

# **Texas Department of Licensing and Regulation**

IA # 2021-04 Internal Audit Follow-Up Procedures

Report over Licensing

September 15, 2021

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Commissioners of the  
Texas Department of Licensing and Regulation  
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This report presents the results of the internal audit follow-up procedures performed for the Texas Department of Licensing and Regulation (TDLR) during the period June 21, 2021 through September 15, 2021, related to the findings identified in the 2019 Internal Audit Report over Licensing dated March 8, 2019.

The objective of these follow-up procedures was to validate that adequate corrective actions were taken in order to remediate the issues identified within the 2019 Internal Audit Report over Licensing.

To accomplish this objective, we conducted interviews with key TDLR personnel responsible for each of the reported findings. We also reviewed documentation and performed specific testing procedures to validate actions taken. Due to the COVID-19 pandemic and concern for the health and safety of TDLR and audit staff, follow-up procedures were performed remotely. An exit meeting was conducted on September 15, 2021.

The following report summarizes the findings identified, risks to the organization, recommendations for improvement and management's responses.

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September 15, 2021

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# Texas Department of Licensing and Regulation

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### September 15, 2021

### Background

Internal audit procedures were performed over TDLR's Licensing process in 2019. The 2019 Internal Audit Report over Licensing identified seven findings that were reported to the Commission.

The 2021 Internal Audit Plan included performing follow-up procedures to determine whether management has implemented corrective actions for the internal audit findings identified in the 2019 report.

### Follow-Up Procedures Objective and Scope

The follow-up procedures focused on the remediation efforts taken by TDLR management to address the findings identified in the 2019 Internal Audit Report over Licensing, and to validate that appropriate corrective action had been taken.

We evaluated the corrective action for three internal audit findings identified in the 2019 Internal Audit Report over Licensing.

Our procedures included interviewing key personnel within the Licensing process, examining existing documentation, and evaluating if corrective action has been taken. Our coverage period was June 1, 2020 through May 31, 2021.

### Executive Summary

The findings from the 2019 Internal Audit Report over Licensing include items identified and considered to be non-compliance issues with TDLR's policies and procedures, rules and regulations required by law, or where there is a lack of procedures or internal controls in place to cover risks to TDLR. These issues could have significant financial or operational implications. Previously, we determined that of the seven prior findings we evaluated for corrective actions, four were fully remediated or closed by management. Of the remaining three findings that we included in this follow-up audit, two were previously partially remediated and one was open.

Through our interviews, review of documentation, observations and testing we determined that of the three prior findings we evaluated for corrective actions, two were fully remediated and one was closed by management.

Risk Rating	Total Findings	Previously Remediated/Closed	Remediated	Closed
High	1	-	1	-
Moderate	6	4	1	1
Low	-	-	-	-
<b>Total</b>	<b>7</b>	<b>4</b>	<b>2</b>	<b>1</b>

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A summary of our results is provided in the table below. See the Appendix for an overview of the Assessment and Risk Ratings.

FOLLOW-UP ASSESSMENT		Strong
SCOPE AREA	RESULT	RATING
<b>Objective:</b> Validate that adequate corrective action has been taken in order to remediate the issues identified in the 2019 Internal Audit Report over Licensing.	We identified that procedures implemented by management addressed and remediated or closed prior outstanding findings.	Strong

### Conclusion

Based on our evaluation, key personnel responsible for the Licensing process made efforts to close or remediate all of the findings from the 2019 Internal Audit Report over Licensing.

**Detailed Follow-Up Results, Findings,  
Recommendations and Management  
Response**

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## Detailed Follow-Up Results, Recommendations and Management Response

Our procedures included interviewing key personnel within the Licensing process to gain an understanding of the corrective actions taken in order to address the findings identified in the 2019 Internal Audit Report over Licensing, as well as examining existing documentation and performing testing in order to validate those corrective actions. We evaluated the existing policies, procedures, and processes in their current state.

### Objective: Validate Remediation

Validate that adequate corrective action has been taken in order to remediate the issues identified within the internal audit report.

### Licensing

#### Finding 2 – Moderate – Request for Information Letters

TDLR does not have procedures in place to ensure that Request for information (RFI) letters are sent for all applications with missing documentation. Currently, RFI letters are sent automatically for applications in the TULIP licensing system. For applications processed in other systems used by TDLR, RFI letters must be sent manually by Licensing staff. There is no process in place to ensure that RFI letters are sent for all applications, when required.

#### Results: Finding Remediated

We received a selection of currently licensed program checklist from TDLR and identified the checklists included the RFI letter requirement. Staff continues to use these updated checklists until these programs are incorporated into the new licensing system and the RFI letter process is an automatically generated feature of the system for all applications.

#### Finding 3 – Moderate – Voided Applications

Licensing staff responsible for Towing and Vehicle Storage Facilities programs do not have procedures in place to void applications that have been outstanding for more than one year. This allows applicants to submit new information past the one year deadline that could result in the issuance of a license. Applications for both programs are processed in the TOOLS software, which requires users to manually void applications that have past the one year deadline. In addition to TOOLS, old applications are not automatically voided in other systems such as MS Access and FileMaker Pro. According to the Chapter 60 of the Texas Administrative Code, all applications should be voided if applicants do not meet the licensure requirements within one year from the application date.

#### Results: Finding Closed

TDLR management informed internal audit that the TOOLS system was not updated to automate the voiding of applications outstanding for more than a year. The Chief Information Officer left their position during the past year. As such, we performed no testing procedures over this finding.

Since TDLR is in the process of replacing the TOOLS system with a new licensing system, TDLR management has determined that they are willing to accept this risk until the new system implementation. This finding has been closed by management.

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### **Finding 7 – High – Inappropriate User Access**

Licensing does not periodically review user access to licensing systems to ensure that access is appropriate.

We reviewed and evaluated user access permissions for each system used for licensing processes to determine if access was appropriate. During testing, we identified the multiple instances in which access was not appropriate for current and former TDLR personnel. Please refer to the original reporting for detailed information of these instances within each system.

### **Results: Finding Remediated**

We obtained a listing of personnel with access to licensing fee configuration and licensing fee entry into the following systems and ensure that their access is reasonable and appropriate based on their position.

- DES
- IHB
- Prodiatry
- TABS
- TOOLS
- Versa
- JO

We verified that previously identified inappropriate user accesses was removed or modified. Additionally, we verified that TDLR management conducted an internal user access review for the respective systems.

# Appendix

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The appendix defines the approach and classifications utilized by Internal Audit to assess the residual risk of the area under review, the priority of the findings identified, and the overall assessment of the procedures performed.

### Report Ratings

The report rating encompasses the entire scope of the engagement and expresses the aggregate impact of the exceptions identified during our test work on one or more of the following objectives:

- Operating or program objectives and goals conform with those of the agency
- Agency objectives and goals are being met
- The activity under review is functioning in a manner which ensures:
  - Reliability and integrity of financial and operational information
  - Effectiveness and efficiency of operations and programs
  - Safeguarding of assets
  - Compliance with laws, regulations, policies, procedures and contracts

The following ratings are used to articulate the overall magnitude of the impact on the established criteria:

#### Strong

The area under review meets the expected level. No high risk rated findings and only a few moderate or low findings were identified.

#### Satisfactory

The area under review does not consistently meet the expected level. Several findings were identified and require routine efforts to correct, but do not significantly impair the control environment.

#### Unsatisfactory

The area under review is weak and frequently falls below expected levels. Numerous findings were identified that require substantial effort to correct.

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### Risk Ratings

Residual risk is the risk derived from the environment after considering the mitigating effect of internal controls. The area under audit has been assessed from a residual risk level utilizing the following risk management classification system.

#### High

High risk findings have qualitative factors that include, but are not limited to:

- Events that threaten the agency's achievement of strategic objectives or continued existence
- Impact of the finding could be felt outside of the agency or beyond a single function or department
- Potential material impact to operations or the agency's finances
- Remediation requires significant involvement from senior agency management

#### Moderate

Moderate risk findings have qualitative factors that include, but are not limited to:

- Events that could threaten financial or operational objectives of the agency
- Impact could be felt outside of the agency or across more than one function of the agency
- Noticeable and possibly material impact to the operations or finances of the agency
- Remediation efforts that will require the direct involvement of functional leader(s)
- May require senior agency management to be updated

#### Low

Low risk findings have qualitative factors that include, but are not limited to:

- Events that do not directly threaten the agency's strategic priorities
- Impact is limited to a single function within the agency
- Minimal financial or operational impact to the organization
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk