

TEXAS DEPARTMENT OF LICENSING AND REGULATION
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2014



TEXAS DEPARTMENT OF LICENSING AND REGULATION
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2014

TABLE OF CONTENTS

	<u>Page</u>
Internal Auditor's Report	1
Introduction	2
Internal Audit Objectives.	3
Executive Summary	
Licensed Breeders Program	
Background.	4-7
Audit Scope/Objective.	7-9
Industrialized Housing & Buildings Program	
Background.	9-16
Audit Scope/Objective.	16-17
Records Retention	
Background.	18-20
Audit Scope/Objective.	20-21
I. Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Reports and Other Audit Information on TDLR's website.....	21
II. Internal Audit Plan for Fiscal Year 2014	22-23
III. Consulting and Nonaudit Services Completed.....	23
IV. External Quality Assurance Review.....	23
V. Observations/Findings and Recommendations	24-29
VI. Proposed Internal Audit Plan for Fiscal Year 2015	30
VII. External Audit Services Procured in Fiscal Year 2014	30
VIII. Reporting Suspected Fraud and Abuse.....	30
IX. Organizational Chart	30

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Audit Committee and Commissioners
Texas Department of Licensing and Regulation
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the internal control structure over the Licensed Breeders and Industrialized Housing & Buildings (IHB) Programs, and the Records Retention Area of the Texas Department of Licensing and Regulation (TDLR); and, its compliance with rules, regulations, and TDLR's established policies and procedures, as applicable to these Programs and Area for the 8 months ended April 30, 2014 (Licensed Breeders Program), 9 months ended May 31, 2014 (IHB Program) and 10 months ended June 30, 2014 (Records Retention Area).

The results of our tests disclosed that such controls were adequate and no material instances of noncompliance were noted; however, we noted certain matters, which are included in this report, that are opportunities for strengthening internal controls and operating efficiency; and, ensuring compliance rules, regulations, and TDLR's established policies and procedures. We also performed a follow-up of the findings presented in the prior year annual internal audit report and this report reflects the implementation status of those matters; and, includes all information required for the Annual Internal Audit Report.

We have discussed the comments and recommendations from the above audits and the implementation status from the follow-up performed with various TDLR personnel, and will be pleased to discuss them in further detail; to perform an additional study of these matters; or, to assist you in implementing the recommendations.

*Garza / Gonzalez
& Associates*

June 18, 2014 – Licensed Breeders Program

August 11, 2014 – IHB Program, Records Retention Area, and 2014 Follow-Up

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

INTRODUCTION

In 1989, the Legislature established The Texas Department of Licensing and Regulation (TDLR), with the purpose of licensing and regulating businesses, industries, individuals, and occupations. TDLR accomplishes its purpose by developing clear and simple standards, providing guidance, ensuring compliance, and limiting the regulatory burden on individuals and businesses.

TDLR's responsibilities include regulating 24 diverse programs with 117 different license types and the oversight of more than 500,000 licensees.

Texas Occupations Code (TOC) §51 establishes TDLR and its responsibilities; and, Title 16, Part 4, of the Texas Administrative Code (TAC) provides the applicable rules and regulations for the administration of TDLR and its programs.

The Texas Commission of Licensing and Regulation (Commission) is the governing board and policy-making body of TDLR. The 7 public members of the Commission are appointed to staggered 6 year terms by the Governor with the consent of the Senate. The roles of the Commission are to:

- select and supervise the executive director;
- set policy for the agency;
- approve TDLR's strategic plan, operating budget, and requests for funding;
- set fees to cover program costs;
- adopt and repeal rules; and,
- impose fines and sanctions for violations of laws, rules, and orders.

In addition to the Commission, there are 19 Advisory Boards that serve the programs regulated by TDLR. Advisory board members provide technical knowledge and industry expertise, giving the Commission real-world insight into the occupations regulated by TDLR. Commission members serve as liaisons between the Commission and each Advisory Board to gain a better understanding of these industries. These Boards meet as necessary to study, review, and make recommendations to the Commission on:

- rules and technical standards;
- examination development;
- continuing education requirements; and,
- other trends affecting their regulated industries.

2014 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in TDLR's approved 2014 Internal Audit Plan:

- Industrialized Housing and Buildings (IHB) Program
- Licensed Breeders Program
- Records Retention
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of the above 3 audits, reflects the follow-up performed in the current year; and, meets the State of Texas Internal Audit Annual Report requirements.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

INTERNAL AUDIT OBJECTIVES

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope encompassed the examination and evaluation of the adequacy and effectiveness of TDLR's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope included the following objectives:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Policies, Procedures, Laws, Regulations, and Contracts** – Review the systems established to ensure compliance with those policies, procedures, laws, regulations, and contracts which could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

EXECUTIVE SUMMARY

Licensed Breeders Program

Background

In 2012 the 82nd Legislative Session named TDLR the responsible agency for licensing and regulating the Licensed Breeders Program. In accordance with the Texas Occupation Code (TOC) §802.065, TDLR established the 9-member Licensed Breeders Advisory Committee (Committee) to advise the Commission and TDLR regarding the administration, enforcement, and licensing fees relating to licensed breeders.

Licensing

The Business and Mechanical Section (Section), comprised of 1 Licensing Program Supervisor and 10 Licensing Specialists, of TDLR's Licensing Division (Division), is responsible for licensing dog and cat breeders.

New Applications

In accordance with Texas Administrative Code (TAC) §91.23 and TOC §802.102 - §802.104, to become a licensed breeder with TDLR, an applicant is required to—

1. Submit a completed application;
2. Provide a valid state sales tax identification number;
3. Provide the name and address of each controlling person;
4. Successfully pass a criminal background check (each applicant and controlling person);
5. Successfully pass a facility pre-license inspection conducted by an inspector approved by TDLR, or provide a current USDA Class A license; and,
6. Pay the required fee (\$300 for facilities holding 25 or less intact females and \$500 for facilities holding 26 or more intact females).

Applications are made available to the public on TDLR's website and can only be completed manually. Applications, along with fees, are received in TDLR's mail room, where they are date stamped, separated by program, and combined into batches. The mail room then sends the batches to the Financial Services Division for fees to be recorded in the Tulip system, then to the Section for processing.

When the applications are received by the Section, a Licensing Specialist will perform an initial review of the application before entering the information into the Tulip system, which is the electronic licensing system used by TDLR for the majority of the programs that it licenses and regulates. As part of the initial review, the Licensing Specialist ensures the applicant properly and fully completed the application, and submitted documentation that denotes compliance with the requirements, as listed above, for licensure. If the Licensing Specialist finds that the application was submitted in error or that the applicant clearly does not meet the requirements, the application along with the submitted fee will be returned to the applicant.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

After the initial review is completed, the Licensing Specialist will enter the information from the application into the Tulip system. If the applicant failed to complete a portion of the application, the respective field in the Tulip system will be left blank and a letter to the applicant will be automatically generated informing the applicant of the additional information needed.

After all information is entered into the Tulip system, a different section of the Division will perform a criminal background check of the applicant, through the Department of Public Safety. If the applicant successfully passes the criminal background check and meets all other requirements, the application is considered approved; and, a license is automatically printed by the Tulip system and mailed to the applicant, along with an approval letter. The license includes the applicant's unique license number and is valid for 12 months from the date of licensure.

During the period from September 1, 2013 to April 30, 2014, the Division received 29 new licensed breeder applications and approved 18 of those applications as of April 30, 2014. At April 30, 2014 there were 158 licensed breeders.

Application Renewal

The Section mails each licensed breeder a renewal application, that is automatically generated by the Tulip system, 60 days prior to their license expiration date. To renew their license, the licensee completes the required information on the renewal application and mails it back to TDLR along with the renewal fee of \$300 for facilities holding 25 or less intact females, or \$500 for facilities holding 26 or more intact females. If the licensee does not renew before the expiration date, they will be assessed a late fee, which will result in an increased renewal fee, as reflected in the table below:

Late Renewals	Late Renewal Fee
<i>1-90 Days After License Expiration Date</i>	
Facilities holding 25 or less intact females	\$ 450
Facilities holding 26 or more intact females	750
<i>91 Days to 18 Months After License Expiration Date</i>	
Facilities holding 25 or less intact females	\$ 600
Facilities holding 26 or more intact females	1,000

Licensees who do not renew their license within 18 months from the expiration date are required to reapply as a new applicant to regain a license.

In accordance with TAC §91.24 and TOC §802.106, to successfully renew as a licensed breeder with TDLR, the licensee is required to—

1. Submit a completed renewal application;
2. Provide a valid state sales tax identification number, if different from what was provided with original application;
3. Provide the name and address of each controlling person, if different from what was provided with original application;
4. Successfully pass a criminal background check (each applicant and controlling person);
5. Be in compliance with all Commission Orders; and,
6. Pay the required renewal fee.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

Renewal applications are received in the mailroom and go through the same process as the receipt of original applications. Once the renewal application is received by the Section, a Licensing Specialist will perform an initial review, as is done with original applications, before updating the licensee's information in the Tulip system.

After the initial review is completed and the Licensing Specialist has determined that the licensee has submitted all required documentation, information is entered into the Tulip system, and a criminal background check of the applicant is performed, through the Department of Public Safety. If the licensee successfully passes the criminal background check and meets all other requirements, the renewal application is considered approved, and a license, which will be valid for another 12 months, is automatically printed by the Tulip system and mailed to the licensee, along with an approved letter.

During the period from September 1, 2013 to April 30, 2014, the Division received and approved 97 licensed breeder renewal applications.

Annual Inventory Reporting

To comply with TOC §802.153, no later than February 1 of each year, each licensed breeder is required to submit to TDLR an annual inventory of all animals held at their facility at any time during the preceding year. A Licensing Specialist within the Section will enter the annual inventory form receipt date into the Tulip system, or a certain code to denote that the form was not received by the due date. Licensees that do not comply with this requirement are referred to TDLR's Enforcement Division, who has the authority to assess penalties for such violations.

Fees

TAC §91.80 defines the following fees that can be collected for the Licensed Breeders Program:

Fee Type	Amount
Application & Renewal Fee (11-25 Intact female animals)	\$ 300
Application & Renewal Fee (26 or more Intact female animals)	\$ 500
Revised or Duplicate License Fee	\$ 25

For the period from September 1, 2013 to April 30, 2014, TDLR collected \$53,300 in application, renewal, and late fees for the Licensed Breeders Program.

Inspections

Inspections of licensed breeders are performed by 4 of the 27 Inspectors within TDLR's Field Operations Division (FOD).

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

Report Manager is the system used by the FOD to track the status of inspections and works in conjunction with the Tulip system. In accordance with TAC §91.23, applicants are required to successfully pass a pre-license inspection as part of the new application approval process. Since the 2 systems are integrated to work together, upon the Division entering new application information into the Tulip system, a pre-license inspection notification is generated by Report Manager and sent via email to a designated Region Manager within the FOD, who assigns an Inspector to perform the inspection.

TAC §91.52 requires that each facility of a licensed breeder be inspected at least once in every 18-month period. As inspections come due, Report Manager sends a notification by email, to a designated Region Manager within the FOD, who assigns the inspection to an Inspector, considering the location of the facility and the Inspector's workload. The inspection must be done during the facility's normal business hours, and the licensee or representative must be given a reasonable opportunity to be present for the inspection.

For both pre-license and periodic inspections, the Inspector completes an Inspection Report and submits it to the FOD within 10 days from the inspection date, with a copy to the controlling person or representative. The Inspection Report identifies violations, if any, and the corrective action(s) necessary to address the violation(s). Administrative penalties and/or sanctions may be assessed by TDLR's Enforcement Division for violations disclosed in the Inspection Report.

From September 1, 2013 to April 30, 2014, there were 22 pre-license and 34 periodic inspections performed.

Dog or Cat Breeder Training and Enforcement Account (Account)

TOC §802.059 established the Account, which is an account of the general revenue fund. Any administrative penalties collected from licensed breeders are to be deposited to the Account and may only be used to promote consumer awareness of the rules adopted for licensed breeders, support educational seminars and training for the benefit of TDLR's ability to administer and enforce those rules, and to pay for information resulting from disciplinary action against persons for unlicensed activity.

TDLR's Executive Director must approve all expenditures from the Account, and use of the Account funds must be reported in TDLR's quarterly financial report to the Commission.

At April 30, 2014, the Account had a balance of \$1,500. From September 1, 2013 to April 30, 2014, collections and expenditures totaled \$5,000 and \$3,500, respectively.

AUDIT SCOPE/OBJECTIVE

The scope of our audit was the Licensed Breeders Program. The objective of our audit was to gain an understanding of the processes and controls in place within the various divisions of TDLR to determine whether the Licensed Breeders Program is administered and regulated in accordance with applicable sections of the Texas Occupations Code (TOC) and Texas Administrative Code (TAC); and, TDLR's established policies and procedures.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

The procedures performed to achieve the objective of our audit were as follows:

1. Reviewed and obtained an understanding of the applicable laws and regulations provided in the TOC and TAC, as applicable to the Licensed Breeders Program.
2. Obtained and reviewed written policies and procedures, collected available documentation, and conducted interviews to document formal/informal processes and controls, as applicable to the Licensed Breeders Program.
3. Obtained a listing of new applications received by TDLR during the period from September 1, 2013 through April 30, 2014 and randomly selected 5 applications to test for the following attributes:
 - a. Eligibility requirements of TAC § 91.23 and TOC §802.102 – §802.104 were met;
 - b. The new license application was properly completed, signed to denote the data provided is true and accurate, and date stamped;
 - c. The proper application fee was assessed and collected; and,
 - d. Applicants were denied licensure for reasons included in TAC §91.25 and TOC §802.107.
4. Obtained a listing of renewal applications received by TDLR during the period from September 1, 2013 through April 30, 2014 and randomly selected 10 applications to test for the following attributes:
 - a. The renewal application was properly completed in accordance with TAC §91.24 and TOC §802.106;
 - b. The renewal application was properly completed, date stamped, and submitted prior to the expiration date to maintain continuous licensure;
 - c. The proper renewal fee was assessed and collected; and,
 - d. Renewals were denied for reasons included in TAC §91.25 and TOC §802.107.
5. Using the same selection in procedures 3 and 4 above, reviewed the Pre-Licensing Inspection Report or the Periodic Inspection Report to—
 - a. Ensure a pre-licensing inspection was performed as part of the new application process and a periodic inspection was performed at least once in every 18-month period;
 - b. Ensure the Report was properly completed and signed by the Inspector and Controlling Person.
6. Using the same selection in procedure 4 above, ensured the licensee submitted an Annual Inventory Form by February 1, 2014.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

7. Tested 5 receipts and 2 expenditures that occurred during the period from September 1, 2013 through April 30, 2014 from the Dog or Cat Breeder Enforcement Account for compliance with §802.059.
8. Obtained a listing of licensed breeders complaint investigations for the period from September 1, 2013 through April 30, 2014 and randomly selected 5 for testing to ensure they were investigated and closed in a timely manner.

Industrialized Housing and Buildings (IHB) Program

Background

The Texas Department of Licensing and Regulations (TDLR) is responsible for registering and regulating manufacturers and builders who engage in the construction, selling, leasing, transporting, installing and inspection of industrialized housing and buildings; and, issuing decals and insignia for certification of modular housing, buildings, and components. The Texas Industrialized Building Code Council (Council) was established to advise TDLR on rules, technical standards, etc., regarding the IHB Program.

Organizational Structure

The IHB Program is under the Business and Building Section of TDLR's Compliance Division, and is comprised of a Senior Program Specialist and 3 Program Specialists, 2 of which perform inspections.

TDLR's Business and Occupations Section (Section) of the Licensing Division is responsible for registering manufacturers and builders of the IHB Program. The Section is supervised by a Licensing Supervisor, who reports to the Licensing Director, and is comprised of 3 Licensing Program Specialists, who process IHB applications.

IHB Registration Types

The following table lists the 7 IHB registration types and the number, by type, registered with TDLR as of July 17, 2014:

Registration Type	Number Registered
1. Manufacturer	
a. Registered Only	23
b. Certified (Registered & Passed In-Plant Inspection)	107
2. Industrialized Builder	315
3. Relocatable Educational Facilities (REF) Builder	3
4. Design Review Agency	8
5. Third Party Inspection Agency	8
6. Third Party Inspector	47
7. Third Party Site Inspector	-

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

REGISTRATION PROCESS

New Applications

Applications are made available to the public on TDLR's website and can only be completed manually. Applications, along with fees, are received in TDLR's mail room, where they are date stamped and the amount of fees received is documented on the application's first page. The mail room staff will also enter the cash receipts received by mail into the Accounting Cash Receipts system, with a "hold" until further review of the application is performed by other Divisions, and submit the cash receipts to the Accounting Department for processing. Applications for manufacturers, industrialized builders, and REF builders are sent to the Licensing Division; while, those for third-party inspection agencies, design review agencies, and inspectors are sent to the IHB Program Compliance Division, for processing.

Manufacturers, Industrialized Builders & REF Builders

Upon receipt of an application by the Licensing Division, a Licensing Program Specialist will review it for completeness. If any information in the application is incorrect or information required to be submitted with the application is missing, the Licensing Program Specialist will send the applicant a letter requesting such information. The Licensing Program Specialist then enters information; such as, business name, address, and type; names of CEO, officers, or partners; and, federal or tax identification (ID) number, from the application, into the IHB Access Database (Database). For corporations, the Licensing Program Specialist uses the Secretary of State's and Texas Comptroller's websites to verify the accuracy of the tax ID number and officers, as listed in the application. Once all information is received, verified, and entered into the Database, the Licensing Program Specialist will prompt the Database to print a certificate of registration, which is mailed to the applicant. The Licensing Program Specialist will then ensure the information in the Accounting Cash Receipts system is correct and remove the "hold" from the cash receipt, as entered by the mail room staff.

Application Renewals

A certificate of registration is valid for 12 months and required to be renewed annually. A Licensing Program Specialist mails registrants renewal applications 90 days before their registration is set to expire. The renewal application indicates the registration expiration date and the renewal fee required to be paid by the registrant, which is dependent upon the date the renewal application is submitted to TDLR. The registrant may make any changes to the name and address of the business; or, the name of the officer, sole proprietor or partner, as reflected in the renewal application, and then sign and submit the renewal application to TDLR. Upon receipt of a complete and signed renewal application, TDLR will mail the registrant a current certificate of registration.

Third Party Inspection Agencies (TPIAs) & Design Review Agencies (DRAs)

The Senior Program Specialist of the IHB Program Compliance Division will review and approve these types of applications upon receipt, by completing the "Checklist of Application Requirements – Third Party Inspection Agency (TPIA) General" or the "Checklist of Application Requirements – Design Review Agency (DRA) General".

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

As part of the application process, all TPIAs and DRAs are required to submit an organizational chart and resumes for managerial and technical staff responsible for inspections or design review functions in Texas; and, a list of states where they have been approved to perform inspections or provide design review services. In addition to those requirements, TPIAs are required to submit documentation; such as, sample inspection reports, and a formal description of their supervision and training program or performance records to substantiate their ability to perform inspections; and, DRAs are required to submit documentation to substantiate their ability to evaluate building systems; and, compliance control manuals that illustrate compliance with applicable rules, codes, and standards. A notarized statement, signed by the TPIA's/DRA's manager or CEO, which states they are independent, will implement the Council's policies and interpretations of the standards and rules, and have provided true information on the application, must also be submitted.

The Senior Program Specialist will then complete the "Checklist of Application Requirements – TPIA Manager and Supervisor of Inspections" or the "Checklist of Application Requirements Design Review Agency – Manager/Plan Reviewers" to ensure they meet the qualifications required by Texas Administrative Code (TAC) §70.23(c) or TAC §70.22(c). If exceptions are not found, the Senior Program Specialist will approve the application, update the Database using information from the application, and either mail or email the applicant to inform them that their application was approved. The approved application is then submitted to the Council for their approval at the next scheduled Council meeting, which is required before a certificate of registration is mailed to the applicant.

Third Party Inspectors

The Senior Program Specialist of the IHB Program Compliance Division reviews and approves these applications upon receipt, by completing the "Checklist of Application Requirements – TPIA Third Party Inspectors" to ensure compliance with the requirements of TAC §70.23(3).

In accordance with TAC §70.23(3), the applicant must have a high school diploma or equivalent; a minimum of 1 year experience in building code enforcement, compliance control inspection, or building inspection experience; and, be employed at a registered TPIA. An inspector is required to have a current International Code Council (ICC) residential energy certification to inspect housing; and, an ICC commercial energy certification to inspect buildings. Applicants may also apply to be either a residential or commercial combination inspector, which indicates they are ICC certified to inspect various residential *or* commercial systems; such as, electrical, plumbing, mechanical, etc.; or, a combination inspector, which indicates they are ICC certified to inspect various residential *and* commercial systems.

If exceptions are not found, the Senior Program Specialist will approve the application, update the Database using information from the application, and either mail or email the applicant to inform them that their application was approved. The approved application is then submitted to the Council for their approval at the next scheduled Council meeting, which is required before a certificate of registration is mailed to the applicant.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

Application Renewals

A certificate of registration for TPIAs, DRAs, and Third Party Inspectors are valid for 12 months and required to be renewed annually. A renewal application is mailed to the registrant for review and signature 90 days before the expiration date. The renewal application indicates the renewal fee, which is dependent upon the date the renewal application is submitted to TDLR, and the business information, as reflected in TDLR's files.

Upon review, the registrant will submit any changes and the signed renewal application to TDLR, who will then mail the registrant a current certificate of registration.

CERTIFICATION, PERMITS, DESIGN PLAN REVIEWS, REPORTING, & FEES

Manufacturer Certification Process

Only manufacturers registered with TDLR and with design plans reviewed by a DRA registered with TDLR can become certified. Upon these 2 requirements being met, a manufacturer may request an in-plant certification inspection from TDLR, which is performed by an IHB Program inspector and a third party inspector registered with TDLR.

A pre-certification review of the design package is performed before a certification inspection is performed. As part of the pre-certification review, the inspector prepares a "deviation report" that identifies items that do not conform to the laws and rules governing the IHB Program, mandatory building codes, etc., and provides it to the manufacturer and the manufacturer's DRA. The manufacturer is required to submit a corrective action plan to the inspector prior to the certification inspection.

As part of the certification inspection, the inspection team will—

- Send the manufacturer a "Manufacturer's Acknowledgement Form for Certification Inspections" (Form), which discloses items that will be inspected.
- Review the contents of the manufacturer's certification packet with the manufacturer's representative, who will sign a statement that he/she has received the certification packet and that the contents of the packet have been explained to him/her. The manufacturer's representative will complete and sign the Form at this time.
- Ensure all deviations identified during the certification inspection and the pre-certification review, are addressed; and, inspect all corrective actions taken to clear deviations. Revisions to plans, specifications, design manual, or compliance control manual, made to correct deviations are required to be reviewed and approved by the manufacturer's DRA prior to the inspection team accepting the approved design package and inspecting for compliance.
- Ensure that all aspects of the compliance control program are functioning according to the manufacturer's approved procedures by observing all phases of construction of at least one module or modular component containing all systems, or a combination of modules or modular components containing all systems. The inspection team witnesses system testing on one or more modules as part of the inspection.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

Upon completion of the certification inspection, the inspector will provide, both, TDLR and the manufacturer, a written evaluation of the inspection progress; and, if necessary, a deviation report summary. A certification report is issued by TDLR and sent to the manufacturer when *all* certification requirements are met. If deviations are not addressed within 6 months, a non-compliance report will be issued and the manufacturer will not be certified.

Once certified, TDLR will release decals or insignia to the manufacturer, which are attached to the module(s) to signify that it was constructed in accordance with the IHB Program rules and regulations; and, mandatory building codes.

As of May 30, 2014, 764 facilities were inspected by third party inspectors and 20 by IHB Program inspectors.

Permits

A person who purchases an IHB for their personal use and will be responsible for some aspect of the construction related to the installation of the house or building may apply for a residential or commercial installation permit, in lieu of registering as an industrialized builder, and pay the applicable installation permit fee. An application, which requires the applicant to list construction that will be completed by him/her on the installation site that affects the code compliance of the industrialized house or building, is required to be completed and submitted to TDLR. The applicant must also certify and have a notarized statement that the construction shall be in compliance with the mandatory building codes, the approved engineered plans, and be inspected in accordance with the inspection procedures established by the Council.

The Program Specialist of the IHB Program Compliance Division is responsible for reviewing, approving and issuing permits to the applicants.

As of May 30, 2014, the IHB Program issued a total of 105 residential and commercial permits.

Design Plan Reviews

All modules or modular components built by manufacturers, industrialized builders or REF builders, for Texas, must be constructed by plans approved by a TDLR-registered DRA. An employee of the IHB program Compliance Division may perform monitoring reviews; however, they do not perform reviews for plan approval.

The manufacturer, industrialized builder, or REF builder will select a DRA from a listing of registered DRAs posted on TDLR's website. The selected DRA will perform a review and evaluation of the plans, designs, specifications, compliance control, and on-site construction documentation, etc., to ensure compliance with the mandatory building codes. Copies of approved plans are retained by TDLR's IHB Program Compliance Division.

As of May 30, 2014, 57 monitoring reviews were performed by the IHB Program Compliance Division and 783 plans were reviewed by DRAs.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

Reporting

Manufacturers

In accordance with TAC §70.50(a), certified manufacturers are required to file monthly reports with TDLR of all units to which decals or insignias were attached, by no later than the 10th day of the following month for the preceding month's activity. The reports are submitted electronically to the IHB Program Compliance Division, where the Program Specialist compiles the information on an excel spreadsheet and then imports it into the Database. The reports are used to track the decals or insignia purchased, from TDLR, by the certified manufacturer and to identify units to which decals or insignias were attached.

Either the Senior Program Specialist or a Program Specialist from the IHB Program Compliance Division will review the reports for accuracy and to verify the following:

- Decal(s) were purchased by/belong to the certified manufacturer,
- Decal(s) were not previously reported as being attached to a different unit/serial number,
- Units were released to a registered industrialized builder, and
- An inspection report is available for the unit(s) being reported.

Upon verification of the above, it will be determined if the certified manufacturer is required to take any action to comply with the TAC requirements. Once the information has been reviewed and any discrepancies corrected, the information is imported into the *Decal* Database, which allows TDLR to account for the decals and insignia a certified manufacturer has purchased, reported, and should have on hand; and, is the basis for audits of the records of industrialized builders.

Industrialized Builders

Industrialized builders are responsible for keeping records of all industrialized housing, buildings, modules, and modular components that were sold, leased, or installed, and making them available to TDLR, who has the option of auditing the records for the purpose of accounting for all decals and insignia purchased by certified manufacturers. If an audit is warranted, it is performed by a Program Specialist from the IHB Program Compliance Division. In preparation of the audit, the industrialized builder is asked to complete a Builder's Audit Report, which documents the date construction began at the installation site, the date of the final inspection, the destination location, the type of structure, the type of foundation system and whether the unit was installed within city limits; and, to provide a copy of the final inspection report.

Inspections

In accordance with TAC 70.61, TDLR shall monitor and evaluate the performance of third party inspection agencies, third party inspectors, and design review agencies and submit performance reports and any recommendations to the Council, as deemed necessary.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

Fees

In accordance with TAC 70.80 TDLR may assess the following fees:

REGISTRATIONS:

Registration Type	*Registration Fee	Registration fee if expired less than 90 days	**Registration fee if expired less than 1 year but over 90 days
Manufacturer – for each location	\$750.00	\$1,125.00	\$1,500.00
REF Builder – for main business location			
Industrialized Builder – for each sales office of an industrialized builder	\$325.00	\$487.50	\$650.00
Design Review Agency (DRA) – for each agency	\$300.00	\$450.00	\$600.00
Third Party Inspection Agency (TPIA) – for each agency	\$150.00	\$225.00	\$300.00
Third Party Inspector (TPI) & Third Party Site Inspector (TPSI) – for each inspector	\$100.00	\$150.00	\$200.00

* If renewed by date of expiration – renewal application and fee must be received by TDLR by expiration date.

** If registration has been expired for more than 1 year, then applicant must apply as new registrant.

PERMITS:

Residential and Commercial Installation Permit	\$75.00 for each building containing industrialized housing or building modules or modular components.
--	--

INSPECTIONS:

<ul style="list-style-type: none"> • Certification Inspection • DRA Monitoring • TPI/TPIA Monitoring • Special Inspection 	\$40.00 per hour + Travel	<ul style="list-style-type: none"> • Performed by TDLR personnel at a manufacturing facility. • Monitoring by TDLR outside of headquarters. • Monitoring performed by TDLR outside of headquarters. Fee is paid by manufacturer where inspection takes place. • Inspections not covered by other fees.
---	---------------------------	--

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

DECALS & INSIGNIA:

Modular Decals	\$0.07 per sq ft of gross floor space; minimum \$25.00 per decal.	One decal per module – new construction only.
Modular Component Insignia	\$0.02 per sq ft of surface area; minimum \$0.60 per insignia OR \$0.07 per sq ft of gross floor area; minimum \$15 per insignia.	One insignia per modular component – new construction only.
Alteration Decals	\$50.00 for each decal.	One decal per module.

As of May 30, 2014, the IHB Program collected \$413,818.15 in fees and penalties.

AUDIT SCOPE/OBJECTIVE

The scope of our audit was the Industrialized Housing and Buildings (IHB) Program. The objective of our audit was to gain an understanding of the processes and controls in place within the various divisions of TDLR that administer the IHB Program to determine whether it is being operated in accordance with applicable sections of the Texas Administrative Code (TAC), and TDLR's established policies and procedures.

The procedures performed to achieve the objective of our audit were as follows:

1. Obtained an understanding of the laws and regulations provided in the Texas Administrative Code (TAC), as applicable to the IHB Program.
2. Obtained and reviewed policies and procedures, collected various documents, and conducted interviews to obtain an understanding of the processes and current practices in place over the various IHB registration types.
3. Obtained a listing of applications, for the various registration types, approved during the period from September 1, 2013 through May 30, 2014 and selected a sample of 6 to test for the following attributes:
 - a. Evidence the applicant met the applicable TAC requirements.
 - b. Receipt of required documents, as applicable to the registration type (i.e. organizational chart, resumes, etc.).
 - c. Receipt of applicable fees.
 - d. Completeness of applicable checklist.
 - e. Receipt of notarized statement signed by the registrant's representative.
 - f. Agency listed on TDLR's website as an approved IHB registrant.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

4. Obtained a listing of renewal applications, for the various registration types, approved during the period from September 1, 2013 through May 30, 2014 and selected a sample of 9 to test for the following attributes:
 - a. Receipt of applicable fees.
 - b. Renewal application signed by registrant's authorized representative.
 - c. Receipt of any changes to information reflected in the renewal application.
5. Obtained a listing of permits issued during the period from September 1, 2013 through May 30, 2014 and selected a sample of 2 applications to ensure the application was complete, the certification statement was signed by the applicant, and the applicable fee was paid.
6. Obtained a listing of inspections conducted by the IHB program staff and third party inspectors during the period from September 1, 2013 through May 30, 2014 and selected a sample of 1 inspection conducted by IHB program staff and 5 inspections conducted by third party inspectors to test for the following attributes:
 - a. Compliance with the TDLR established inspection procedures.
 - b. Compliance with the applicable TAC requirements.
 - c. Completion of the 'Certification Inspection Record Summary' form for each day of the inspection.
 - d. Completion of the 'Certification Inspection Deviation Report', as applicable.
 - e. Evidence that any deviations were corrected.
 - f. Completion of the 'Plant Inspection Procedural Checklist' and 'Energy Inspection Summary Sheet' forms, as applicable.
 - g. Completion of the 'Certification Report'.
7. Obtained a listing of design plan reviews that were conducted during the period from September 1, 2013 through May 30, 2014 by the IHB program staff and design review agencies and selected a sample of 5 to test for the following attributes:
 - a. Evidence that the design plans were reviewed by a TDLR-registered design review agency or by the IHB program staff.
 - b. Evidence of approval stamp to denote approval.
 - c. Evidence a pre-certification review was performed on approved design packages.
 - d. Completion of a 'Deviation Report', as applicable.
8. Performed a reconciliation of fees and penalties collected for the IHB Program recorded in USAS to those recorded in the Accounting Cash Receipts system.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

Records Retention

Background

The Records Retention area of the Texas Department of Licensing and Regulation (TDLR) is responsible for ensuring that state documents are kept in accordance with the applicable rules outlined in Chapter 441, Subchapter L of the Texas Government Code (TGC); TDLR's established policies and procedures; and, the current Records Retention schedule approved by the Texas State Library and Archives Commission (TSLAC).

Organizational Structure

TDLR's Director of Network Services is the designated Records Management Officer (RMO). The RMO serves as a liaison to the TSLAC Records Center department and is responsible for reviewing, revising, and proposing a records retention schedule to TSLAC for approval on a bi-annual basis.

Since the majority of TDLR's records are related to licensing, our audit concentrated on the Licensing Division's record retention process. The Licensing Division's Licensing Support Team (Licensing Team), which consists of 9 Program Specialists, with one of them designated as the Team Lead that reports to the Licensing Division Director, is responsible for imaging and indexing the Licensing Division's documents.

Records Retention Schedule

Bi-annually, the RMO will review the current Records Retention Schedule (Schedule), conduct interviews with other TDLR Division Directors, and consult with TSLAC's Records Manager to determine if revisions to the Schedule are warranted. Whether or not revisions are made, the Schedule is sent to TSLAC for approval, at a minimum, on a bi-annual basis.

The current Records Retention Schedule was approved by TSLAC's Librarian on January 10, 2014.

Records Storage Areas

TDLR stores its archived records offsite at the TSLAC Records Center; and, onsite at its Headquarters and North Campus Buildings, and in their Imaging System (server is located at the Austin Data Center).

TSLAC Records Center

Archival Process

Archived records for TDLR's Compliance, Enforcement, and Financial Services Divisions are stored at TSLAC's Records Center. When documents are ready to be archived, the assigned individual from the respective Division will perform the following:

- Box records to be archived;
- Prepare a "List of Contents" spreadsheet that details the records contained in each box;
- Assign each box a number; and,
- Complete the "E101 Transmittal Request Form" on TSLAC's website, which details the total number of boxes to be archived, type of records, first and last date of the records contained in each box, and the contact information.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

TSLAC will use the information provided by TDLR in the “E101 Transmittal Request Form” to complete a “Transmittal of State Records” report (also known as the RMD101 report), which documents a tracking number, State Records Center (SRC) Location number by box, and a barcode that is assigned to each box. The RMD101 report is sent to the assigned TDLR employee and a pickup time is scheduled. At the time of pickup, the RMD101 report is signed and dated by the TSLAC employee to denote receipt of the listed boxes.

As of June 30, 2014, the following TDLR archived records are stored at the TSLAC Records Center:

Record Series Title	Number of Boxes
Complaint Source Documents	844
Architectural Barrier Review & Inspection Source Documents	2,549
Cash Deposit Vouchers	25
TOTAL	3,418

Disposal Process

At the beginning of each fiscal year, the RMO will request a Hard Copy Storage (System) report from TSLAC, which documents TDLR’s archived records stored at TSLAC’s Records Center, for review of records that are eligible for disposal and to make a determination as to whether they should be permanently disposed. Once the RMO makes a determination, a formal letter requesting the permanent disposal of records is prepared, signed by the RMO, and sent to the TSLAC Records Center Manager. TSLAC will then send TDLR an email confirming receipt of the request to permanently dispose records and provide them with an assigned Disposal Request Number. Upon disposal, the TSLAC Records Manger notifies the RMO by email.

From September 1, 2013 through June 30, 2014, TSLAC permanently disposed of 2,538 boxes, as requested by TDLR.

Imaging System

The majority of records maintained in the Imaging System are from the Licensing Division. However, the Imaging System also maintains records from the Financial Services, Compliance, and Enforcement Divisions.

Licensing Division – Imaging System Process

Preparation for imaging and indexing is performed by the Licensing Team, while the actual imaging and indexing is performed by TDLR’s procured imaging vendor – Neubus. The following process is used to image and index the Licensing Division’s records:

- Upon a box being filled with records, a Program Specialist is notified that it is ready for imaging and indexing. The Program Specialist will enter the box number, licensing type, and Neubus box number into the Licensing Team’s shared spreadsheet, the “NEUBUS Day Forward”.
- The Program Specialist logs onto the Neubus system to request pickup of the records. Before records are picked up, Neubus-generated box labels and barcodes are printed and attached to the box and an inventory of the box contents is prepared and documented in an excel spreadsheet. The Program Specialist randomly selects 10 documents from the box and maintains a copy, which is used to verify proper imaging and indexing by Neubus when records are returned.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

- Pick-up and delivery by Neubus occurs on Friday mornings. Prior to pick-up, the Manifest on the Neubus system is reviewed by the Program Specialist to ensure boxes are properly labeled and ready to be picked up by Neubus. At pick-up, the Neubus employee verifies that the boxes being picked up agree to those listed on the Manifest and the Manifest is signed by both, the Program Specialist and the Neubus employee. The Program Specialist then updates the "NEUBUS Day Forward" spreadsheet to reflect the date the boxes were sent to Neubus.
- Documents are generally imaged by Neubus and available to TDLR, via the Imaging System, the Monday following the Friday pick-up. As such, the Licensing Team is able to verify that the 10 randomly selected copied documents were properly imaged before Neubus returns the original documents. The verification consists of comparing the images in the Imaging System to the copies of the original documents. Once the Program Specialist has performed this verification, the "NEUBUS Day Forward" spreadsheet is updated to document the verification completion date.
- When the original documents are returned to TDLR, the following Friday, the assigned Program Specialist and the Neubus employee will both sign the Manifest to denote that the boxes returned are the ones listed on the Manifest. The "NEUBUS Day Forward" spreadsheet is updated by the Program Specialist who received the boxes with the original documents, to denote the date the boxes were returned.
- The boxes are shelved for at least 7 days before shredding of the original documents occurs. This 7 day window provides the Licensing Division the opportunity to detect any discrepancies in the imaging performed by Neubus, and for the Licensing Team that actually "owns" the records (i.e. Licensed Breeders, Cosmetology, IHB, etc.) to perform their own verification. The Neubus invoice is then paid by the Team Lead, who will document the paid date on the "NEUBUS Day Forward" spreadsheet.

Once the above has occurred, a Disposal Log, which identifies the boxes that can be destroyed/shredded, is prepared and given to the Team Lead for review and approval. Upon approval by the Team Lead, a copy of the Disposal Log along with keys to the shred bin, are provided to the 2 assigned Program Specialists, who will shred the contents of the boxes and the Disposal Log copy.

The Team Lead will then update the "NEUBUS Day Forward" spreadsheet with the date the boxes were destroyed.

AUDIT SCOPE/OBJECTIVE

The scope of our audit was the Records Retention area. The objective of our audit was to gain an understanding of the processes and controls in place over the Records Retention area to determine compliance with Chapter 441, Subchapter L of the Texas Government Code, applicable TDLR established policies and procedures, current practices in place; and, the Records Retention Schedule.

The procedures performed to achieve the objective of our audit were as follows:

1. Obtained an understanding of the processes and controls in place within the various divisions of TDLR involved in the administration of the retention of records, including the electronic storage of records.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

2. Reviewed and obtained an understanding of Chapter 441, Subchapter L of the Texas Government Code (TGC); and, TDLR's policies and procedures in place over the records retention process.
3. Obtained and reviewed TDLR's current TSLAC-approved Records Retention Schedule and amendments.
4. Obtained the beginning and ending document number for images scanned into the Imaging System for the period from September 1, 2013 through June 30, 2014 and randomly selected a sample of 5 documents to ensure proper imaging and indexing.
5. Randomly selected a box that was returned from Neubus on July 3, 2014 and haphazardly selected a sample of 5 documents to ensure:
 - a. Proper imaging and indexing.
 - b. The NEUBUS Day Forward shared spreadsheet accurately reflected the current status of the box.
 - c. The document was included in the inventory spreadsheet prepared by the Program Specialist before being sent to Neubus for imaging.
6. Obtained a listing of records permanently disposed of during the period from September 1, 2013 through June 30, 2014 and haphazardly selected 3 tracking numbers to ensure records were disposed of in accordance with the Records Retention Schedule; and applicable laws, regulations, policies and procedures.
7. Obtained the TSLAC Transmittal of State Records report dated June 3, 2014 for the transmittal of records to the TSLAC Records Center. From this report we haphazardly selected 3 boxes to ensure records were archived in accordance with the approved Records Retention Schedule; and, established policies and procedures.

I. Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on TDLR's Website

To comply with the provisions of House Bill 16, within 30 days of approval by TDLR's Commissioners, TDLR will post the following information on its website:

- An approved fiscal year 2015 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2014 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The internal audit annual report includes any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor as well as the summary of the action taken by TDLR to address such concerns.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

II. Internal Audit Plan for Fiscal Year 2014

The Internal Audit Plan (Plan) included 3 audits to be performed for the 2014 fiscal year. The Plan also included a follow-up of the prior year audit recommendations, other tasks as assigned by the Commissioners, Audit Committee, or management during the year, and preparation of the Annual Internal Audit Report for fiscal year 2014.

Risk Assessment

Utilizing information obtained through the inquiries and background information received, 34 audit areas were identified as potential audit topics. A risk analysis utilizing our 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

Following are the results of the risk assessment performed for the 34 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Elevators, Escalators, and Related Equipment	Boilers	Auctioneers
Cosmetology	Enforcement Administration, Fines, and Penalties	Combative Sports
Industrialized Housing and Buildings	Tow Trucks, Booting, and Vehicle Storage Facilities	Service Contract Providers
Licensed Breeders	Information Systems- Security and Disaster Recovery	Water Well Drillers and Pump Installers
Architectural Barriers	Records Retention	Cash Receipts and Fee Processing
Performance Measures Reporting	Legal Service Contracts	Fixed Assets Management
Cash Disbursements, Travel, and Purchasing	Licensed Court Interpreters	Payroll and Human Resources
	Used Auto Part Recyclers	Property Tax Professionals
	Weather Modification Law	Barbers
		Air Conditioning and Refrigeration Contractors
		Electricians
		Polygraph Examiners
		Vehicle Protection Product Warrantors
		Budgeting
		Professional Employer Organizations
		Property Tax Consultants
		Education and Examination
		Temporary Common Workers

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

The areas recommended for internal audits and other tasks to be performed for the fiscal year 2014 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Report Date</u>
1.	Licensed Breeders Program	6/18/2014
2.	Industrialized Housing and Buildings (IHB) Program	8/11/2014
3.	Records Retention	8/11/2014
-	Annual Internal Audit Report – Follow-up of Prior Year Internal Audits	8/11/2014
-	Other Tasks Assigned by the Commissioners, Audit Committee, or Management	None

In fiscal year 2013, internal audits were performed in the following areas:

- Enforcement Administration, Fines, and Penalties
- Property Tax Professionals
- Cash Receipts and Fee Processing
- Fixed Assets Management

In fiscal years 2012 and 2011, internal audits were performed by a predecessor internal auditor in the following areas:

<u>Fiscal Year 2012:</u>	<u>Fiscal Year 2011:</u>
<ul style="list-style-type: none">● Air Conditioning and Refrigeration Contractors● Cosmetology● Payroll and Personnel Processes● Service Contract Providers	<ul style="list-style-type: none">● Electricians● Property Tax Consultants● Staff Leasing Services● Temporary Common Workers

III. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Audit Auditor's *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards, December 2011 Revision*, Sections 3.33-3.58.

IV. External Quality Assurance Review

The internal audit department's most recent *System Review Report*, dated October 26, 2012, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

TEXAS DEPARTMENT OF LICENSING AND REGULATION
 Annual Internal Audit Report
 Fiscal Year 2014

V. Observations/Findings and Recommendations

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	6/18/2014	Licensed Breeders Program	<p>1. <u>Investigations</u></p> <p>Of the complaint investigation cases tested, 4 had a current status of "Open for Investigation" in the Enforcement Division's Legal Files system; however, there was no indication of activity performed for 46 to 179 days.</p> <p><u>Recommendation</u> We recommend that TDLR's Enforcement Division monitor the investigation process and prioritize cases that have been open for a long period of time to ensure licensees implement the proper course of action in a timely manner.</p> <p><u>Management's Response</u> We concur. Two of the four were completed within 90 days which we consider to be timely. The other two have been completed but they took longer than 90 days. Unprecedented turnover in the investigation section, which included turnover in the top two positions in the section within a few months lead to the extended investigation period. That issue is now resolved.</p> <p>2. <u>Documentation</u></p> <p>All original documents (i.e. applications, renewals, annual inventory forms, etc) received by TDLR are sent to an electronic imaging vendor to be imaged and indexed. Upon completion, the documents are returned to TDLR, where they are tested on a sample basis to ensure they were properly imaged, before being shredded.</p> <p>A renewal application and an annual inventory form selected for testing was not imaged; therefore, we were unable to determine compliance with certain requirements since documentation, used by TDLR to enter information into the Tulip system was not available.</p> <p><u>Recommendation</u> We recommend that TDLR reassess their current process and make any necessary revisions to ensure that documentation imaged is complete and accurate.</p>		<p>To ensure licensees implement the proper course of action in a timely manner.</p> <p>To ensure significant original documentation is imaged before being destroyed.</p>

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	6/18/2014	Licensed Breeders Program	<p><u>Management's Response</u> We concur. All relevant documents should be in the imaging system. We will assess our controls and improve them as needed during 2015.</p> <p>3. <u>Periodic Inspections</u> In accordance with TAC §91.52, each facility of a licensed breeder is required to be inspected at least once in every 18-month period. Our testing of 10 inspections disclosed 9 instances in which the periodic inspections were performed from 1 to 3 months after the 18-month period.</p> <p><u>Recommendation</u> We recommend that controls in place be improved to ensure inspections are performed as required by TAC §91.52.</p> <p><u>Management's Response</u> We concur. Seventy five percent of breeding facilities currently licensed were licensed during the first three months that licenses were available. That leaves the majority of the inspections to be done in a year coming due in a three month period. This is a small program with few inspectors trained to do the work. As we get trip optimization software, we plan to begin scheduling some of them early so we can spread the workload out.</p> <p>4. <u>Licensed Breeder Inspection Procedure Manual (Manual)</u> The current Manual is dated July 18, 2012 and is in its "second draft" form.</p> <p><u>Recommendation</u> We recommend that TDLR make any necessary revisions and finalize the Manual to ensure inspections are performed in a uniform manner, as intended by TDLR.</p> <p><u>Management's Response</u> We concur. We will finalize the Manual in 2015.</p>		<p>To ensure inspections are performed as required by TAC §91.52</p> <p>To ensure policies and procedures are in a finalized form and inspections performed in a uniform manner.</p>

TEXAS DEPARTMENT OF LICENSING AND REGULATION
 Annual Internal Audit Report
 Fiscal Year 2014

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
2	8/11/2014	Industrialized Housing and Buildings Program	<p>1. <u>Policies and Procedures</u></p> <p>Our testing indicated that written policies and procedures have not been developed by the IHB Program Compliance Division to document the processes in place for administering the IHB Program; such as, processing third party inspector, third party inspection agency, and design review agency original and renewal applications; issuing permits; reviewing design plans; reviewing manufacturer's monthly reports; conducting audits of industrialized builders; and, monitoring inspections performed by third parties.</p> <p><u>Recommendation</u> We recommend the IHB Program Compliance Division develop written policies and procedures to ensure the IHB Program is administered in a uniform manner, as intended by management.</p> <p><u>Management's Response</u> We concur. Written policies and procedures are needed. The issue is not enough staff to work on these policies and procedures. We have requested additional staff in our Legislative Appropriations Request.</p> <p>2. <u>Third Party Monitoring Inspections</u></p> <p>TAC §70.61 states that TDLR shall monitor and evaluate the performance of third party inspection agencies, third party inspectors, and design review agencies and make performance reports and recommendations to the Council, as deemed necessary. Inquiry of staff indicated that such inspections were not performed during the current year due to their limited staff size.</p> <p><u>Recommendation</u> We recommend TDLR comply with TAC §70.61 by performing third party monitoring inspections and report results, as considered necessary, to the Council.</p> <p><u>Management's Response</u> We concur. Third party monitoring inspections and reports are needed. The issue again is not enough staff. We have requested additional staff in our Legislative Appropriations Request.</p>		<p>To ensure policies and procedures are documented for all processes performed by the IHB Program.</p> <p>To ensure compliance with state laws.</p>

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
2	8/11/2014	Industrialized Housing and Buildings Program	<p>3. <u>Late Renewal Fee</u></p> <p>TAC §60.83 requires a person whose registration has been expired for 90 days or less to pay a late renewal fee equal to 1½ times the normal renewal fee to renew their license and a person whose license has been expired more than 90 days but less than 18 months, to pay 2 times the normal renewal fee.</p> <p>TDLR utilizes the renewal application's postmark date, as reflected on the envelope, as the date the applicant submitted the renewal fee; however, the envelope is not retained and the date is not documented.</p> <p><u>Recommendation</u> We recommend TDLR consider documenting the postmark date on the renewal application, along with the payment amount, or document the date in the IHB database, to provide evidence that the correct amount was paid and to allow a 3rd party to recalculate the accuracy of the renewal fee paid.</p> <p><u>Management's Response</u> The IHB program specialist does make a note in the database under the notes section. We will consider adding a new field to enter the date stamp on the envelope to show it was mailed prior to due date if the date stamp on the application is after the expiration date.</p>		To provide evidence that the correct renewal fee was paid.
3	8/11/2014	Records Retention	<p>1. <u>Expiration of Retention Period – Imaging System</u></p> <p>Discussions with management disclosed that it is very seldom that documents are deleted from the Imaging System, which has been used by TDLR for at least 12 years.</p> <p>According to TDLR's Records Retention Schedule, the retention period for Source Documents to License/Register is FE (fiscal year end) + 10 years. Therefore, it is highly probable that records maintained in the Imaging System are eligible for permanent disposal.</p> <p><u>Recommendation</u> We recommend that TDLR perform a review of the records contained in the Imaging System and proceed with the permanent disposal of eligible records, to comply with the retention period, as reflected in the Records Retention Schedule.</p> <p><u>Management's Response</u> We concur. We have developed an electronic purging tool to ensure records are retained only for the prescribed timeframes. We plan to begin purging records during 2015.</p>		To comply with the retention period reflected in the Records Retention Schedule.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
3	8/11/2014	Records Retention	<p>2. <u>Disposal of Records at TSLAC's Records Center</u></p> <p>As part of our testing of the disposal process for records stored at TSLAC's Records Center, we obtained 3 tracking numbers to ensure proper disposal. In one of the 3 instances, a number was assigned to track 143 boxes of records listed in a formal letter from TDLR's RMO to the TSLAC Records Manager requesting permanent disposal. However, our review of the TSLAC Hard Copy Destruction and Perm Transfers report for the period from 9/1/2013 through 6/30/2014 indicated that only 79 of the 143 boxes were permanently disposed. Therefore, the remaining 64 boxes were still being archived at TSLAC's Records Center and TDLR continued to pay a monthly fee for the storage space occupied. We later learned that there was a glitch in the TSLAC system that is being corrected.</p> <p><u>Recommendation</u> We recommend that TDLR establish a process to verify that TSLAC disposes of records, as requested. Such a process could be accomplished by obtaining a Hard Copy Storage System report for the month following the request for permanent destruction to ensure the boxes associated with the tracking number are no longer reflected in the report,</p> <p><u>Management's Response</u> As a result of this oversight, TSLAC began sending us a monthly report to verify the disposal of records. They are upgrading their system to allow us to query our TSLAC inventory on demand. It is expected to be completed in 2015.</p> <p>3. <u>Written Policies & Procedures</u></p> <p>Written policies and procedures have not been developed to document TDLR's archival and disposal practices for records at the TSLAC Records Center.</p> <p><u>Recommendation</u> We recommend that TDLR establish written policies and procedures for these practices to provide uniform guidance for all personnel who are involved in these processes.</p> <p><u>Managements Response</u> We concur. We will develop written policies and procedures in 2015. We plan to wait for TSLAC to complete the changes to their system so the written policies and procedures will reflect the new system.</p>		<p>To ensure proper disposal of records.</p> <p>To formally document TDLR's practices for the archival and disposal of records at TSLAC's Records Center.</p>

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
	8/11/2014	2014 Follow-Up	<p>Follow up of Prior Year Audit Comments</p> <ol style="list-style-type: none"> <li data-bbox="570 596 1146 764">1. Enforcement Administration, Fines and Penalties – Investigation Process Monitor the investigation process to include a review of all cases that reach the quarterly anniversary without activity. For cases that become aged (over 90 days) a procedure to prioritize cases should be established. <li data-bbox="570 840 1146 936">2. Property Tax Professionals – PTP Procedures Finalize PTP Procedures and ensure a final draft is provided to staff for use in the processing of applications. <li data-bbox="570 987 1146 1129">3. Boilers – Timely Inspections Some boilers are not being inspected as required by the Texas Administrative Code (TAC) and Texas Health and Safety Code, and revenue from uninspected boilers in not being collected by the Department. <li data-bbox="570 1255 1146 1398">4. Boilers – Board of Boiler Rules TDLR should encourage the Board of Boiler Rules to meet at least twice a year in order to comply with the requirements of Texas Boiler Law §755.016. The last meeting was held May 22, 2008. <li data-bbox="570 1545 1146 1885">5. Cosmetology – Enhance Control over Case Files with Disciplinary Actions TDLR should enhance controls to ensure that case files with disciplinary actions are properly maintained, documented, and monitored. TDLR considered cases closed when the first payment is made on an agreed order, however all activity for case files with disciplinary actions should be documented (written or scanned) chronologically by date until the case file is finally closed by the Department or by commission action. This will also ensure that all assessed penalty payments are received and that all other Department requirements for the particular disciplinary actions have been met. 	<p>Incomplete/Ongoing Our testing disclosed, 7 of 10 investigations had no activity for 232 to 849 days.</p> <p>Fully Implemented</p> <p>Incomplete/Ongoing Status determined based on our review of an “Overdue Inspection” report.</p> <p>Not Implemented Board meetings have not been held; however, TDLR is working towards setting up a meeting September 2014.</p> <p>Fully Implemented</p>	

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2014

VI. Proposed Internal Audit Plan for Fiscal Year 2015

The risk assessment performed during the 2014 fiscal year was used to identify the following *proposed* areas that are recommended for internal audits for fiscal year 2015. The Internal Audit Plan for Fiscal Year 2015 will be developed and presented to the Commission at a meeting to be determined at a later date.

- Elevators, Escalators, and Related Equipment
- Architectural Barriers
- Legal Service Contracts
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Commission or Audit Committee

VII. External Audit Services Procured in Fiscal Year 2014

TDLR procured the internal audit services documented in the Internal Audit Plan for fiscal year 2014.

VIII. Reporting Suspected Fraud and Abuse

TDLR has provided information on their home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. TDLR has also developed a Fraud Prevention Policy that provides information on how to report suspected fraud, waste, and abuse to the SAO.

IX. Organizational Chart

