

# **Texas Department of Licensing and Regulation**

IA# 2021-02 Internal Audit Follow-Up Procedures

Report over Revenue

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 14, 2021 related to the findings identified in the Internal Audit Report over Revenue dated June 26, 2020.

The objective of these follow-up procedures was to validate that adequate corrective action has been taken in order to remediate the issues identified in the Internal Audit Report over Revenue.

To accomplish this objective, we conducted interviews with key TDLR personnel responsible for each of the reported findings. We also examined 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 and an exit meeting was conducted on September 15, 2021.

The following report summarizes the results of our follow-up procedures, recommendations for improvement and management's responses.

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September 15, 2021

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# **Texas Department of Licensing and Regulation**

## Internal Audit Follow-Up Procedures Report over Revenue

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### **Background**

Internal audit procedures were performed over TDLR's Revenue process in 2020 and reported to the Commission. The Internal Audit Report over Revenue identified four areas for improvement related to the accurate configuration of fee updates, review and approval procedures to ensure accurate and complete monthly revenue reconciliations, regular review of penalty and fine amounts, and regular evaluation of all program license fees and prices for material purchases.

The 2021 Internal Audit Plan included performing follow-up procedures to determine whether management has implemented corrective actions for the four remaining outstanding internal audit findings identified in the 2020 report.

### **Follow-Up Procedures Objective and Scope**

The follow-up procedures focused on the remediation efforts taken by TDLR management to address the four remaining outstanding internal audit findings included in the Internal Audit Report over Revenue, and to validate that appropriate corrective action had been taken.

We evaluated the corrective action for the four outstanding internal audit findings identified in the Internal Audit Report over Revenue.

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

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### Executive Summary

The findings from the 2020 Internal Audit Report over Revenue include those items that were identified and are 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.

Through our interviews, review of documentation, observations and testing we determined that the two findings we evaluated for corrective actions were remediated, and two findings remain partially remediated

Risk Rating	Total Findings	Remediated	Partially Remediated	Open
High	2	1	1	-
Moderate	1	-	1	-
Low	1	1	-	-
<b>Total</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>-</b>

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

<b>FOLLOW-UP ASSESSMENT</b>	<b>SATISFACTORY</b>
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Scope Area	Result	Rating
<b>Objective:</b> Validate that adequate corrective action has been taken in order to remediate the issues identified in the 2020 Internal Audit Report over Revenue.	We identified that procedures implemented by management fully remediated two outstanding internal audit findings and partially remediated the two remaining outstanding internal audit findings.	<b>SATISFACTORY</b>

### Conclusion

Based on our evaluation, the agency has partially remediated the one outstanding finding from the 2020 Internal Audit Report over Revenue. Management should continue to make efforts to remediate the two remaining findings that were partially remediated by continuing to perform the revenue reconciliation and performing a fee study every two years.

**Detailed Procedures Performed, Findings,  
Recommendations and Management  
Response**

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### Detailed Procedures Performed, Findings, Recommendations and Management Response

Our procedures included interviewing key personnel within the Revenue process to gain an understanding of the corrective actions taken to address the four outstanding internal audit findings identified in the 2020 Internal Audit Report over Revenue, examining existing documentation, and performing testing to validate corrective actions taken. 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 four outstanding internal audit findings identified in the 2020 Internal Audit Report over Revenue.

#### Revenue

##### Finding 1 – Low – Fee Configuration Review

During the fee update process, TDLR does not have procedures in place to verify that updates to program license fees are accurately configured in licensing systems. Upon approval of fee updates to licensing programs, Licensing Program Managers submit a Helpdesk ticket to IT to request configuration of the new fees in the system. After IT staff complete the request, there are no procedures in place to verify whether fees were configured accurately in the licensing system in advance of the updated fees being utilized in production.

##### Results: Finding Remediated

We received the TDLR SOP Fee Change procedures and verified that the procedures indicate Licensing Program Managers review must occur for all fee changes and additions. There were no new fees or fee adjustments since the original internal audit.

##### Finding 2 – High – Revenue Reconciliation Review

TDLR does not have review procedure in place to ensure monthly revenue reconciliation was completed accurately. The Budget, Expenditure, and Reporting Manager reviews and approves all code corrections, identified as a result of the revenue reconciliation, but there is no formal review and approval of the monthly revenue reconciliation for completeness and accuracy of the reconciling items and final balances.

We randomly selected a sample of three months during the period of July 1, 2018 through December 31, 2019 to review monthly revenue reconciliations and supporting revenue data to verify whether revenue is reconciled on a periodic basis. We examined the USAS to CAPPS revenue reconciliation, the USAS to License Systems revenue reconciliation, as well as supporting data for all three months selected and determined the revenue reconciliations were incomplete. While monthly adjustments were documented within both revenue reconciliations, adjusted totals were not reconciled to ensure revenue is complete and accurate in the various systems. This could be partially due to the transition the reconciliation duties to new staff during this timeframe.

##### Results: Finding partially remediated

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We verified that TDLR has a policy in place to accurately perform monthly revenue reconciliation. We received the revenue reconciliation for September 2021 and support that the reconciliation had been reviewed by the Director of Financial Services for this one month. While the reconciliation review procedures have been developed and implemented, the process needs to be tested over an extended period of time.

**Management's Response:** Management concurs. TDLR has put the required policies and procedures in place to comply with this finding. We are continuing to train and develop new staff to this process and will be able to provide more completed reconciliations for review.

**Responsible Party:** Financial Services Division Director  
**Implementation Date:** December 1, 2021

### **Finding 3 – Moderate - Periodic Evaluation of Program Activity Fees**

Prior to the passage of several legislative bills impacting TDLR, the agency conducted a fee study on an annual basis, using at least two years of financial information. With the addition of 13 programs transferred to TDLR through the enactment of S.B. 202 in 2015 and the most recent passing of H.B. 2847 in 2019, the agency has not reviewed all programs according to the planned two year schedule.

In addition, TDLR does not have procedures in place to evaluate program revenues from material purchases against the cost to produce or distribute such materials. TDLR conducts fee studies to analyze licensing fees against program administration costs, however, the analysis does not include a review of the prices for material purchases.

### **Results: Finding partially remediated**

We obtained the most recent fee study performed by TDLR. The fee study was part of a required report for the health professions programs and did not contain all of the elements of a fee study used to determine any necessary fee changes in compliance with the planned two year schedule.

**Management's Response:** Management concurs. TDLR will perform a new fee study this fall. The 87th Legislature passed HB 1560, which makes many changes to several of TDLR's regulatory programs, and creates new license types and eliminates others in some of those programs. These changes necessitate restructuring of fees, the first step of which is the fee study. This fee study and subsequent studies will include material purchases as recommended and will be performed every two years.

**Responsible Party:** Policy Research and Budget Analyst  
**Implementation Date:** July 1, 2022

### **Finding 4 – High - Inappropriate User Access**

We reviewed and evaluated user access permissions to configure licensing fees and record licensing program fees including penalties in licensing systems to determine if access was appropriate. During testing we identified the following instances in which access was not appropriate for current and former TDLR personnel:

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## TULIP

- 5 active user IDs had access to enter and/or change licensing program fees belonged to former TDLR employees; these employees did not have active user IDs that allowed them to access the agency's network.
- 1 user within the Office of Innovation and Project Management has access to configure and enter licensing fee data which is not required for them to perform their job duties.

## **Results: Remediated**

We obtained the TULIP User Access Internal Audit and verified that all TULIP exceptions were resolved.

# 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 Texas Department of Licensing and Regulation
- Texas Department of Licensing and Regulation 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 TDLR's achievement of strategic objectives or continued existence
- Impact of the finding could be felt outside of TDLR or beyond a single function or department
- Potential material impact to operations or TDLR's finances
- Remediation requires significant involvement from senior TDLR management

#### Moderate

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

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

#### Low

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

- Events that do not directly threaten TDLR's strategic priorities
- Impact is limited to a single function within TDLR
- 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