

Texas Department of Licensing and Regulation

IA# 2022-01 Internal Audit Report over Fleet Management

Report Date: October 14, 2022

Issued: October 17, 2022

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Commissioners of the
Texas Department of Licensing and Regulation
902 Colorado St.
Austin, TX 78701

This report presents the results of the audit procedures performed for the Texas Department of Licensing and Regulation (TDLR) during the period June 26, 2022 through October 14, 2022, relating to the Fleet Management process of TDLR.

The objectives of this internal audit were to evaluate the design and effectiveness of the TDLR's Fleet Management process as follows:

- A. Determine whether internal controls over the Fleet Management process are designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.
- B. Ensure that controls over selected critical processes within the Fleet Management process are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.

To accomplish these objectives, we conducted interviews and walkthroughs with key personnel involved in the Fleet Management process to gain an understanding of the current processes in place, examined existing supporting documentation, and evaluated the internal controls over the processes. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from September 1, 2021 through May 31, 2022.

The following report summarizes the findings identified, risks to the Texas Department of Licensing and Regulation, recommendations for improvement and management's responses.

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October 14, 2022

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Background

Texas Department of Licensing and Regulation (TDLR or the agency) is the state agency responsible for licensing and regulating a broad range of occupations, businesses, facilities, and equipment. The Agency's mission statement is to earn the trust of Texans every day by providing innovative regulatory solutions for our licensees and those they serve.

TDLR follows the State Office of Vehicle Fleet Management (OVFM) Vehicle Fleet Management Plan. The TDLR fleet is 50 vehicles widely scattered throughout the state consisting of 26 trucks and SUV's, 14 trailers, nine all-terrain vehicles, and one mobile classroom used for a mix of administrative and emergency response purposes. These characteristics provide a challenge to meet each objective of the State Vehicle Fleet Management Plan.

TDLR ensures that employees operate agency vehicles and any vehicles leased or rented in the course of agency business in an efficient and safe manner and in compliance with state and federal law. As the operator of an agency vehicle, employees are responsible for the proper use, service, and protection of the vehicle as described in the State Vehicle Fleet Management Plan. Violation of these laws, rules, policies, or procedures, could result in the removal of driving privileges and may result in corrective disciplinary action, including and up to termination, as described in TDLR's Personnel Manual and Employee Handbook.

TDLR employees are immediately relieved of their vehicle driving privileges and, if the employee's position requires the use of an agency vehicle as a condition of employment, could be subject to immediate termination if the employee is convicted, or receives deferred adjudication for a major violation relating to the use of an Agency vehicle. Major violations include, but are not limited to, the following:

- Driving while impaired
- Failure to stop/report an accident
- Making a false accident report
- Homicide, manslaughter, or assault arising from the use of a vehicle
- Driving while license is suspended/revoked
- Attempting to elude a police officer
- Leaving the scene of an accident

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Audit Objective and Scope

This audit focused on the Texas Department of Licensing and Regulation's Fleet Management processes in place. We reviewed the procedures in place for appropriate risk and regulatory coverage and compliance to ensure efficient and effective processes. Key functions and sub-processes within the Fleet Management process reviewed included:

- Fleet Additions
- Fleet Inventory
- Fuel Card Purchases
- Removal from Fleet
- Fleet Operations
- Physical Access

Our procedures were designed to ensure relevant risks were covered and verified the following:

Fleet Additions:

- Procurement requirements for fleet vehicle additions are in the TDLR Fleet Plan.
- Newly procured fleet vehicles are inspected for requirements of TDLR's specifications.
- Process for reporting fleet assets to the Texas Fleet System (TxFS) maintained by the State Comptroller's Office.
- A complete evaluation of the current fleet is performed prior to acquiring new or replacement vehicles.
- Ensuring that Agency fleet size meets OVFM compliance and appropriate reporting standards.
- Process for ensuring that newly procured vehicles are assigned appropriately according to specifications required by the State Fleet Management Plan.
- Newly purchased vehicles procured during the state fiscal biennium meet the low-emissions vehicle purchase requirements.

Fleet Inventory:

- Process for reporting fleet vehicles to the TxFS as required by Fleet Management Plan is complete.
- Process for ensuring Fleet Inventory logs are maintained and monitored to ensure accuracy in accordance with State requirements.
- Fleet vehicles meet the annual minimum use guidelines, and proper extensions and/or waivers with justifications for submittal to OVFM in a timely manner.
- Protocol for retaining written documentation of vehicle assignment to administrative or executive employees on a permanent or daily basis, as required by the agency.
- On-going maintenance and maintenance expenses/repair costs of vehicles is performed, documented and tracked in internal fleet management system.
- Process for reviewing and approving vehicle maintenance and repairs to ensure repairs and costs are appropriate.
- Agency inspections of fleet vehicle are in accordance with state requirements.

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Fuel Card Purchases:

- Procedures for monitoring and documentation of fuel card purchases.
- Personnel responsible for tracking fuel card usage, process for reporting misuse of fuel card.
- Requirements for fuel card purchases reported to the Texas Fleet Management System (TxFS) on a monthly basis.
- Procedures for reporting lost or stolen fuel cards.
- Proper access and review of the Voyager Card system is conducted.

Removal from Fleet:

- Protocols for proper removal of fleet vehicles that are no longer in use from the fleet inventory.
- Reporting vehicle usage, maintenance, and disposal information in TxFS, as required by the State Fleet Plan occurred.
- Evaluating the process for reassignment, transfer, replacement, or disposal of fleet vehicles.
- Procedures for proper reporting of disposed vehicles to TxFS.

Fleet Operations:

- Policies and procedures outlined by the State Vehicle Fleet Management Plan are updated and/or reviewed on an annual basis for accuracy and adequate coverage.
- TDLR employees adhere to the alternative fuel policy.
- Agency retained and submitted proper written documentation of utilized motor pool vehicles that are assigned to field employees or individuals that were in administrative or executive roles to OVFM.
- Ensured that proper roles and responsibilities are clearly assigned to Agency personnel.

Physical Access:

- Ensuring authorized access to fleet vehicles is enforced to prevent theft or damage.

The objectives of this internal audit were as follows:

- A. Determine whether internal controls over the Fleet Management process were designed to ensure that consistent processes were implemented and designed effectively to address the risks within the associated sub-processes and ensured effective operations.
- B. Ensure that controls over selected critical processes within the Fleet Management process were operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.

Our procedures included interviewing key personnel involved in the Fleet Management process to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from September 1, 2021 through May 31, 2022.

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Executive Summary

Through our interviews, evaluation of internal control design and testing of transactions we identified five findings. The listing of findings include those items that have been identified and are considered to be non-compliance issues with documented Texas Department of Licensing and Regulation 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 the TDLR. These issues could have significant financial or operational implications.

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.

OVERALL ASSESSMENT		Unsatisfactory
SCOPE AREA	RESULT	RATING
<p>Objective A: Determine whether internal controls over the Fleet Management processes are designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.</p>	<p>We identified 24 controls in place in the Fleet Management process. However, there are opportunities to strengthen the processes and control environment including:</p> <ul style="list-style-type: none"> • Develop and implement a Fleet Management Guide • Develop procedures to use an initial inspection checklist to assess asset conditions upon arrival • Implement a formal process during vehicle acquisition to require the prompt submission of an alternative fuel waiver application or to request and obtain waivers from transferring agencies • Develop and implement a process for ensuring driving privileges revocation is occurring. 	Unsatisfactory
<p>Objective B: Ensure that controls over selected critical processes within the Fleet Management process are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.</p>	<p>Controls appear to be in place, however through the course of our testing procedures we identified internal control ineffectiveness including the following:</p> <ul style="list-style-type: none"> • Develop an annual evaluation process to periodically monitor and track the whole fleet • Ensure documentation around the use of Voyager Cards is maintained • Ensure driving privileges for agency employees who are not in compliance with driving standards or requirements are revoked in a timely manner 	Unsatisfactory

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Other opportunities for improvement were identified through our interviews, the evaluation of internal control design, and transactional testing. These observations are not considered to be non-compliance issues with documented agency policies and procedures. They are considered process improvement observations and the intent for the recommendation is to strengthen current agency processes and controls. The observations were provided to management separately.

Conclusion

Based on our evaluation, the Fleet Management process has practices, and controls in place designed to mitigate some risks within significant processes at the Texas Department of Licensing and Regulation (TDLR). However, we identified opportunities to strengthen processes, formalize procedures performed, and improve effectiveness of controls within the Fleet Management process at the TDLR.

TDLR should finalize and implement the draft Fleet Management Guide for the agency to follow. The agency should also develop a checklist to assess incoming fleet vehicles and ensure the fleet additions have the proper specifications and are in acceptable condition. To be in compliance with state requirements, TDLR should develop a process to obtain alternative fuel waivers for new vehicles that are added to the fleet, as well as ensuring that all vehicles are included in an annual inspection by the agency. In addition, TDLR should develop a process for ensuring that driving privileges of agency employees is monitored, and revocation of those in violation of policies occurs in a timely manner.

Follow-up procedures will be performed in Fiscal Year 2023 to evaluate the effectiveness of remediation efforts to address the findings identified.

**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 Agency that have responsibilities in managing and/or monitoring the Fleet Management process, to gain an understanding of the current processes in place, by examining existing supporting documentation and evaluating the internal controls over the processes. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from September 1, 2021 through May 31, 2022.

Objective A: Design of Internal Controls

Determine whether internal controls over the Fleet Management process were designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.

Procedures Performed: We conducted interviews and walkthroughs with key personnel involved in the Fleet Management process at TDLR to gain an understanding of the current Fleet Management processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. We documented our understanding of the processes and identified internal controls over the following sub processes:

- Fleet Additions
- Fleet Inventory
- Fuel Card Purchases
- Removal from Fleet
- Fleet Operations
- Physical Access

We evaluated the controls identified against expected controls to determine whether the identified reoccurring procedures and internal controls are sufficiently designed to mitigate the critical risks associated with the operational sub-processes for Fleet Management. We identified unacceptable risk exposures due to gaps in the existing control structure as well as opportunities to strengthen the effectiveness and efficiency of the existing procedures. Additionally, we evaluated the existing control design to verify that the Texas Department of Licensing and Regulation's processes are designed to ensure compliance with relevant guidance and regulations.

Results: We identified 24 total controls in place over the significant activities within Fleet Management. We identified four findings where improvements in the processes, policies, and procedures could be made.

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Process Area	Control Coverage	Findings
Fleet Additions	9	Finding 1 Finding 2 Finding 3
Fleet Inventory	8	Finding 1
Voyager Fleet Card Purchases	7	Finding 1
Removal from Fleet	3	Finding 1
Fleet Operations	8	Finding 1 Finding 4
Physical Access	3	Finding 1
Total	24	4

Finding 1 – High – TDLR Fleet Management Guide: TDLR does not have a Fleet Management Guide that establishes policies and procedures to guide and maintain the fleet management effectively. Currently, TDLR has a draft Fleet Management Guide that has been submitted to Human Resources for final approval.

Additionally, through our procedures, we identified areas that are not included in the draft Fleet Management Guide, or where TDLR is not in compliance with the procedures in the Guide. These topic areas include:

Missing Coverage Area

- Warranties maintenance for current fleet

Draft Fleet Management Guide Areas Covered

- For all samples tested, vehicle inspection checklists were completed on a weekly basis instead of being completed on a daily basis, as required
- Supervisors do not sign off on the monthly use reports; however, e-mails are used as approvals.
- Annual vehicle inspections and reports are not performed by supervisors
- For six out of 13 samples, registration documentation was not maintained
- For one out of the 25 samples, a purchase made outside of approved Voyager Card transaction codes did not have proper supporting documentation or approval
- For seven out of 25 samples selections, some, or all, receipts were missing for transactions in the Monthly Use Report
- For eight out of 25 samples, the total dollar amount of receipts did not agree to Monthly Use Reports
- For 13 out of 25 samples, not all transactions are recorded by the 15th of the month in TxFS
- For eight out of 25 samples, not all receipts contain vehicle number and operator's name
- The disposal of surplus vehicles does not occur. The vehicles are kept for parts for the other fleet vehicles.

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Recommendation: TDLR should approve a Fleet Management Guide to ensure that policies and procedures for fleet management are consistent. The guide should include specific duties by role, criteria requirements by the State, process details, and required documentation with templates for all impacted areas of fleet management. The Fleet Management Guide should be reviewed at least annually or if changes occur as new legislation updates are made.

Management Response: Management concurs. TDLR will approve a fleet management guide that includes all required information.

Responsible Party: Fleet Manager

Implementation Date: June 1, 2023

Finding 2 – Moderate – Initial Asset Inspection Documentation: TDLR does not have a process in place to maintain documentation of new asset inspections. Currently, upon delivery from a vendor, TDLR visually inspects all fleet assets for damage and specifications prior to accepting them into the Fleet. There is no supporting documentation maintained that the visual or specification inspection occurred.

Recommendation: TDLR should create and use an initial inspection checklist to assess asset conditions upon arrival. The checklist should include a written evaluation of any damages, relevant specifications, and final approval of vehicle acceptance.

Management Response: Management concurs. TDLR will create and use an initial inspection checklist, which includes all required information.

Responsible Party: Fleet Manager

Implementation Date: June 1, 2023

Finding 3 – Low – Alternative Fuel Vehicle Requirements: TDLR's fleet program is not in compliance with the State's alternative fuel fleet requirements, and does not retain Office of Vehicle Fleet Management (OVFM) waivers on file. The OVFM requires 50% of state agency fleets to be alternative fuel vehicles. Currently, due to supply chain issues and vehicle shortages, alternative fuel vehicles have not been prioritized in TDLR's fleet program. TDLR has not obtained OVFM waivers for their fleet or obtained those waivers from other state agencies with the transfer of assets to TDLR.

Recommendation: TDLR should incorporate a formal process during vehicle acquisition to require the prompt submission of an alternative fuel waiver application, if the vehicle does not comply with the alternative fuel requirements. The process should include maintaining the waiver support for the life of the vehicle.

Management Response: Management concurs. TDLR will incorporate a process during vehicle acquisition and require the prompt submission and of an alternative fuel waiver application, and will maintain the waiver as required.

Responsible Party: Fleet Manager

Implementation Date: June 1, 2023

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Finding 4 – Moderate – Driving Privileges Revocation: TDLR does not have a process in place to monitor employee compliance with TDLR's driver policies. We identified Vehicle Operators who were not in compliance with TDLR's driver policy, but retained active driving privileges. The following exceptions were identified:

- For 11 out of 19 employees tested, TDLR was not able to provide vehicle operators' Defensive Driving Course certificates
- For four out of 19 employees tested, vehicle operators completed a Defensive Driving Course, but not within the required 2 year time frame
- For five out of 19 employees tested, vehicle operators who were not in compliance with TDLR's driving policies retained driving privileges

Recommendation: TDLR should develop a formalized process ensuring compliance with defensive driving training and for promptly revoke driving privileges for those out of compliance with TDLR policies.

Management Response: Management concurs. TDLR will develop a process to ensure compliance with defensive driving training requirements, and promptly revoke driving privileges for those out of compliance with TDLR policies.

Responsible Party: Director of Human Resources

Implementation Date: June 1, 2023

Objective B: Effectiveness of Controls

Ensure that controls over selected critical processes within the Fleet Management process are operating efficiently, effectively, and result in complete and accurate information.

Fleet Additions

1. **Procedures Performed:** We obtained and reviewed a listing of all vehicles and verified that no new additions were added to the fleet within the audit scope.

Results: No findings identified.

Fleet Inventory

1. **Procedures Performed:** We obtained and reviewed a listing of all active vehicle operators as of June 27, 2022. We selected a sample of 19 out of 182 vehicles and verified:

- Vehicle Operators completed a Monthly Use Report.
- The Vehicle Operator's Supervisor signed off on the Report by the 10th of the following month.

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Results: Per the TDLR Fleet Management Guide, Supervisors are to sign off on all Vehicle Operators' Monthly Use Report, documenting their review of transactions, incidental costs, and vehicle usage including mileage. However, the Monthly Use Reports did not contain supervisor signatures. Approvals are received through e-mails.

Finding 1 – High – TDLR Fleet Management Guide

- 2. Procedures Performed:** We obtained and reviewed a master listing of all fleet assets as of June 27, 2022. We selected a sample of 13 out of 65 assets and verified the existence of the assets.

Results: TDLR performs an annual fleet evaluation. However, TDLR does not perform annual evaluations for Special Purpose Vehicles such as forklifts and ATVs.

Finding 1 – High – TDLR Fleet Management Guide

Finding 5 – Moderate – Annual Asset Evaluation: DLR annual evaluations are not performed for the entire fleet, including Special Purpose Vehicles such as their forklift and ATVs. Currently, TDLR performs evaluations on the vehicles but not on the forklift, ATVs, or trailers.

For three out of 13 samples, Special Purpose Vehicles were not included in the Annual Fleet Evaluation. Per the Texas State Comptroller Vehicle Fleet Management Plan, all vehicles which contain a motor should be evaluated at least annually.

Recommendation: TDLR annual evaluations should be performed for the entire fleet, which includes Special Purpose Vehicles, to ensure appropriate maintenance, repairs, and replacements and/or disposals are performed. Although trailers do not have motors, these assets should still be monitored for proper maintenance, repairs, and replacement.

Management Response: Management concurs. TDLR's annual evaluation will include all vehicles in the fleet, including Special Purpose Vehicles.

Responsible Party: Fleet Manager

Implementation Date: June 1, 2023

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Fuel Card Purchases

1. **Procedures Performed:** We obtained and reviewed a listing of all fuel card transactions during the audit scope period. We selected a sample of 25 out of 587 transactions and verified:

- Voyager Card purchases other than fuel, oil and filter services, battery replacement, and tires were approved by the Fleet Manager.
- Voyager Card purchase receipts contained the Vehicle Operator's name and the vehicle number.
- Voyager Card purchases were recorded in the Monthly Use Report and a receipt was received for each transaction listed on the report.
- The total dollar amount of Voyager Card receipts agree to the total dollar amounts in the Monthly Use Report.
- By the 15th of the month, Voyager Card transactions were recorded in TxFS.

Results: We identified several instances where documentation and receipts to support Voyager Card purchases was missing, incomplete, or did not agree to Monthly User Reports. We also identified instances where transactions were not submitted in a timely manner.

Finding 1 – High – TDLR Fleet Management Guide

Removal from Fleet

Procedures Performed: We obtained and reviewed a listing of all vehicles and verified that no fleet removals occurred to the fleet within the period of the audit scope.

Results: No findings identified.

Fleet Operations

Procedures Performed: We obtained and reviewed a listing of all active vehicle operators as of June 27, 2022. We selected a sample of 19 out of 182 vehicle operators and verified:

- The Vehicle Operator is an active employee.
- The Vehicle Operator's Defensive Driving Course certificate is on file with TDLR.
- Newly hired Vehicle Operators completed a Defensive Driving Course within 30 days.
- The Vehicle Operator completed a Defensive Driving Course within the last 2 years.
- Driving privileges were revoked for Vehicle Operators who were terminated or not in compliance with TDLR's driving policies.

Results: TDLR does not have a process in place to monitor ongoing compliance of Vehicle Operators' with TDLR policies. In addition, TDLR Vehicle Operators out of compliance with TDLR's driver policy retained active driving privileges despite non-compliance with driver safety course requirements.

Finding 1 – High – TDLR Fleet Management Guide

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Finding 4 – Moderate – Driving Privileges Revocation

Physical Access

Procedures Performed: We verified that physical access to the motor pool is secured with limited access to the associated fuel cards.

Results: TDLR Fleet Vehicles are disbursed to approved agency drivers. TDLR maintains a pool of vehicles for approved employees to use for agency business. While some vehicles are maintained in an open parking lot, most of these vehicles are stored within a warehouse. Access to the vehicle keys and associated fuel cards are appropriately restricted.

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 TDLR
- TDLR 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 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 the Agency
- 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 the Agency
- Minimal financial or operational impact to TDLR
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk