

TEXAS DEPARTMENT OF LICENSING AND REGULATION
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2017



TEXAS DEPARTMENT OF LICENSING AND REGULATION
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2017

TABLE OF CONTENTS

	<u>Page</u>
Internal Auditor's Report	1
Introduction	2
Internal Audit Objectives.	3
I. Compliance with Texas Government Code, Section 2102.015: Required Posting of Internal Audit Information	4
II. Consulting and Nonaudit Services Completed.....	4
III. External Quality Assurance Review	4
IV. Internal Audit Plan for Fiscal Year 2017.....	4-6
V. External Audit Services Procured in Fiscal Year 2017	7
VI. Reporting Suspected Fraud and Abuse.....	7
VII. Proposed Internal Audit Plan for Fiscal Year 2018.....	7
VIII. Organizational Chart.....	8

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

This Annual Internal Audit Report, prepared for the Texas Department of Licensing and Regulation (TDLR), includes all information required to comply with the State of Texas Internal Audit Annual Report requirements for the year ended August 31, 2017.

Internal audits and other functions were performed as identified in TDLR's approved 2017 Internal Audit Report, dated April 6, 2017. Following are the internal audit reports issued, as a result of the internal audits and other functions performed, for the year ended August 31, 2017:

- Follow-up on Prior Year Internal Audits, dated July 7, 2017
- Performance Measures, dated July 21, 2017
- Other Programs, dated August 18, 2017
- Combative Sports, dated September 28, 2017

*Garza/Gonzalez
& Associates*

October 5, 2017

TEXAS DEPARTMENT OF LICENSING AND REGULATION
Annual Internal Audit Report
Fiscal Year 2017

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.

According to TDLR, it administers 32 programs with 173 license types and the oversight of more than 727,000 licensees as of August 2017.

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.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2017

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 2017

I. **Compliance with Texas Government Code, Section 2102.015: Required Posting of Internal Audit Information**

To comply with the provisions of Texas Government Code, Section 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 2018 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2017 internal audit annual report, as required under the 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 Texas Government Code Chapter 552, 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. **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.

III. **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.

IV. **Internal Audit Plan for Fiscal Year 2017**

The Internal Audit Plan (Plan) included 3 audits to be performed for the 2017 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 2017.

Risk Assessment

Utilizing information obtained through the inquiries and background information received, 32 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.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2017

Following are the results of the risk assessment performed for the 32 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
<p>Cosmetology</p> <p>Combative Sports</p> <p>Barbers</p> <p>Enforcement Administration, Fines, and Penalties</p> <p>Tow Trucks, Booting, and Vehicle Storage Facilities</p> <p>Used Auto Part Recyclers</p> <p>Elevators, Escalators, and Related Equipment</p>	<p>Air Conditioning and Refrigeration Contractors</p> <p>Education and Examination</p> <p>Boilers</p> <p>Industrialized Housing and Buildings</p> <p>Electricians</p> <p>Driver Education and Safety</p> <p>Purchasing, Contract Management & HUB Compliance</p> <p>Information Systems – Security and Disaster Recovery</p> <p>Auctioneers</p>	<p>Licensed Breeders</p> <p>Architectural Barriers</p> <p>Disbursements and Travel</p> <p>Fixed Assets Management</p> <p>Legal Service Contracts</p> <p>Other Programs¹</p> <p>Records Management</p> <p>Professional Employer Organizations</p> <p>Service Contract Providers</p> <p>Water Well Drillers and Pump Installers</p> <p>Budgeting</p> <p>Property Tax Consultants</p> <p>Cash Receipts and Fee Processing</p> <p>Payroll and Human Resources</p> <p>Property Tax Professionals</p> <p>Performance Measures Reporting</p>

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

Fiscal Year 2016:

- Information Systems – Security & Disaster Recovery Area
- Tow Trucks, Booting, & VSF Program
- Water Well Drillers and Pump Installers Program
- Follow-up to the Prior Year Internal Audits

¹ Other Programs included Polygraph Examiners; Temporary Common Worker Employers; Vehicle Protection Products Warrantors; and, Weather Modification.

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2017

Fiscal Year 2015:

- Architectural Barriers Program
- Elevators, Escalators and Related Equipment Program
- Follow-up to the Prior Year Internal Audits

Fiscal Year 2014:

- Industrialized Housing and Buildings (IHB) Program
- Licensed Breeders Program
- Records Retention
- Follow-up to the Prior Year Internal Audits

The internal audits and other tasks performed for fiscal year 2017 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Combative Sports Program	9/28/2017
	<i>Objective: To determine whether the Program is administered and regulated in accordance with applicable laws, regulations, and TDLR's policies and procedures.</i>	
2.	Performance Measures Reporting	7/21/2017
	<i>Objective: To determine whether TDLR has adequate controls in place over the collection, calculation, and the reporting of its key performance measures; to determine whether the reported measures were accurately reported to the LBB; and, to assess the category of certification.</i>	
3.	Follow-up of Prior Year Internal Audits	7/7/2017
4.	Other Programs ²	8/18/2017
	<i>Objective: To determine whether the Programs are administered and regulated in accordance with applicable laws, regulations, and TDLR's policies and procedures.</i>	
5.	Annual Internal Audit Report	10/5/2017
-	Other Tasks Assigned by the Commission, Audit Committee, or Management	None

² Subsequent to the approval of the 2017 Internal Audit Plan, the 85th Legislature passed Senate Bill (SB) 2065, which the governor signed into law on June 15, 2017. Article 1 of SB 2065 deregulates the Vehicle Protection Product Warrantors Program and, Article 7 deregulates the Temporary Common Worker Employers Program. As such, effective September 1, 2017, TDLR no longer regulates either of these industries. Upon consultation with TDLR's Audit Committee Chair, it was decided that only the 2 programs (Polygraph Examiners and Weather Modification) that continue to be regulated by TDLR were audited as "Other Programs."

TEXAS DEPARTMENT OF LICENSING AND REGULATION

Annual Internal Audit Report

Fiscal Year 2017

V. External Audit Services Procured in Fiscal Year 2017

TDLR procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2017. No other external audit services were procured.

VI. Reporting Suspected Fraud and Abuse

TDLR has provided information on their website homepage 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.

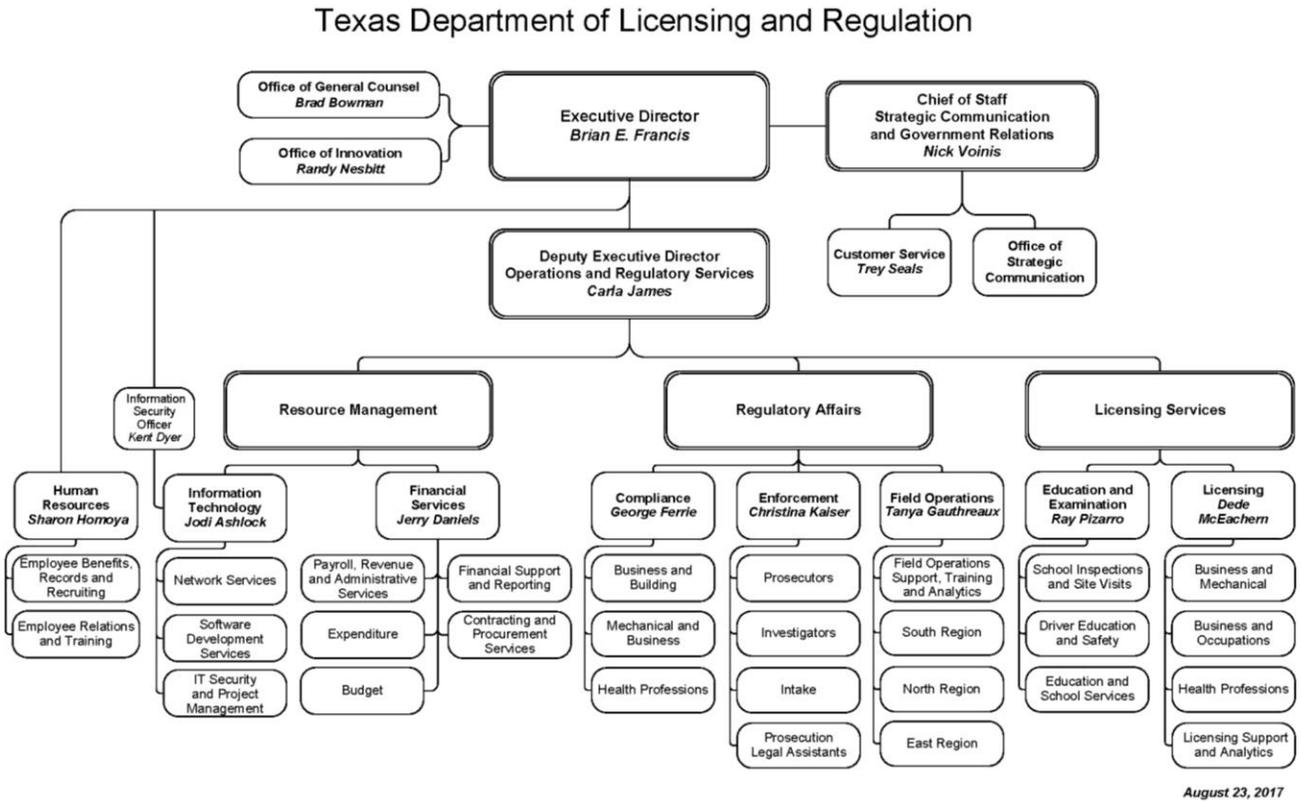
VII. Proposed Internal Audit Plan for Fiscal Year 2018

The risk assessment performed during the 2017 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 2018. The Internal Audit Plan for fiscal year 2018 will be developed and presented to the Audit Committee and Commission, for acceptance and approval, at a meeting to be determined at a later date.

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

TEXAS DEPARTMENT OF LICENSING AND REGULATION
 Annual Internal Audit Report
 Fiscal Year 2017

VIII. Organizational Chart



Source: TDLR