

TEXAS DEPARTMENT OF LICENSING AND REGULATION
Austin, Texas

INTERNAL AUDIT FOLLOW-UP REPORT

on

Prior Year Internal Audits

Fiscal Year 2017



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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed follow-up procedures to determine the implementation status of the findings and recommendations that had not been fully implemented for the prior year internal audit reports of the Texas Department of Licensing and Regulation (TDLR) as of and for the 8-month period ending April 30, 2017.

The results and implementation status of our follow-up procedures performed are reported in the accompanying report.

We have discussed the implementation status of the findings and recommendations with various TDLR personnel and we 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*

July 7, 2017

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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.

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 advice and 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.

To give the Commission real-world insight into the occupations regulated by TDLR, 26 Advisory Boards provide technical knowledge and industry expertise. Commission members serve as liaisons between the Commission and each Advisory Board to gain a better understanding of these industries. Advisory 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.

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2017 Internal Audit Plan

Following are the internal audits and other functions to be performed, as identified in TDLR's approved 2017 Internal Audit Plan; dated April 6, 2017.

- Combative Sports Program
- Performance Measures Reporting
- Other Programs (Polygraph Examiners; Temporary Common Worker Employers; Vehicle Protection Product Warrantors; and, Weather Modification)¹
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of the follow-up procedures performed for the prior year internal audit reports. The reports for the remaining internal audits and other functions to be performed will be issued upon completion.

¹ 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 will be audited as "Other Programs."

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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 the audit area's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope includes 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 that 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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Follow-Up on Prior Year Internal Audits

Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, Not Implemented) with brief description if not yet fully implemented	Fiscal Impact/Other Impact
3	7/7/2017	2017 Follow-Up	<p>FOLLOW-UP OF PRIOR YEAR AUDITS</p> <p><i>Following is the status of the recommendations made in fiscal year 2016 that had not been fully implemented.</i></p> <p>Tow Trucks, Booting, & VSF Program</p> <p>1. <u>Dual License Fee Procedures</u></p> <p>TDLR should revise their procedures to reflect the correct fees and current practice.</p> <p>2. <u>Inspection Corrective Action Verification</u></p> <p>TDLR should follow up with licensees who do not provide written verification of completion of the corrective action within 10 days from receiving the inspection letter. TDLR should also report the violations to the Enforcement Division, as considered necessary, to take necessary action for the licensee's lack of compliance.</p> <p>2017 Follow-up</p> <p>Our testing of 10 periodic inspections performed during the period from 9/1/2016 to 4/30/2017 disclosed 7 instances where completion of the corrective action had not been certified as of June 30, 2017.</p> <p>TDLR indicated it is in the process of implementing a new inspection process to ensure licensees acknowledge their responsibilities of taking and reporting the required corrective actions in a timely manner; and, has also submitted a request to the IT department to develop a system-generated report to monitor delinquency.</p> <p>TDLR Response</p> <p>Information resources were and remain limited in the agency. This item remains a priority and will be addressed as the resources become available. In the interim, the agency will continue to address the item through the integration of the data in the inspection process.</p> <p>3. <u>Periodic Inspections</u></p> <p>TDLR should implement procedures to ensure compliance with the TAC requirements that require each towing, booting, and VSF company to be inspected at least once every 2 years.</p>	<p>Fully Implemented</p> <p>Incomplete/Ongoing</p> <p>Incomplete/Ongoing</p>	<p>To ensure the accuracy of TDLR's policies and procedures.</p> <p>To ensure compliance with the TAC.</p> <p>To ensure compliance with the TAC.</p>

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3	7/7/2017	2017 Follow-Up	<p>2017 Follow-up Our testing of 10 periodic inspections performed during the period from 9/1/2016 to 4/30/2017 disclosed 5 instances where the inspection was conducted 25 to 727 days after the required 2-year period; and, in 3 other instances, an inspection had never been conducted, prior to FY 2017, although these entities had been licensed for more than 2 years.</p> <p>TDLR Response Progress is being made on the reduction of the Towing/VSF inspection backlog due to enhancements that include a route optimization program to efficiently manage the workload and reduce the age of overdue inspections, tow truck round-ups and detailed analysis.</p> <p>The agency has begun an "Attempted Inspection" Process, where our inspectors make three attempts to contact a licensee to perform the required facility inspection. If an inspector cannot get a response from the licensee, the inspector sends a violation report to Enforcement for failure to cooperate. This ensures that action is taken in a timely manner, reduces the number of trips to one location, and keeps the facility from having an "uninspected" status.</p> <p>The agency is also exploring statutory possibilities to address any inspection backlog that exists.</p> <p>4. <u>Risk-based Inspections</u> TDLR should reassess the need for risk-based inspections and either propose removal of the requirement from the TAC; or, implement policies and procedures and begin performing risk-based inspections.</p> <p>2017 Follow-up SB 1501, 85(R) which becomes effective 9/1/2017, removes the requirement of the risk-based inspection from the Occupations Code for Towing, Boating, and VSF companies. TDLR has drafted the proposed rule changes, which are scheduled to be presented to the Advisory Board in September 2017.</p> <p>5. <u>VSF Licensing Requirement</u> TDLR should either propose removal of certain TAC requirements (fence, signage, and lighting items) for the VSF application process since it is verified as part of the inspection process, or require this information as part of the application process to comply with the TAC requirements.</p>	<p>Substantially Implemented</p> <p>Substantially Implemented</p>	<p>To ensure compliance with the TAC.</p> <p>To ensure applicant has met all the requirements to be eligible for license.</p>

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3	7/7/2017	2017 Follow-Up	<p>TDLR Response The agency performs risk assessments on all applications. These assessments are ongoing. The challenge of continual incorporation of new programs and systems into the agency will be addressed on an ongoing basis, including, but not limited to, working with the Department of Information Resources and the possibility of assistance from outside contractors.</p> <p>3. <u>Continuation of Operation Plan and Disaster Recovery Plan</u> TDLR should take measures to ensure compliance with the required contingency planning and disaster recovery requirements.</p> <p>2017 Follow-up TDLR worked with the State Office of Risk Management and drafted a Continuity Plan, which is currently in the review and approval process by TDLR's executive management. TDLR also conducted a table-top exercise during fiscal year 2017.</p> <p>TDLR Response The Continuity of Operations Plan should be completed and submitted to the State Office of Risk Management by October 2017.</p> <p>4. <u>Independent Review of Information Security Program</u> TDLR should establish a biennial independent review of its information security program to ensure compliance with the state requirements.</p> <p>2017 Follow-up TDLR's funding request for an independent review has been denied by the legislature, and TDLR has not received guidance from the Department of Information Resources (DIR) regarding a DIR-sponsored assessment similar to the one conducted by Gartner several years ago.</p> <p>TDLR Response The agency has begun drafting a proposal for an audit of selected segments of the information security program based on risk. The ability to contract for these audits will depend on available funding.</p>	<p>Incomplete/Ongoing</p> <p>Not Implemented</p>	<p>To ensure TDLR is able to continue and/or resume essential functions at the time of disruption.</p> <p>To ensure independent review enhances the effectiveness of information security program.</p>

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3	7/7/2017	2017 Follow-Up	<p>2017 Follow-up TDLR addressed handling of portable devices in an annual employee security training during fiscal year 2017, and plans to implement the Endpoint Protection Manager software to manage devices not registered with the agency.</p> <p>TDLR Response The Endpoint Protection Manager software, which enables the agency to control the data which is removed and added to agency servers, was implemented October 1, 2017.</p> <p>8. <u>System Use Notification/Logon Banner</u> TDLR should evaluate the adequacy of its current system use notification and revise it, as considered necessary, to ensure TDLR is protected in the event of violations.</p> <p>9. <u>Physical Access to Information Systems</u> TDLR should strengthen their controls over physical security to ensure access to information systems is not compromised.</p>	<p>Fully Implemented</p> <p>Fully Implemented</p>	<p>To ensure system use notification provides appropriate privacy and security notices.</p> <p>To ensure adequate controls against unauthorized physical access to information resources are consistently applied.</p>

