

TEXAS DEPARTMENT OF LICENSING AND REGULATION
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2015



TEXAS DEPARTMENT OF LICENSING AND REGULATION
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2015

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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 Architectural Barriers Program and the Elevators, Escalators, and Related Equipment Program of the Texas Department of Licensing and Regulation (TDLR); and, its compliance with applicable State requirements, and TDLR's established policies and procedures, for the 11 months ended July 31, 2015.

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 with State requirements, 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, meets the State of Texas Internal Audit Annual Report requirements.

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*

August 31, 2015

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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 programs with more than 100 license types and the oversight of over 600,000 licensees.

Texas Occupations Code (TOC) Chapter 51 establishes TDLR and its responsibilities; and, Title 16, Chapter 60, 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 seven public members of the Commission are appointed to staggered six year terms by the Governor with the advice and consent of the Senate. The roles of the Commission are to:

- select and supervise the executive director;
- provide policy direction for the agency;
- approve TDLR's strategic plan, operating budget, and requests for funding;
- consider input from TDLR's Advisory Boards;
- set fees reasonable and necessary to cover program costs;
- adopt and repeal rules; and,
- establish and assess fines and sanctions for violations of laws, rules, and orders.

In addition to the Commission, there are a number of 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.

2015 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in TDLR's approved 2015 Internal Audit Plan:

- Architectural Barriers Program
- Elevators, Escalators, and Related Equipment Program
- Follow-up of Prior Year Internal Audits
- Other Tasks

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

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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.

EXECUTIVE SUMMARY

Architectural Barriers (AB) Program

Background

The Texas Government Code (TGC), Chapter 469 – Elimination of Architectural Barriers, authorizes TDLR to administer and enforce provisions of this Chapter and the Texas Accessibility Standards (TAS). In addition, Title 16, Part 4 of the Texas Administrative Code (TAC) Chapter 68, outlines specific rules for the administration of the AB Program.

Buildings or facilities in the state of Texas subject to TGC Chapter 469, must be constructed in accordance with the compliance standards outlined in the 2012 TAS. TGC Chapter 469 applies to buildings and facilities that are:

- used by the public that are constructed, renovated, or modified, in whole or in part, on or after January 1, 1970, using funds from the state or a county, municipality, or other political subdivision of the state;
- constructed on a temporary or emergency basis;
- leased or occupied, in whole or part, by the state under a lease or rental agreement entered into on or after January 1, 1972; or,
- privately funded and defined as a 'public accommodation' or a 'commercial facility' by section 301 of the Americans with Disabilities Act of 1990.

AB Advisory Committee

TGC §469.053(a) requires TDLR to appoint an AB Advisory Committee (Committee), which is composed of at least eight members consisting of building professionals and persons with disabilities (consumers) who are familiar with AB problems and solutions. The Committee's primary responsibility is to review rules and technical memorandum relating to the AB Program and recommend changes to TDLR.

The current Committee is composed of nine appointed members, five consumers and four building professionals, who are serving three year terms.

Organizational Structure

TDLR's Business and Occupations Section (Section) within the Licensing Division, which is supervised by a Licensing Manager and comprised of three License and Permit Specialists (LPS), is responsible for licensing Registered Accessibility Specialists (RAS).

The Business and Building Section within the Compliance Division, includes the AB Program Section which is comprised of a Program Manager, a Team Lead, five Program Specialists, and five Administrative Assistants, is responsible for ensuring that buildings and facilities covered by the law comply with the AB Program's requirements.

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Systems/Database

The Section utilizes the Texas Umbrella Licensing Information Project (TULIP) licensing system to register and renew RAS registrations. Every type of license issued by TDLR has a Program Identifier (PI) number, which when entered into TULIP, populates the program specific licensure requirements, for the LPS to ensure all requirements are satisfied before a license is issued. TULIP is interfaced with the *TDLR License Data Search* function on TDLR's website to make current licensee information available to the public.

The Compliance Division of the AB Program utilizes the _____ system to maintain and track information pertaining to registered projects. When a project is registered with TDLR's AB Program, the _____ system assigns it a project number, which is used by the Compliance Division's personnel to enter, update, and track all project activity in the _____ system, by project number. The _____ system is interfaced with the *AB Data – Search* function on TDLR's website to make current information, related to registered projects, available to the public.

Licensing

RAS

A RAS is a third party individual who is registered with TDLR to perform plan reviews and inspections of projects registered with the AB Program, in accordance with TAC §68.75 – §68.76.

To become an RAS, one must complete and meet the following qualifications, as required by TAC §68.70:

- Complete a RAS Application Form available on the TDLR website and submit it to TDLR along with a \$300 registration fee, in accordance with TAC §68.80(a).
- Provide certification of satisfactory completion of the Texas Accessibility Academy offered by TDLR or an approved provider.
- Pass an examination approved by TDLR.
- Meet any one of the three qualifications:
 - Have a degree in architecture, engineering, interior design, landscape architecture, or equivalent; and, a minimum of one year experience related to building inspection, building planning, accessibility design or review, accessibility inspection, or equivalent;
 - Have eight years of experience related to building inspection, building planning, accessibility design or review, accessibility inspection, or equivalent; or,
 - Have four years of experience related to building inspection, building planning, accessibility design or review, accessibility inspection, or equivalent; and, certification as an accessibility inspector/plans examiner granted by a model building code organization.

A RAS registration must be renewed annually. As required by TAC §68.73 – §68.74, to renew a RAS registration, a RAS must submit a completed RAS Renewal Form to TDLR along with a \$250 renewal fee, in accordance with TAC §68.80(a), and complete eight hours of continuing education.

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TULIP automatically generates Renewal Forms 60 days prior to the RAS license expiration date, which are printed and mailed to the RAS by the Licensing Support section of the Licensing Division.

RAS applications and renewals are only accepted by TDLR via mail. All mail is first received in the TDLR mailroom where it is opened and all accompanying documents are date stamped. The total amount of fees submitted is documented on the respective application or renewal form. Applications and renewal forms are sorted and grouped by application type. The mailroom staff then enters the fees submitted into the TULIP system and sends them to the Financial Services Division for processing. The applications, renewal forms, and other documentation are then forwarded to the Section.

The Section LPS' are responsible for reviewing the application and renewal documentation submitted and updating the RAS's TULIP profile as needed. The RAS's examination or continuing education results are entered into TULIP by the Education & Examination Division; and, their criminal history background check results are entered by the Licensing Support section of the Licensing Division. If items are found in the criminal history background check, a hold, which can only be released by the Enforcement Division, is placed on the TULIP profile for the Enforcement Division to review and research. Once all requirements are identified as being satisfied in TULIP, the profile is released to a third party vendor to generate a wallet card license, which is mailed to the licensed RAS within three business days. A wall certificate is printed by the Licensing Support section of the Licensing Division and mailed to the licensed RAS.

For the period from September 1, 2014 through July 31, 2015, there were 38 new RAS applications and 421 renewal forms filed and processed by the Section.

Compliance

Project Registration

Owners of buildings and facilities subject to TGC Chapter 469 are required to register projects with TDLR's AB Program. Owners may register projects online through the TDLR website or by mail, by completing a Project Registration Form and paying the applicable fee. In accordance with TAC §68.80(a), the fee to register a project prior to the completion of construction is \$175. If the project is registered after completion of construction, the fee is \$300. Upon receipt of the completed Project Registration Form and applicable fee, the project will be registered in the system and assigned a project number. Significant information reported on the Project Registration Form includes the project name, building address, owner, design firm, estimated completion date, and a brief project description.

For the period from September 1, 2014 through July 31, 2015, there were 21,106 projects registered with TDLR of which 20,956 were registered online through the TDLR website.

Project Status Forms, which are available on the TDLR website, are used by RAS's to report updates or changes to projects registered with the AB Program. Changes or updates may include the completion of plan reviews or inspections, a change in the estimated completion date, or a change to the project information. The system project file is updated accordingly by the Program Specialists upon receipt of these Forms.

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Variance Applications and Appeals

Owners of buildings or facilities that are requesting a waiver or modification of a TAS standard(s) are required to complete and file a Variance Application, which is available on the TDLR website, and submit it along with a fee of \$175, per TAC §68.80(a), to TDLR by mail.

The Team Lead will assign Variance Applications to Program Specialists for review. The Program Specialist documents their decision of whether to approve or deny the Variance Application, in a Variance Results letter, and submits it to the Team Lead for review and approval. Upon approval by the Team Lead, the Program Specialist will sign and date the Variance Results letter and mail it to the owner to inform them of the decision, as required by TAC §68.31(e).

Per TAC §68.31(c), a denied Variance Application may be appealed within 30 calendar days from the date of the Variance Results letter. The appeal must be mailed to TDLR with a Variance Appeal fee of \$200. The Manager of the AB Program has been assigned the responsibility of reviewing all Variance Application Appeals. Upon completion of his review, he documents his decision on an Appeal Results Letter, which he also signs and dates; and, mails to the owner, as required by TAC §68.31(c). A denied appeal may be appealed to the Executive Director within 30 days; there is no fee for this appeal. The Director of the Compliance Division has been assigned the responsibility of reviewing these Appeals. Upon completion of his review and after consultation with the Executive Director, the Director documents the decision in a letter, which he also signs and dates. This letter is mailed to the owner, as required by TAC §68.31(e).

As of July 31, 2015 the AB Program received and processed 218 Variance Applications and 26 Variance Application Appeals.

Inspections and Plan Reviews

As of February 1, 2013, TDLR personnel no longer perform plan reviews; and, as of February 1, 2014, no longer accept requests for inspections. Registered RASs are now solely responsible for performing plan reviews and accepting request for and performing inspections. The Compliance area is currently performing inspections for owners who requested an inspection prior to February 1, 2014. For the period from September 1, 2014 through July 31, 2015, AB Program personnel performed 18 inspections.

Building owner's responses to pending violations reported in an Inspection Report are monitored by the RAS who performed the inspection; however, AB Program personnel may assist if violations have not been addressed or corrected after 270 days of the Inspection Report date or if the nature of the violation is significant.

Notice of Inspections Overdue (NOIO)

On a daily basis, an assigned Administrative Assistant reviews open project files housed onsite, identifies those with an estimated completion date of one year from the current date, and reviews the system to determine if an inspection has been performed. If there is no inspection activity documented in the system, the Administrative Assistant will prepare an NOIO and mail it to the owner of the project to inform them that an inspection is overdue.

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Notice of Substantial Compliance

TAC §68.60 requires TDLR to provide a Notice of Substantial Compliance to the owner, at the owner's request through submission of a Notice of Substantial Compliance Request Form (request form), after a newly constructed building or facility has had a satisfactory inspection or verification of corrective modifications are submitted.

Upon receipt of a request form, an Administrative Assistant will review the system and if an approved inspection is documented for the respective project, an issuance letter, a Notice of Substantial Compliance certificate, and a decal sticker; will be mailed, at no expense, to the owner.

Audits/Investigations

The Compliance area is responsible for conducting audits/investigations of RAS's and of owners of buildings and facilities subject to TGC Chapter 469, as required by TAC §68.93(b). The Compliance area is currently performing RAS audits/investigations (and indirectly owners of buildings and facilities) that have been prompted by complaints, or those with a pattern of poor practices, as identified by the Program Specialists and Administrative Assistants. A Program Specialist maintains a list of potential auditees that is used by the AB Program Manager and Team Lead for assigning audits/investigations to Program Specialists. A listing of open audits/investigations is maintained and provided to all AB Program personnel so that all are informed of current assignments.

As of July 31, 2015, there were 23 open audits/investigations being performed by the AB Program.

Audit Scope/Objective

The scope of our audit was the Architectural Barriers (AB) Program. The objective of our audit was to gain an understanding of the AB Program's processes and controls in place to determine whether they are sufficient to ensure the AB Program is compliant with; and, administered and operated in accordance with applicable sections of the Texas Government Code (TGC), Texas Administrative Code (TAC), and the AB Program's established policies and procedures.

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

1. Obtained an understanding of laws and regulations provided in the TGC and TAC, as applicable to the AB Program.
2. Obtained and reviewed policies and procedures, various documents, and conducted interviews to obtain an understanding of the processes and current practices in place over the registering of Registered Accessibility Specialists (RAS).
3. Performed a walkthrough of –
 - a. The registering process using TULIP.
 - b. The AB Program's common functions using the system.
4. Obtained a listing of RAS applications filed during the period from September 1, 2014 through July 31, 2015, and selected a sample of 10 applications to test for the following attributes:
 - a. Proper completion of the RAS Application Form.
 - b. Receipt of the \$300 fee, as required by TAC §68.80(a).
 - c. Documentation demonstrating the applicant's qualifications and satisfying the requirements outlined in TAC §68.70(a) (1).
 - d. Receipt of the Texas Accessibility Academy certificate of completion.

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- e. Applicant's TULIP profile indicating the passing of the examination approved by TDLR.
 - f. Issuance of Request for Information letter, if applicable.
 - g. Proper inclusion or exclusion of the applicants' name on the *TDLR License Data Search* function on the TDLR website.
5. Obtained a listing of RAS renewals filed during the period from September 1, 2014 through July 31, 2015, and selected a sample of 25 renewals to test for the following attributes:
 - a. Proper completion of the RAS Renewal Form.
 - b. Receipt of the applicable fee, as required by TAC §68.80(a) or §60.83.
 - c. Completion of eight hours of continuing education, as required by TAC §68.74.
 - d. Proper inclusion or exclusion of the applicants' name on the *TDLR License Data Search* function on the TDLR website.
 6. Obtained a listing of projects registered with the AB Program during the period from September 1, 2014 through July 31, 2015, and selected a sample of 12 projects to test for the following attributes:
 - a. Proper completion of the Project Registration form.
 - b. Receipt of the applicable fee.
 - c. Agreement of the project status as reflected in the _____ system agrees to the project status on the *AB Data – Search* function on the TDLR website.
 7. Obtained a listing of Variance Applications (applications) filed with the AB Program during the period from September 1, 2014 through July 31, 2015, and selected a sample of 12 applications to test for the following attributes:
 - a. Receipt of the application and the \$175 fee, as required by TAC §68.80(a).
 - b. Variance Results letter initialed by the Team Lead denoting their review and approval.
 - c. Variance Results letter provided to the building/facility owner informing them of the application results, as required by TAC §68.31(e).
 8. Obtained a listing of denied Variance Application Appeals (appeals) filed with the AB Program during the period from September 1, 2014 through July 31, 2015, and selected a sample of three appeals to test for the following attributes:
 - a. Receipt of the appeal and the \$200 fee, as required by TAC §68.809(a).
 - b. Appeal Results letter signed by the AB Program Manager.
 - c. Evidence indicating appeal Results letter was provided to the building/facility owner informing them of the application results, as required by TAC §68.31(e).
 9. Obtained a listing of Inspections performed by the AB Program during the period from September 1, 2014 through July 31, 2015, and selected a sample of five inspections to test for the following attributes:
 - a. Evidence indicating the request of inspection was provided and maintained.
 - b. Receipt of the applicable fee, as required by TAC §68.80(a).
 - c. Evidence indicating the building/facility owner was advised in writing of the results of the inspection, as required by TAC §68.52(c).
 - d. Evidence indicating the building/facility owner was provided with a listing of deficiencies noted in the inspection and a deadline to achieve compliance, as required by TAC §68.53(a) (1), if applicable.

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10. Randomly selected three RAS audit folders from the AB Program files and three open audits from the current listing of open audits to review the assigned Program Specialist's audit work papers and documentation to ensure the performance and existence of the audit.
11. Randomly selected three Notices of Substantial Compliance from the assigned Administrative Assistant's files and reviewed the corresponding system's project file to test for the following attributes:
 - a. Completion of an approved inspection.
 - b. Issuance of a certificate, decal, and/or issuance letter.

Elevators, Escalators, and Related Equipment (ELE) Program

Background

In 1993, the 73rd Legislature enacted HB 154, relating to the adoption of minimal safety standards for elevators, escalators, and related equipment; the inspection of elevators, escalators, and related equipment; establishment of the elevator advisory board; and, the assessment of a penalty for violations. The ELE Program is governed by the Health and Safety Code (HS or, the Code), Chapter 754, and administrative rules in Title 16, Part 4 of Texas Administrative Code (TAC) Chapter 74.

The ELE Program is responsible for ensuring elevators, escalators, and related equipment (equipment) located in public buildings in Texas are designed according to safety standards, installed correctly, properly maintained and operate safely. Such equipment includes elevators, escalators, chairlifts, platform lifts, automated people movers operated by cables, and moving sidewalks and related equipment. The ELE Program delegates the annual onsite inspection of equipment to registered elevator inspectors (inspector) who must register annually with TDLR. The ELE Program also registers licensed elevator contractors (contractors), who also must register annually with TDLR, that are permitted to install, repair, alter, test, or maintain equipment.

Elevator Advisory Board

HS §754.012 established the nine member Elevator Advisory Board (Board), whose members are appointed by the presiding officer of the Commission, with the Commission's approval, serve staggered three year terms, and represent industry, owners, and consumers. The Board advises the Commission and TDLR on the adoption of appropriate standards for the installation, alteration, and operation of elevators, escalators, and related equipment, on the status of such equipment in Texas, and on sources of information relating to equipment safety.

Organizational Structure

The ELE Program is administered primarily by TDLR's Licensing and Compliance Divisions.

The Licensing area pertaining to the ELE Program is under the Business and Mechanical section of TDLR's Licensing Division, which is comprised of a Licensing Manager, and 10 License and Permit Specialists. This Licensing area is responsible for processing initial and renewal registration applications for inspectors and contractors, issuing certificate of compliance to owners for equipment, and issuing equipment decals, test tags and other inspection related items to inspectors. This Licensing area utilizes the Texas Umbrella Licensing Information Project (TULIP) system for processing applications.

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The Compliance area pertaining to the ELE program is under the Business and Building section of TDLR's Compliance Division, which is comprised of the Business and Building Manager, a Chief Elevator Inspector, a Deputy Chief Elevator Inspector, and two Program Specialists. The Compliance area is responsible for ensuring inspectors and contractors satisfy minimum requirements and that equipment owners follow safety requirements for their equipment; to include, obtaining an annual inspection and reporting accidents within 24 hours.

Licensing

Applications and renewals for the ELE Program are only accepted by TDLR via mail. All mail is first received in the TDLR mailroom where it is opened and all accompanying documents are date stamped. The total amount of fees submitted is documented on the respective application or renewal form. Applications and renewal forms are sorted and grouped by application type. The mailroom staff then enters the fees submitted into the TULIP system and sends them to the Financial Services Division for processing. The applications, renewal forms, and other documentation are then forwarded to Licensing area for processing.

Inspector Registration

An inspector is a person engaged in the inspection and witnessing of the tests specified in adopted national elevator safety standards to determine compliance with those standards. The public can search registered inspector information using TDLR's online License Data Search menu.

Per TAC §74.20, the following items are required to be submitted to TDLR for initial registration as an inspector with TDLR:

- Completed application.
- \$50 original application fee, as required by TAC §74.80.
- Copy of a valid elevator inspector certification, commonly known as Qualified Elevator Inspector (QEI), issued within 12 months of the application date by either the National Association of Elevator Safety Authorities (NAESA); or, Elevator Industry Work Preservation Fund (EIWPF).

By presenting a copy of a valid elevator inspector certification, the applicant satisfies both, educational and certification requirements outlined in HS §754.017(a). An elevator inspector certification is valid for one year; at which time, the individual must complete approved continuing education to be recertified.

TDLR's inspector registration application contains general applicant information, a question related to license enforcement and another related to criminal history. A "Yes" response to either question requires the applicant to submit copies of legal documents and a detailed written explanation of the relevant events to allow TDLR to determine whether or not to accept an application.

TULIP generates Request for Information (RFI) letters on a daily basis that are sent by the Licensing Support team to applicants requesting additional documentation, when necessary. The RFI letter also informs newly registered inspectors of the orientation session they are required to complete per TAC §74.20; and, which is provided by TDLR. The Licensing Support team also performs criminal background checks of all new applicants. Once the background check is cleared and all items in the RFI letter are submitted, the registration process is considered complete and the new inspectors' information is released to a third-party vendor to generate a wallet-sized registration card.

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An inspector's registration must be renewed annually. TULIP automatically generates renewal letters 60 days prior to the registration expiration date. The renewal letters are mailed to inspectors daily, and serve as renewal applications. The following is required to be submitted for renewal of an inspector's registration, per TAC §74.21:

- Completed renewal application.
- \$50 renewal application fee, as required by TAC §74.80.
- Copy of a valid elevator inspector certification issued within 12 months of the renewal application date, which also satisfies the eight hours of continuing education requirement.

Renewal applications that are submitted up to 90 days after the expiration date are required to pay a renewal fee of \$75; and \$100 for those that are submitted more than 90 days after the expiration date. An inspector whose registration is expired for more than 18 months but less than 3 years, must submit a Request to Executive Director for Expired License Renewal form, which is approved or denied by the Executive Director, along with a \$100 fee. Inspectors whose registration is expired for 3 years or more cannot renew but, instead, must re-apply.

For the period from September 1, 2014 through July 31, 2015, the Licensing area processed 12 new inspector registration applications and 125 inspector renewal applications.

Contractor Registration

A contractor is a person or a company engaged in the installation, alteration, testing, repair, or maintenance of equipment, but does not include an employee of a contractor. The public can search licensed contractor information using TDLR's online License Data Search menu.

Per TAC §74.22, the following items are required to be submitted to TDLR for initial registration as an elevator contractor:

- Completed application.
- Proof of general liability insurance, as required in TAC §74.40, or self-insurance if a qualifying institution of higher education.
- \$115 original application fee, as required by TAC §74.80.
- Responsible Party Designee application designating at least one, but not more than two, responsible parties.

Proof of Insurance

A Certificate of Insurance form (form) must be submitted by the applicant as proof of insurance coverage. The Licensing area personnel review the form to ensure compliance with the minimum coverage requirements outlined in HS §754.015(a)(9), which are \$1 million for each single occurrence of bodily injury or death, and \$500,000 for each single occurrence of property damage. TAC §74.40 also requires the insurance policy to include a provision that gives TDLR a 30 day written notice prior to cancellation.

Responsible Party Designee

The responsible party designee allows a contractor to have no more than two persons meet continuing education requirements. The designation is valid until the contractor provides TDLR with a written notice to withdraw the designee; at which time, the contractor must designate another person within 30 days. The Licensing area personnel review the Responsible Party Designee application to ensure the individual(s) listed has a minimum of three years of elevator related experience that consists of constructing, installing, repairing, maintaining, or testing equipment.

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A contractor's registration must be renewed annually. The contractor's renewal process is similar to that for inspectors, with the exception of the documents required to be submitted. The following is required to be submitted for renewal of a contractor's registration (license), per TAC §74.23:

- Completed renewal application letter.
- Proof of general liability insurance or self-insurance if a qualifying institution of higher education.
- \$115 renewal application fee, as required by TAC §74.40.
- eight hours of continuing education by the responsible party(ies), as entered into TULIP by the continuing education provider.

Renewal applications that are submitted up to 90 days after the expiration date are required to pay renewal fee of \$172.50; or \$230 for those expired more than 90 days. A contractor whose registration is expired for more than 18 months but less than three years, must submit a Request to Executive Director for Expired License Renewal form, which is approved or denied by the Executive Director, along with a \$230 fee. A contractor whose registration is expired for three years or more cannot renew but; instead, must re-apply.

For the period from September 1, 2014 through July 31, 2015, the Licensing area processed 19 new contractor registration applications and 117 contractor renewal applications.

Certificate of Compliance

All elevators, escalators and related equipment in public buildings in Texas, unless they are exempt as described in HS §754.0111, must be inspected annually by a registered inspector and receive a certificate of compliance from TDLR to be displayed in a publicly visible area. Information on equipment is available to the public from TDLR's online equipment search menu.

TDLR tracks equipment by assigning a unique building number to each building and a unique decal number to each piece of equipment.

Elevator owners are required to hire a registered inspector to perform an annual inspection. Within 72 hours of the inspection date, the inspector is required to report completion of the inspection through TDLR's Elevator Inspection Online Reporting System. The inspection report, as completed by the inspector, is then submitted to the owner within five calendar days of the inspection date. If the inspection information is not entered into TULIP within 10 days past the inspection due date, TULIP will generate a letter reminding the owner of the past due annual inspection. The inspection report is made available to the public on TDLR's website.

For the period from September 1, 2014 through July 31, 2015, registered inspectors completed 43,738 inspections of elevators, escalators and related equipment.

TAC §74.50 requires that equipment owners obtain an annual certificate of compliance for each piece of equipment and submit the following, by mail, to TDLR within 30 days of the inspection completion date:

- Inspection report obtained from a registered inspector; signed and dated by the owner which certifies that all noted violations have been corrected or are under contract to be corrected.
- \$20 certificate of compliance filing fee.
- \$10 late filing fee per unit of equipment for every 30 day period after the 60th day from the equipment inspection completion date, per TAC § 74.80 (b). HS §754.019 exempts institutions of higher education from filing fee requirements.

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TULIP will automatically generate a reminder letter that is submitted to the equipment owner if an inspection report is not received by TDLR within 15 days of the inspection completion date, as entered into the Online Reporting System by the inspector.

Upon satisfactory receipt of all required items and documents, the Licensing area personnel will print a certificate of compliance, which is mailed to the equipment owner. Inspections that reflect irregularities; such as, the absence of door restrictors or Firefighters' Service, or repeated (two or more consecutive years) violation of the same code, are sent to the Compliance Division to determine if additional requests of the owner are warranted, before issuing the certificate of compliance.

For the period from September 1, 2014 through July 31, 2015, TDLR issued 43,780 certificates of compliance.

Compliance

TDLR's online search indicates that as of August 31, 2015, there are 154 registered inspectors, 146 registered contractors, 184 responsible parties, and 52,261 pieces of equipment in 26,237 buildings.

Plan Reviews

Prior to beginning the installation or alteration of equipment, TAC §74.110 requires that a contractor submit to TDLR for approval, a plan review application along with a \$200 per unit fee (maximum fee of \$5,000); and, documents such as specifications and drawings. For an additional fee of \$100 per unit (maximum fee of \$2,500), the contractor may request to amend a previously approved plan. The contractor may also request an expedited plan review for a fee of \$1,000 per unit, with no maximum amount, which must be completed within five business days after the submission, as required in TAC §74.115(b).

The approved plan review application and the plan are mailed back to the contractor, and must be kept at the site in the machine room. Once the installation or alteration is completed, an inspector must conduct an acceptance inspection, which verifies the installation or alteration complies with the approved application and plans. The Compliance area maintains a spreadsheet that tracks plan review information; such as, application and completion dates, contractor number, type of review (standard, amendment, expedited), number and type of units of equipment, fees collected, and location. The spreadsheet is used for performance measure reporting.

For the period from September 1, 2014 through July 31, 2015, TDLR completed 1,398 plan reviews on a total of 2,614 units, collecting \$557,500 in fees.

Compliance Waivers and Delays

HS §754.014 allows equipment owners to apply for waivers or delays for compliance with the codes and standards in limited circumstances where the waiver or delay will not cause a significant threat to passenger safety. The owner must submit to TDLR, an application along with a \$50 application fee for each violation per unit of equipment requested to be waived or delayed. The Compliance area is responsible for approving or denying such applications.

From September 1, 2014 through July 31, 2015, TDLR processed 44 waiver and 101 delay applications.

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New Technology Variances

TAC §74.120 allows a contractor or equipment manufacturer to apply for approval of installation of new technology if it is equivalent or superior to the existing standards, by submitting to TDLR a completed application and a fee of \$2,500. A committee of TDLR personnel; to include, the Executive Director and Chief Elevator Inspector, review such applications and determine whether to grant the request. If the application is approved, the results are posted to TDLR's website for inspectors and contractors to view. If the application is denied, the applicant can submit a written appeal along with a \$200 fee to TDLR, for review by the Director of Compliance. The decision can be further appealed to the TDLR's Executive Director.

For the period from September 1, 2014 through July 31, 2015, TDLR received three new technology variances applications, where one has been approved and posted online; and, the other two remain under review.

Audit Scope/Objective

The scope of our audit was the Elevator, Escalator, and Related Equipment (ELE) Program. The objective of our audit was to gain an understanding of the processes and controls in place to determine whether they are sufficient to ensure the ELE Program is compliant with; and, administered and operated in accordance with applicable sections of the Texas Health and Safety Code (HS), the Texas Administrative Code (TAC); and, the ELE Program's established policies and procedures.

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

1. Obtained an understanding of laws and regulations provided in the HS Chapter 754 and 16 TAC Chapter 74, as applicable to the ELE Program.
2. Obtained and reviewed policies and procedures, various documents, and conducted interviews to obtain an understanding of the processes and current practices in place over the ELE Program.
3. Obtained listings of new and renewal applications for contractor registrations submitted during the period from September 1, 2014 through July 31, 2015, and selected a sample of eight new applications and 12 renewal applications to test for the following attributes:
 - a. Completeness of application, including required documentation;
 - b. Receipt of applicable fees;
 - c. Evidence of general liability insurance coverage, as required in TAC §74.40;
 - d. Qualification of the responsible party as required by TAC §74.24(a); and
 - e. License expiration date specified in HS §754.0171(c).
4. Obtained listings of new and renewal applications for inspector registrations submitted during the period from September 1, 2014 through July 31, 2015, and selected a sample of five new applications and 15 renewal applications to test for the following attributes:
 - a. Completeness of application, including required documentation;
 - b. Receipt of applicable fees;
 - c. Completion of orientation session as required by TAC §74.20(c); and
 - d. License expiration date specified in HS §754.0171(c).

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5. Obtained a listing of certificates of compliance TDLR issued during the period between September 1, 2014 through July 31, 2015, and selected a sample of 25 certificates to test for the following attributes:
 - a. Completeness of the information included in the certificate as described in TAC § 74.60(a);
 - b. Evidence indicating TDLR followed the following procedures, per TAC § 74.60(b):
 - i. Application was complete and appropriate fees, including late fees if applicable, were collected;
 - ii. Owner signed and dated indicating any code violations are corrected; contracted to be corrected; or waiver or delay was requested;
 - iii. TDLR notified and requested submission of an incomplete submittal to the owner; and,
 - iv. Certificate was issued only after all requirements were met.
6. Obtained copies of monthly plan review summary spreadsheets for the months between September 2014 and July 2015, and performed the following:
 - a. selected a sample of three months to test for the following attributes:
 - i. Accuracy of recorded monthly fee collection by recalculating fees based on the number of units reported in spreadsheet and fee schedule; and,
 - ii. Completion of expedited reviews within five business days as required in TAC §74.115(b).
 - b. selected a sample of 20 plan reviews to test for the following attributes:
 - i. Evidence indicating that TDLR plan review procedures were followed;
 - ii. TDLR's approval stamp signed and dated by the Chief Elevator Inspector;
 - iii. Collection of applicable fees;
 - iv. Accuracy of the information in the spreadsheet maintained by the Compliance area; and,
 - v. Completion of expedited reviews within five business days as required in TAC §74.115(b).

I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information

To comply with the provisions of Texas Government Code, 2102.015 and the State Auditor's Office, within 30 days after approval by TDLR's Commissioners, TDLR will post the following information on its website:

- An approved fiscal year 2016 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2015 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.

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II. Internal Audit Plan for Fiscal Year 2015

The Internal Audit Plan (Plan) included two audits to be performed for the 2015 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 2015.

Risk Assessment

Utilizing information obtained through the inquiries and background information received, 33 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 33 potential audit topics identified:

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

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In the prior three years, internal audits were performed in the following areas:

Fiscal Year 2014:

- Licensed Breeders Program
- Industrialized Housing and Building (IHB) Program
- Records Retention

Fiscal Year 2013:

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

Fiscal Year 2012:

- Air Conditioning and Refrigeration Contractors
- Cosmetology
- Payroll and Personnel Processes
- Service Contract Providers

The areas recommended for internal audits and other tasks to be performed for the fiscal year 2015 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Report Date</u>
1.	Architectural Barriers Program	8/31/2015
1.	Elevators, Escalators, and Related Equipment Program	8/31/2015
1.	Annual Internal Audit Report – Follow-up of Prior Year Internal Audits	8/31/2015
-	Other Tasks Assigned by the Commission, Audit Committee, or Management	None

III. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Audit Auditors' *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.

V. Observations/Findings and Recommendations

Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Implemented, Partially Implemented, Action Delayed, No Action Taken, Do Not Plan to Take Corrective Action or Other) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	8/31/2015	Architectural Barriers Program	<p>1. <u>Audit Procedures</u></p> <p>Our inquiry of staff indicated that the Compliance area is currently performing RAS audits/investigations that have been prompted by complaints, or those with a pattern of poor practices. However, written audit policies and procedures have not been developed, or a formal audit function established, that subjects all RASs to routine procedural audits, including a random selection process, and a tracking system.</p> <p>Recommendation We recommend that the AB Program establish a formal audit function, to include developing written audit policies and procedures, to enhance compliance with TAC §68.93(b), which subjects RAS's to audits by TDLR.</p> <p>Management's Response We agree. Written audit procedures establishing our formal audit function have been finalized and are currently in use.</p> <p>2. <u>Written Policies and Procedures</u></p> <p>The AB Program's established policies and procedures—</p> <ul style="list-style-type: none"> • Do not include procedures for the following: <ul style="list-style-type: none"> ○ Processing of Variance Applications and Denied Variance Application Appeals. ○ Processing of Notice of Substantial Compliance Request forms. • Include procedures for Equivalent Facilitation that are no longer applicable to the AB Program. <p>Recommendation We recommend that the AB Program review and revise their written policies and procedures to ensure they reflect their current processes, functions, and practices.</p> <p>Management's Response We do acknowledge and will implement the recommendation to review current AB Program policies and procedures – revising as necessary to ensure that they are more thorough and most accurately reflect current processes, functions and practices. We are currently updating the AB Program policies and procedures to include the review and approval process for Variance Applications, Denied Variance Application Appeals, and Notice of Substantial Compliance Request forms. Those updates will be completed by December 31, 2015. The equivalent facilitation procedures are outdated and no longer included in our current procedures, as this process is no longer used, as noted in your comment. These should not have been included with current procedures.</p>		<p>To ensure RAS audits are performed in a uniform manner and that all RASs are subject to audit.</p> <p>To ensure policies and procedures are adequately documented and reflect current practice.</p>

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1	8/31/2015	Elevator, Escalator, and Related Equipment Program	<p>1. <u>Processing of Plan Reviews</u></p> <p>Our review of the monthly plan review summary spreadsheets indicated that for the month of September 2014, one contractor overpaid the plan review fee by \$200, which remained outstanding at September 2015 and another by \$400. Our inquiry of staff indicated that in current practice, excess fees are credited to the contractor to be used toward future plan review fees. However, such credits are informally monitored by the Chief Elevator Inspector within the Compliance division.</p> <p>Additionally, the current practice is for the Chief Elevator Inspector, who also performs the plan review, to update the spreadsheet, only after completion of the review. Since there is no oversight by another person, errors or omissions may not be detected in a timely manner; more specifically, expedited plan reviews, where premium fees are collected and which must be completed within 5 business days, as required by TAC§74.115.</p> <p>Recommendation We recommend TDLR formalize its current practices and processes to strengthen the oversight, monitoring, and segregation of duties for plan reviews.</p> <p>Management's Response We agree. We will review and update our current procedures, so they are more thorough in addressing the oversight and monitoring aspects of our plan review process. The Compliance Division's Process Improvement and Analytics Specialist has been assigned to assist with this project. These procedures will be finalized by January 31, 2016.</p> <p>2. <u>Contractor Insurance Verification</u></p> <p>In accordance with TAC §74.40, a contractor is required to obtain and maintain general liability insurance from an insurer authorized to engage in insurance business in Texas or an eligible surplus lines insurer; and, the policy is required to contain a provision or an endorsement that gives TDLR 30 days prior written notice of cancellation.</p> <p>Our inquiry of staff indicated that TDLR only reviews the certificate of insurance to ensure it meets the minimum required amounts of coverage and not for any other requirements of TAC §74.40.</p> <p>Recommendation We recommend that TDLR verify all insurance requirements of TAC §74.40 before approving issuance and/or renewal of a contractor license.</p>		<p>To ensure the proper plan review fees are collected, and compliance with TAC §74.115.</p> <p>To ensure compliance with TAC §74.40.</p>

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1	8/31/2015	Elevator, Escalator, and Related Equipment Program	<p>Management's Response We agree. We will work with the Texas Department of Insurance to receive training on how the insurance industry writes general liability insurance, what elements insurance agents must complete on an Accord form, and how to verify that every part of a completed certificate of insurance required by rule is indeed included in the certificate, such as the provision or endorsement that gives TDLR 30 days prior written notice of policy cancellation. This new training will be added to overall training process given to all Licensing employees.</p> <p>3. <u>Certificate of Compliance Format</u> TAC §74.60(a)(4) requires that a certificate of compliance issued by TDLR include the inspector's name and registration number. Our review of the pre-formatted certificate of compliance indicated that it does not have an area for inclusion of the inspector's name; although, the inspector's registration number is present and the inspector's name can be obtained from TDLR's online search tool using the registration number.</p> <p>Recommendation We recommend that TDLR either change the certificate of compliance format for inclusion of the inspector's name or revise the rule to eliminate the requirement.</p> <p>Management's Response We agree. TDLR will evaluate options to determine the best method to comply with the intent of the rule which is for the certificate to indicate in some manner the name of the inspector who performed the inspection. The certificate does currently include the registration number of the inspector. A rule change might be in order to balance the need to inform the public with the realities of space constraints on the certificate.</p> <p>4. <u>Written Policies and Procedures</u> Documented policies and procedures have not been developed for the following administrative functions performed by the ELE Program:</p> <ul style="list-style-type: none"> • Monitoring inspectors, contractors and equipment. • Monitoring various reports received from inspectors, contractors, and owners. • Approval/denial of New Technology Variance applications. • Plan reviews (excess fees). <p>Additionally, the following procedures remain in draft form:</p> <ul style="list-style-type: none"> • Plan reviews (approval, tracking). • Granting waiver and delay for compliance. 		<p>To ensure compliance with TAC §74.60(a)(4).</p> <p>To ensure policies and procedures are consistently applied and followed.</p>

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1	8/31/2015	Elevator, Escalator, and Related Equipment Program	<p>Recommendation We recommend that TDLR establish and/or finalize written policies and procedures for the above administrative functions performed by the ELE Program.</p> <p>Management's Response We agree. We will finalize current draft procedures for plan reviews and for processing requests for waivers/delays, by January 31, 2016. We will develop comprehensive, detailed written procedures for other functions performed by Elevator Program staff by May 31, 2016. Also, we will continue discouraging customer errors in overpayments and excess fees sent in by contractors, but will focus our immediate efforts on establishing a written procedure on how best to refund/reject monies for the instances where it occurs, by no later than December 1, 2015. The Compliance Division's Process Improvement and Analytics Specialist has been assigned to assist with this project.</p> <p>5. <u>Continuing Education Verification</u></p> <p>In accordance with TAC §74.25(b) and TAC §74.25(c), continuing education (CE) hours are required to be completed by a contractor for renewal of their registration with TDLR. In one of the 12 contractor renewal applications tested, a contractor's registration was renewed although one of the 2 responsible parties had not completed the CE hours within the required time period.</p> <p>Recommendation We recommend that TDLR either (a) modify TULIP code so that CE requirements are checked at the time of actual renewal; or, (b) manually verify CE requirements for each responsible party prior to approving the renewal application.</p> <p>Management's Response We agree. The TULIP code should be modified to check the CE status of all responsible parties associated with a contractor at the time of actual renewal, in addition to verifying it at the time the renewal notice is mailed. Until then, we will perform the check of the CE status manually. The check will be performed by a licensing analyst on each contractor renewal. The process for the manual check has been incorporated into the division procedure manual.</p>		To ensure compliance with TAC TAC §74.25(b) and §74.25(c).

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1	8/31/2015	Elevator, Escalator, and Related Equipment Program	<p>6. <u>Postmark Date on Time Sensitive Documents</u></p> <p>When a renewal application is postmarked after the due date, a late renewal fee should be assessed, as specified in TAC §60.83. Our testing of 15 inspector and 12 contractor renewal applications, indicated that one inspector and 2 contractor renewal applications were received after the due date; however, since there was no indication of the postmark date, we could not compute the proper late fee that should have been assessed. Furthermore, there was no evidence that a late fee was assessed or collected.</p> <p>Recommendation We recommend that the TDLR mailroom personnel document the postmark date on time sensitive documents; such as, renewal applications to provide a basis for determining the proper late fee computation.</p> <p>Management's Response We agree. The Financial Services division already forwards all documents received as part of an application to the Licensing division. The Licensing division keeps the postmark document if it is justification to not charge a late fee, and notes the decision in Tulip. This informal policy has been in place for 20 years. That policy has now been documented and shared with all employees via email on October 2, 2015. It will also be part of new employee training going forward.</p> <p>7. <u>Renewal of Inspector Registrations</u></p> <p>In accordance with TAC §74.21, for renewal of registration, an inspector is required to submit a completed renewal application, which includes a criminal history response. In one of the 15 inspector renewal applications tested, although a response to the criminal history inquiry was not provided, the application was approved.</p> <p>We recommend that TDLR approve renewal applications only after a <i>completed</i> application is received, as required by TAC §74.21.</p> <p>Management's Response We respectfully disagree. Criminal history background checks are performed through the Department of Public Safety on all elevator inspectors when they renew their registrations, regardless of how the criminal history question is answered or if it is answered at all. Delaying the application while a Request for Information letter is sent to the applicant for the criminal history question would not provide additional information to the department that is not otherwise obtained through the DPS check. One inspector renewal application was noted from the testing because it had been approved when the criminal history background question was not answered. The DPS results for that renewing elevator inspector showed the inspector has no criminal history and therefore he was appropriately cleared for licensure.</p>		<p>To ensure on-time submission of time sensitive documents is documented, and all late fees are collected.</p> <p>To ensure compliance with TAC §74.21.</p>

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1	8/31/2015	2015 Follow-Up	<p><u>Follow-up of Prior Year Audits</u></p> <p>Following is the status of the recommendations made in fiscal year 2014 that had not been implemented.</p> <p>Licensed Breeders Program</p> <p>1. <u>Investigations</u></p> <p>TDLR's Enforcement Division should monitor the investigation process and prioritize cases that have been pending for a long period of time to ensure licensees implement the proper course of action in a timely manner.</p> <p>The Enforcement Division has implemented numerous processes to reduce the age of investigators' cases. The investigator supervisors monitor the investigators' caseloads using multiple reporting tools in Legal Files, including the "Cases in Process - Detail Data" report. The supervisors also have monthly discussions about caseloads with each investigator individually, prompting movement of any aging cases. In November 2014, the investigators' goal for average caseload age was changed from 90 days to 60 days. The new goal of 60 days has been emphasized in numerous staff meetings, emails and discussions thereafter. In April 2015, management began distributing the investigators' individual productivity numbers to all the investigators each month, so that everyone could see how the others were doing. Additionally, heightened priority was given to the onsite list, which is used to request assistance from another investigator in completing an onsite investigation. A new policy was adopted, requiring that onsite investigation requests be completed within 15 days. Previously, onsite requests would sometimes wait for months before receiving attention. Overall, the Investigations section has reduced the average age of pending cases from 149 days on February 1, 2015, to 51 days on October 1.</p> <p>2. <u>Documentation</u></p> <p>TDLR should reassess its current process and make any necessary revisions to ensure that documentation imaged is complete and accurate.</p>	<p>Partially implemented</p> <p>We obtained a listing of investigations that were opened during the period from 9/1/14 through 7/31/15 and selected 10 for testing. Our testing resulted in 2 instances where cases had no activity from 145 to 165 days.</p> <p>Implemented</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>

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1	8/31/2015	2015 Follow-Up	<p>3. <u>Periodic Inspections</u></p> <p>Controls in place should be improved to ensure inspections are performed as required by TAC §91.52.</p> <p>To improve the controls for ensuring inspections are completed in a timely manner, the Agency implemented route optimization software. The software allows us to set business rules about the inspection and the inspectors to create efficient routes that are performed in a timely manner. We enter information about the eligibility, type, location, duration, and frequency of inspections and the skill set, availability, territory and location of the inspectors into the routing software for all inspections we perform and all inspectors. In addition, due to the potential health and safety risks associated with dog and cat breeder facilities, we've set the Licensed Cat and Dog Breeder inspections with a higher priority than most other inspections types.</p> <p>3. <u>Licensed Breeder Inspection Procedure Manual (Manual)</u></p> <p>TDLR should make any necessary revisions and finalize the Manual to ensure inspections are performed in a uniform manner, as intended by TDLR.</p> <p>The Licensed Cat and Dog Breeder inspection procedure manual will be finalized by November 15, 2015.</p> <p>Industrialized Housing and Buildings Program</p> <p>1. <u>Policies and Procedures</u></p> <p>The IHB Program Compliance Division should develop written policies and procedures to ensure the IHB Program is administered in a uniform manner, as intended by management.</p> <p>We will continue developing written policies and procedures to help ensure the IHB Program is administered uniformly. In Fiscal Year 2016, the Division's Process Improvement and Analytics Specialist (along with IHB Program staff) will address the following procedures in this priority with these completion dates:</p> <ul style="list-style-type: none"> •Builder Audits - March 31, 2016 •Certification Inspections - April 30, 2016 •Decal Reconciliation - May 31, 2016 •DRA Monitoring Reviews - June 30, 2016 •Monitoring Inspections - July 31, 2016 	<p>Partially Implemented</p> <p>We obtained a listing of periodic inspections performed during the period from 9/1/14 through 7/31/15 and selected 5 for testing. Our testing indicated that in one instance the periodic inspection was not performed within 18 months, as required.</p> <p>Action Delayed</p> <p>The Manual will be finalized before the end of the first quarter of fiscal year 2016, or November 30, 2015.</p> <p>Action Delayed</p> <p>The Policies and Procedures are not yet fully developed due to the Compliance Division currently being understaffed. TDLR has been approved for additional FTEs effective September 1, 2015, and anticipates these additions will allow staff members to allocate resources to document policies and procedures.</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> <p>To ensure policies and procedures are documented and applied uniformly for all processes performed by the IHB Program.</p>

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1	8/31/2015	2015 Follow-Up	<p>2. <u>Third Party Monitoring Inspections</u></p> <p>TDLR should perform third party monitoring inspections and report results, as considered necessary, to the Council, to comply with TAC §70.61.</p> <p>Our approved legislative appropriations request included two additional FTEs to assist with the IHB, Architectural Barriers and Elevator Programs. We expect to fill these positions in early 2016 and should be able to utilize this staff to help the program adequately address third party monitoring inspections, soon after the new employees begin with the Department.</p> <p>3. <u>Late Renewal Fee</u></p> <p>TDLR should 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 third party to recalculate the accuracy of the renewal fee paid.</p> <p>The Financial Services division already forwards all documents received as part of an application to the Licensing division. The Licensing division keeps the postmark document if it is justification to not charge a late fee, and notes the decision in the IHB database. This informal policy has been in place for 20 years. That policy has now been documented and shared with all employees via email on October 2, 2015. It will also be part of new employee training going forward.</p> <p>Records Retention</p> <p>1. <u>Expiration of Retention Period – Imaging System</u></p> <p>TDLR should 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>We agree. We will perform an initial, one-time manual purge on the imaging system by the end of December 2015, which will remove a significant portion of files which are past due for destruction. The automated imaging purge program will be completed as soon as the Information Systems Division is able to move our systems completely off the Windows 2003 platform. Our current continuation on that platform causes agency systems and applications to go down almost weekly.</p>	<p>Partially Implemented</p> <p>Our follow-up indicated that monitoring was performed for third party design review agencies; however, due to the lack of resources and staff, third party inspectors and inspection agencies were not monitored.</p> <p>Do Not Plan to Take Corrective Action</p> <p>Management stated implementing this recommendation would be time-consuming and TDLR does not have the staff or resources to perform this function.</p> <p>Implementation Delayed</p> <p>The development of the electronic purging tool is currently on hold, pending availability of the System developer.</p>	<p>To ensure compliance with state laws.</p> <p>To provide evidence that the correct renewal fee was paid.</p> <p>To comply with the retention period reflected in the Records Retention Schedule.</p>

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

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1	8/31/2015	2015 Follow-Up	<p>Following is the status of the recommendations made in fiscal year 2013 that had not been implemented.</p> <p>Enforcement Administration, Fines and Penalties</p> <p>1. <u>Investigation Process</u></p> <p>TDLR should 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.</p> <p>We agree. The Enforcement Division has implemented numerous processes to reduce the age of investigators' cases. The investigator supervisors monitor the investigators' caseloads using multiple reporting tools in Legal Files, including the "Cases in Process - Detail Data" report. The supervisors also have monthly discussions about caseloads with each investigator individually, prompting movement of any aging cases. In November 2014, the investigators' goal for average caseload age was changed from 90 days to 60 days. The new goal of 60 days has been emphasized in numerous staff meetings, emails and discussions thereafter. In April 2015, management began distributing the investigators' individual productivity numbers to all the investigators each month, so that everyone could see how the others were doing. Additionally, heightened priority was given to the onsite list, which is used to request assistance from another investigator in completing an onsite investigation. A new policy was adopted, requiring that onsite investigation requests be completed within 15 days. Previously, onsite requests would sometimes wait for months before receiving attention. Overall, the Investigations section has reduced the average age of pending cases from 149 days on February 1, 2015, to 51 days on October 1.</p> <p>The testing of ten cases resulted in six cases where there was no activity from 121 to 359 days. However, all six cases have since finished with the investigation phase of the enforcement process; three of the cases have since been resolved and closed, and three have been forwarded to the prosecution section for the next step in the processing of those cases.</p>	<p>No Action Taken</p> <p>We obtained a listing of investigations that were open for over 200 days and selected 10 for testing, which resulted in 6 instances where investigations had no activity for 121 to 359 days.</p>	

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1	8/31/2015	2015 Follow-Up	<p>Following is the status of the recommendations made prior to fiscal year 2013, by a predecessor auditor.</p> <p>Boilers</p> <p>1. <u>Boilers – Timely Inspections</u></p> <p>TDLR should ensure that all boilers are inspected in a timely manner as required by the Texas Administrative Code and Texas Health and Safety Code, and that it collects revenue from uninspected boilers.</p> <p>We agree. On June 15, 2015, rule revisions included two changes to address overdue boilers. The first change involves an allowance for the department or a third party inspection agency (as assigned by the department) to conduct the required boiler inspection if a boiler is greater than 90 days overdue. Effective January 2016, the owner of the boiler will be required to pay a \$260.00 inspection fee which is payable to the agency/department who conducts the inspection. The second change included an overdue fee for boilers that are inspected after the Certificate of Operation expires. The fee is \$35.00 if the boiler is 1 day to 90 days overdue and \$70.00 if the boiler is greater than 90 days overdue. TDLR has already started collecting overdue fees under this rule.</p> <p>2. <u>Board of Boiler Rules</u></p> <p>TDLR should encourages 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.</p>	<p>Partially Implemented</p> <p>We obtained the “% of Inspections Completed within Time Frame Report” from 9/1/14 through 7/31/15, which indicated that 71% of the inspections were timely completed and 6,888 inspections were overdue during that period.</p> <p>Implemented</p>	

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VI. External Audit Services Procured in Fiscal Year 2015

TDLR procured the internal audit services documented in the Internal Audit Plan for fiscal year 2015.

VII. 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.

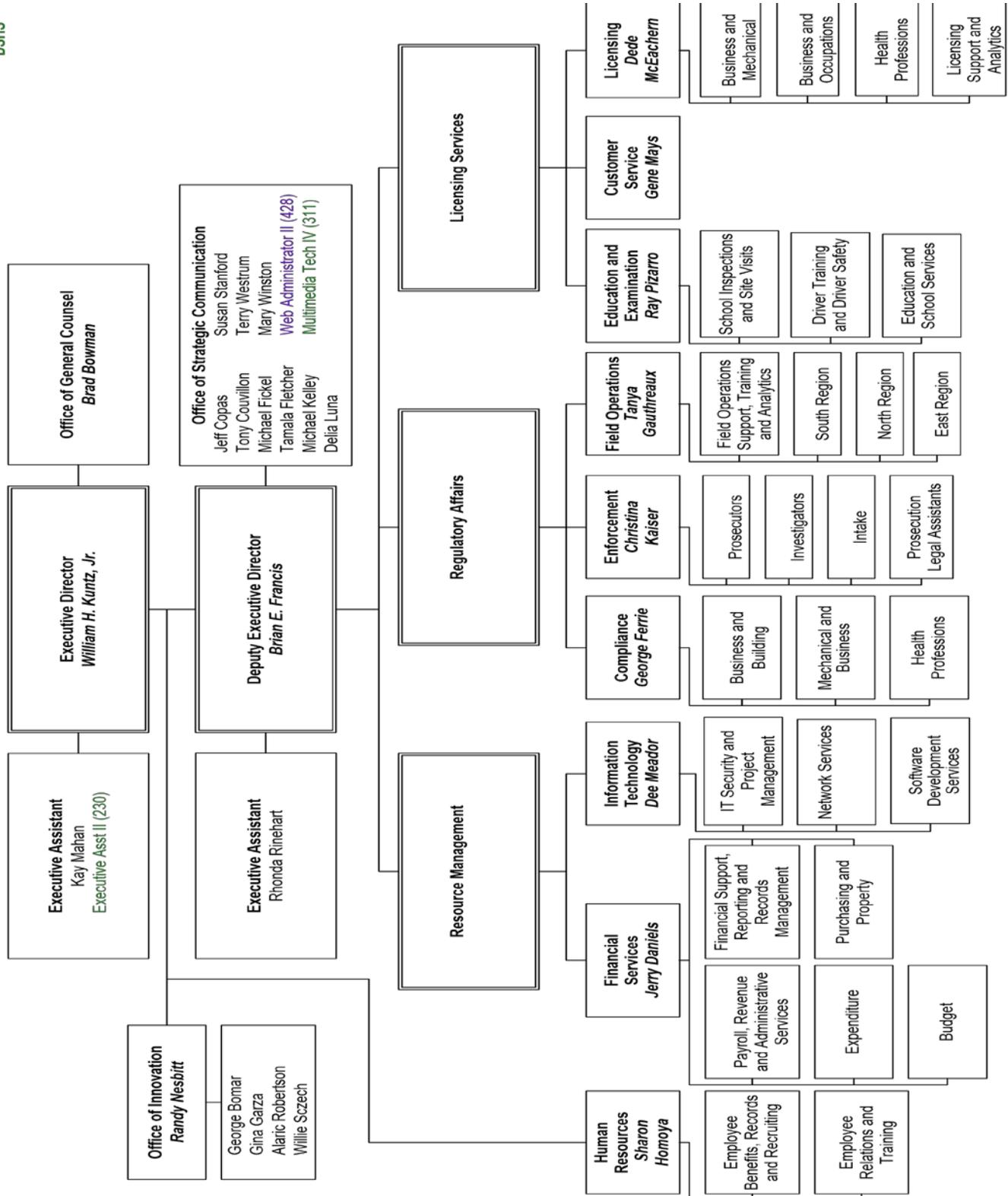
VIII. Proposed Internal Audit Plan for Fiscal Year 2016

The risk assessment performed during the 2015 fiscal year was used to identify the following *proposed* areas that are recommended for internal audit and other tasks to be performed for fiscal year 2016. The Internal Audit Plan for fiscal year 2016 will be developed and presented to the Commission, for acceptance, at a later date.

- Education and Examination
- Combative Sports
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Commission or Audit Committee

IX. Organizational Chart

DSHS



September 23, 2015