

# **Texas Department of Licensing and Regulation**

IA# 2022-03 Internal Audit Follow-Up Procedures

Report over Revenue

October 6, 2022

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Commissioners of the  
Texas Department of Licensing and Regulation  
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Austin, TX 78701

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 April 18, 2022 through October 6, 2022 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. An exit meeting was conducted on October 6, 2022.

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

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Austin, Texas  
October 6, 2022

# **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 2022 Internal Audit Plan included performing follow-up procedures to determine whether management has implemented corrective actions for the two 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 two 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 two 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, 2021 through March 31, 2022.

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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 two findings we evaluated for corrective actions that one was remediated and one was partially remediated.

Risk Rating	Total Findings	Remediated	Partially Remediated
High	1	1	-
Moderate	1	-	1
Low	-	-	-
<b>Total</b>	<b>2</b>	<b>1</b>	<b>1</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 one outstanding internal audit finding and partially remediated one outstanding finding.	<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 one remaining finding that was partially remediated by 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 two 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 two outstanding internal audit findings identified in the 2020 Internal Audit Report over Revenue.

### Revenue

#### 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 remediated

We selected three months and verified that TDLR performed the monthly revenue reconciliation. For the selected months, we received the revenue reconciliation support that the reconciliation had been reviewed by the Director of Financial Services for this selected months.

#### 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

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According to TDLR's Management, no procedures have been implemented by the Department to address this finding. TDLR is in the process of hiring a data analyst position that will have the responsibility to perform the periodic evaluation of program fees. Therefore, no follow-up procedures were performed.

**Management's Response:** Management concurs. TDLR hired the data analyst on October 7, 2022, and the data analyst and budget analyst will perform a new fee study this winter. 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, which are ongoing, necessitate restructuring of fees in those programs, 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:** June 1, 2023



# 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