

Texas Department of Licensing and Regulation

Fiscal Year 2019 Annual Internal Audit Report

August 31, 2019

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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site

Texas Government Code, Section 2102.015 requires state agencies and higher education institutions, as defined in the statute, to post their Internal Audit Plan, Internal Audit Annual Report, and other audit information on the Internet.

The Texas Department of Licensing and Regulation (TDLR or the agency) will post this report and its Fiscal Year 2020 Internal Audit Plan on its website at www.tdlr.texas.gov by November 1, 2019. TDLR's Commission reviewed and approved the Annual Internal Audit Report as part of their regular meeting held on October 1, 2019.

TDLR will update its posting with a detailed summary of the weaknesses, deficiencies, wrongdoings or other concerns raised by performance of the audit plan as they are identified or by November 1, 2019. TDLR will also update the posting with the corrective action taken to address any issues identified.

II. Internal Audit Plan for Fiscal Year 2019

The internal audits planned and performed for fiscal year 2019 were selected to address the agency's highest risk areas, based on the 2018 risk assessment. The audits conducted during fiscal year 2019 are listed below.

Internal Audit	Report #	Report Date	Current Status
Licensing	IA #2019-01	March 8, 2019	The report was issued May 6, 2019. Follow-up procedures to verify that corrective action has been performed are included in the proposed 2020 Internal Audit Plan.
Internal Audit Follow-Up over Enforcement Administration	IA #2019-02	July 24, 2019	The report was issued September 12, 2019. Follow-up procedures to verify that corrective action has been performed on the remaining open findings are included in the proposed 2020 Internal Audit Plan.

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Internal Audit	Report #	Report Date	Current Status
Internal Audit Follow-Up over Prior Years' Open Internal Audit Findings for the following areas: <ul style="list-style-type: none"> • Tow Trucks, Booting, & VSF Program • Water Well Drillers & Pump Installers Program • Information Systems • Records Retention • Other Programs • Performance Measures 	IA #2019-03	July 24, 2019	The report was issued September 12, 2019. Follow-up procedures to verify that corrective action has been performed on the remaining open finding are included in the proposed 2020 Internal Audit Plan.

III. Consulting Services and Nonaudit Services Completed

As defined in the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and the Government Auditing Standards, 2011 Revision, Sections 3.33 – 3.58, TDLR completed the following consulting and non-audit services for FY 2019:

Weaver consulted with TDLR Management to review the scope of work for the agency's new licensing application and provide feedback regarding the adequacy of the scope of work and compliance with applicable requirements prior to issuance. The work was completed in August 2019.

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IV. External Quality Assurance Review

In accordance with professional standards, and to meet the requirements of the Texas Internal Auditing Act, Internal Audit is required to undergo an external quality assurance review at least once every three years. Weaver's review was performed in October 2016.



System Review Report

To the Partners of Weaver and Tidwell, L.L.P.
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Weaver and Tidwell, L.L.P. (the "firm") applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended May 31, 2016. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations [Service Organizations Control (SOC) 1 and 2 engagements].

In our opinion, the system of quality control for the accounting and auditing practice of Weaver and Tidwell, L.L.P. applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended May 31, 2016, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Weaver and Tidwell, L.L.P. has received a peer review rating of *pass*.

Eide Bailly LLP

Eide Bailly LLP
October 7, 2016

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V. Internal Audit Plan

The Fiscal Year 2020 Internal Audit Plan submitted to the agency’s Commission is based on the results of the 2018 Internal Audit Risk Assessment, as reviewed and updated in July 2019. The Commission approved the Fiscal Year 2020 Internal Audit Plan on October 1, 2019, and was submitted to the State Auditor’s Office prior to November 1, 2018.

Fiscal Year 2020 Internal Audit Plan		
Audit Area	2018 Risk Rating	Estimated Hours
Revenue	High	250-270

Planned follow-up procedures for fiscal year 2020 to verify and communicate with Management the remediation efforts of prior Internal Audit Recommendations.

Fiscal Year 2020 Follow-up Procedures		
Audit Area	2018 Risk Rating	Estimated Hours
Licensing	High	130-150
Enforcement Administration	High	
Tow Trucks, Booting and VSF Program and Water Well Drillers and Pump Installers Program	High	
Performance Measures	High	

As part of the risk assessment, TDLR assesses the probability and impact of the following risk categories across all significant activities of the agency, which include the significant information technology processes of information security, information technology services, application selection and development and disaster recovery and business continuity:

- financial stability and fraud risk
- operations and complexity risk
- information technology risk
- organization and human capital risk
- reputational risk

Taking into consideration the input from the TDLR management, all significant activities are assigned a risk rating for probability and impact related to each risk category. The overall risk rating (High, Moderate or Low) is assigned to each significant activity based on the activity’s average risk rating.

The internal audit plan is developed by considering risk ratings for each significant activity and prioritizing “High” risk activities. The risk assessment is updated on an annual basis.

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The 2018 Internal Audit Risk Assessment resulted in 11 Significant Activities rated as “High” risk. Eight of the 11 Significant Activities are not included in the Fiscal Year 2020 Internal Audit Plan. Those risks are as follows:

1. **Information Security** – Information Security was not included in the 2020 Internal Audit Plan. Information Security was included in 2018 and 2019 Follow-up Procedures. An audit by the Department of Information Resources was also completed in fiscal year 2019.
2. **Information Technology Services** - Information Technology Services was not included in the 2020 Internal Audit Plan.
3. **Application Selection/Development** – Application Selection/Development was not included in the 2020 Internal Audit Plan.
4. **Disaster Recovery/Business Continuity** – Disaster Recovery/Business Continuity was not included in the 2020 Internal Audit Plan. Disaster Recovery/Business Continuity was included in 2018 and 2019 Follow-Up Procedures.
5. **Budget and Planning** – Budget and Planning was not included in the 2020 Internal Audit Plan.
6. **Contract Administration** – Contract Administration was not included in the 2020 Internal Audit Plan.
7. **Payment Processing** – Payment Processing was not included in the 2020 Internal Audit Plan.
8. **Procurement** – Procurement was not included in the 2020 Internal Audit Plan.

VI. External Audit Services Procured in FY 2019

TDLR did not procure any external audit services during the fiscal year 2019.

VII. Reporting Suspected Fraud, Waste and Abuse

TDLR has provided instructions on reporting suspected fraud, waste, and abuse to the State Auditor's Office (SAO) on the agency's website. The instructions include the SAO Hotline phone number and a link to the SAO Fraud Reporting page. Additionally, TDLR has developed a Fraud Prevention Policy which includes information for reporting suspected fraud, waste, and abuse to the SAO.