

**TEXAS DEPARTMENT OF LICENSING AND REGULATION**  
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2016



TEXAS DEPARTMENT OF LICENSING AND REGULATION  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2016

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# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed follow-up procedures for the year ended August 31, 2016 for the Texas Department of Licensing and Regulation (TDLR) to determine the implementation status of the findings and recommendations that were presented in prior year internal audit reports.

The results and implementation status of our follow-up procedures performed are reported in the accompanying report, which also includes all information required to comply with the State of Texas Internal Audit Annual Report requirements.

We have discussed the implementation status of the findings and recommendations 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.

A handwritten signature in black ink that reads "Garza/Gonzalez & Associates". The signature is written in a cursive, flowing style.

October 14, 2016

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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 25 diverse programs with 139 different license types and the oversight of more than 500,000 licensees.

Texas Occupations Code (TOC) Chapter 51 establishes TDLR and its responsibilities; and, Title 16, Part 4, of the Texas Administrative Code 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 role of the Commission is 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 26 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.

## 2016 Internal Audit Plan

Following are the internal audits and other functions to be performed, as identified in TDLR's approved 2016 Internal Audit Plan:

- Information Systems – Security & Disaster Recovery Area (IS Area)
- Tow Trucks, Booting, & VSF Program
- Water Well Drillers and Pump Installers Program
- Follow-up of Prior Year Internal Audits
- Other Tasks

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This report contains the results of the follow-up procedures performed and meets the State of Texas Internal Audit Annual Report requirements.

Reports previously issued are as follows:

- The audit report of the Tow Trucks, Boating, & VSF Program; and, the Water Well Drillers & Pump Installers Program, dated June 20, 2016, was presented on October 5, 2016 to TDLR's audit committee and Commissioners;
- The audit report of the IS Area, dated October 6, 2016, is scheduled to be presented to TDLR's audit committee and Commissioners at a November 2016 meeting.

### 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.

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### I. **Compliance with Texas Government Code, Section 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 2017 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2016 internal audit annual report, as required by Texas Government Code, Section 2102.009.

TDLR will also post periodic internal audit reports, unless the content is considered confidential or excepted from public disclosure under Chapter 552 (of the Texas Government Code), on its website since they, like the internal audit annual report, include any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits, as well as the action taken by TDLR to address such concerns.

### II. **Internal Audit Plan for Fiscal Year 2016**

The Internal Audit Plan (Plan) included 3 audits to be performed for the 2016 fiscal year. The Plan also included a follow-up of the prior year audit recommendations, other tasks that may be assigned by the Commissioners, Audit Committee, or management during the year; and, preparation of the Annual Internal Audit Report for fiscal year 2016.

#### **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.

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

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

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

Fiscal Year 2015:

- Architectural Barriers Program
- Elevators, Escalators and Related Equipment Program

Fiscal Year 2014:

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

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### Fiscal Year 2013:

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

The internal audits and other tasks performed for fiscal year 2016 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Report Date</u>
1.	Tow Trucks, Booting, & VSF Program <i>Objective: To determine whether the Program is administered and regulated in accordance with applicable laws, regulations, and TDLR's policies and procedures.</i>	6/20/2016
2.	Water Well Drillers & Pump Installers Program <i>Objective: To determine whether the Program is administered and regulated in accordance with applicable laws, regulations, and TDLR's policies and procedures.</i>	6/20/2016
3.	Information Systems – Security & Disaster Recovery <i>Objective: To ensure compliance with selected requirements of TAC 202 and TGC Chapter 2054; and, selected controls from the Control Catalog.</i>	10/6/2016
3.	Annual Internal Audit Report – Follow-up of Prior Year Internal Audits	10/14/2016
-	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 entity's most recent *System Review Report*, dated October 7, 2015, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

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**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
3	10/14/2016	2016 Follow-Up	<p><u>Follow-up of Prior Year Audits</u></p> <p>Following is the status of the recommendations made in fiscal year 2015 that had not been implemented.</p> <p><b>Architectural Barriers (AB) Program</b></p> <p>1. <u>Audit Procedures</u></p> <p>We recommended 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 Registered Accessibility Specialists (RAS) to audits by TDLR.</p> <p>2. <u>Written Policies and Procedures</u></p> <p>We recommended that the AB Program review and revise their written policies and procedures to ensure they reflect their current processes, functions, and practices.</p> <p><b>Elevator, Escalator, and Related Equipment (ELE) Program</b></p> <p>1. <u>Processing of Plan Reviews</u></p> <p>We recommended that TDLR formalize its current practices and processes to strengthen the oversight, monitoring, and segregation of duties for plan reviews.</p>	<p><b>Implemented</b></p> <p><b>Implemented</b></p> <p><b>Implemented</b></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> <p>To ensure the proper plan review fees are collected, and compliance with TAC §74.115.</p>











**VI. External Audit Services Procured in Fiscal Year 2016**

TDLR procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2016. No other external audit services were procured.

**VII. Reporting Suspected Fraud and Abuse**

TDLR has provided information on their website 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 2017**

The risk assessment performed during the 2016 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 2017. The Internal Audit Plan for fiscal year 2017 will be developed and presented to the Commission, for acceptance, at a later date.

- Used Auto Part Recyclers
- Combative Sports
- Driver Education and Safety
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Commission or Audit Committee

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**IX. Organizational Chart**

