012 Internal Audit Plan has been included below. Those engagements expected to produce a final report to be presented to the Board have been included in Table 3 (Status of FY 2012 Engagements). Those engagements which represent on-going monitoring activities undertaken by the Internal Audit Division have been included in Table 4 (Status of FY 2012 Other Activities).

Table 4

Status of FY 2012 Engagements		
Audit Area	**Status**	**Comment**
County Equipment Replacement Project (CERP) Audit	Awaiting Management Responses to Draft Report.	Exit conference has been held discussing audit findings with Executive Director and Division Directors. Awaiting management responses to audit recommendations.
Internal Audit Plan (FY 2013)	Completed.	Submitting plan for approval during September Board Meeting.
TxPros – Permitting and Routing System	On Hold.	Audit placed on hold due to the delay in final acceptance by OS/OW of the TxPros program.
Web Agent (Web Sub)	Planning and research.	Report estimated for 2nd quarter of FY 2013.

Table 5

Status of FY 2012 Other Activities		
Project Area	**Status**	**Comment**
ABTPA Single Audit Reviews	Non-Audit	Ongoing monitoring of grantee compliance with State Uniform Grant Requirements. Monitoring will continue during FY 2013.
Automation Project	Non-Audit	Ongoing monitoring function which will continue during FY 2013 as part of the "Monitoring of TASP" (Texas Automation Systems Project) engagement.

Appendix C – Estimated Hours

For each of the potential engagements noted above in Tables 1 and 2, IAD has developed an estimate of the number of hours needed for each project. Based on the estimates used, the total amount of direct audit hours required for the recommended engagements (3,920) exceeds the projected audit resources (3,506)[14] for the year by 414 hours. This over scheduling is designed to allow for the possibility that some engagements may be completed with less audit hours than anticipated, or that some engagements may need to be rescheduled.

IAD will track and monitor the status of engagements as well as the availability of audit resources on an ongoing basis. As circumstances occur which necessitate adjustments, IAD will include these changes in the FY 2014 audit plan.

Engagement	Estimated Hours
Follow-up Engagement to SAO Report 12-043	250
Cash Handling Phase 1 (VTR Regions)	500
Cash Handling Phase 2 (Headquarters)	350
TxPros Permitting and Routing System	400
Web Agent (Web Sub)	350
Internal Audit Plan (FY 2014)	150
Annual Audit Report (FY 2012)	150
Board and Executive Management Requests	500
Registration and Titling Quality Assurance Review	300
Monitoring of TASP Projects	350
ABTPA Single Audit Reviews	200
State Agency Peer Review	300
Implementation of Audit Management Software	120
Total	**3,920**

---

[14] This amount is calculated based on approximately 33% direct audit hours for the Division Director and 67% direct audit hours for division staff.