

Texas Department of Licensing and Regulation

IA # 2022-05 Internal Audit Follow-Up Procedures
Report over Prior Years' Open Internal Audit Findings
October 6, 2022

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Commissioners of the
Texas Department of Licensing and Regulation
920 Colorado St.
Austin, Texas 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 16, 2022 through October 6, 2022, related to the findings identified in prior years' various internal audit reports.

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 prior fiscal years' internal audit reports.

To accomplish this objective, we conducted interviews with key TDLR personnel responsible for each of the program areas. We also reviewed documentation and performed specific testing procedures to validate actions taken. An exit meeting was conducted via teleconference on October 6, 2022.

The following report summarizes the findings identified, risks to the organization, 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

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Background

Internal audit procedures were performed in fiscal years 2013 through 2018 across multiple program areas and reported to the Commission. In fiscal year 2019, follow-up procedures were performed to evaluate the corrective action taken by TDLR management to remediate open internal audit findings from those prior internal audit reports. As a result of those follow-up procedures, five findings were determined to be remediated, one was partially remediated, one was closed, and one remained open.

The 2021 Internal Audit Plan included performing follow-up procedures to validate that TDLR management has taken steps to address two outstanding internal audit findings. As a result of those follow-up procedures, one was closed, and one was partially remediated.

The 2022 Internal Audit Plan included performing follow-up procedures to validate that TDLR management has taken steps to address the one outstanding internal audit finding in the Tow Trucks, Booting, & VSF Program area.

Follow-Up Procedures Objective and Scope

The follow-up procedures focused on the remediation efforts taken by TDLR management to address the one remaining open finding identified in the prior year internal audit reports, and to validate that appropriate corrective action had been taken.

Executive Summary

The findings from the prior years' internal audit reports 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 of the one finding we evaluated for corrective actions that one has been remediated.

Risk Rating	Total Findings	Previously Closed	Remediated
High	10	9	1
Moderate	2	2	-
Low	7	7	-
Total	19	18	1

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

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FOLLOW-UP ASSESSMENT	Strong
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SCOPE AREA	RESULT	RATING
<p>Objective: Validate that adequate corrective action has been taken in order to remediate the issues identified in the prior fiscal years' internal audit reports.</p>	<p>We identified that procedures implemented by management remediated the one outstanding internal audit finding.</p>	<p>Strong</p>

Conclusion

Based on our evaluation, key personnel in each of their respective program areas made efforts to remediate the findings from the prior years' internal audit reports. The prior year's internal audit remaining finding has been remediated.

**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 across the two program areas to gain an understanding of the corrective actions taken in order to address the findings identified in prior year internal audit reports, 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 in the prior years' internal audit reports.

Tow Trucks, Booting & VSF Programs (2016)

Risk Rating	Total Findings	Previously Remediated	Remediated
High	4	3	1
Moderate	-	-	-
Low	-	-	-
Total	4	3	1

2016 - Finding 2 – High – Periodic Inspections: TAC §86.451, §85.451, and §89.46 states that each towing, booting and VSF company shall be inspected at least once every 2 years.

Our testing of 10 tow-truck company and 10 VSF inspections disclosed 5 instances where the tow truck companies were inspected 1 to 8 years after the required date, and 3 instances where the VSFs were inspected 1 to 9 years after the required date.

2022 - Results: Finding remediated

We received a TDLR generated list of VSF inspections from June 1, 2021 to April 27, 2022. We verified that the VSF inspections occurred within two years as required by TAC §85.451.

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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