

# Texas Department of Licensing and Regulation

IA # 2020-02 Internal Audit Follow-Up Procedures

Report over Licensing

June 29, 2020

# CONTENTS

Page

Internal Audit Report Transmittal Letter to the Commissioners .....	1
Background.....	2
Follow-Up Objective and Scope.....	2
Executive Summary .....	2
Conclusion.....	3
Detailed Follow-Up Results, Findings, Recommendations and Management Response.....	4
Appendix .....	9



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 May 20, 2020, through June 29, 2020, 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 action has been 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 June 29, 2020.

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  
August 25, 2020

Weaver and Tidwell, L.L.P.  
1601 South MoPac Expressway, Suite D250 | Austin, Texas 78746  
Main: 512.609.1900

**CPAs AND ADVISORS | WEAVER.COM**

# Texas Department of Licensing and Regulation

## IA # 2020-02 Internal Audit Follow-Up Procedures Report over Licensing

June 29, 2020

### 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 2020 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 seven 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 September 1, 2019, through April 30, 2020.

### 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.

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

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

# Texas Department of Licensing and Regulation

## IA # 2020-02 Internal Audit Follow-Up Procedures Report over Licensing June 29, 2020

A summary of our results 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>
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 largely addressed and remediated or closed prior outstanding findings. However, TDLR management should continue their efforts to remediate the three remaining outstanding findings: <ul style="list-style-type: none"> <li>• Issuing RFI letters for applications with missing documentation;</li> <li>• Automated voidance of outstanding applications; and</li> <li>• Regular user access review across all systems.</li> </ul>	<b>Satisfactory</b>

### Conclusion

Based on our evaluation, key personnel responsible for the Licensing process made efforts to remediate the findings from the 2019 Internal Audit Report over Licensing. However, management should continue to make efforts to remediate the two findings that are partially remediated and the one finding that is open.

We recommend that TDLR continue to use the revised checklists to send RFI letters for applications that are missing documentation, and update the TOOLS system to automate the process of voiding applications that have been outstanding for more than one year.

TDLR management should also continue to review user access to its systems and modify or remove inappropriate access when it is identified.

Follow-up procedures should be conducted in Fiscal Year 2021 to validate the effectiveness of the remediation efforts taken to address the remaining outstanding findings.

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

# Texas Department of Licensing and Regulation

## IA # 2020-02 Internal Audit Follow-Up Procedures Report over Licensing

June 29, 2020

### 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 01 – Moderate – Licensing Systems

TDLR licensing programs lack system integration. Currently, TDLR utilizes nine different systems to process applications for its 39 licensing programs. These systems are not integrated and have different levels of automation. Additionally, some systems utilized by TDLR do not have capabilities to meet statutory requirements for application processing and ensure efficient and effective business processes. The following systems are currently being used by the agency: IHB Access Database, DES, FileMaker Pro, Jurisdiction Online, TABS, TOOLS, TULIP, Versa, and WXM Word database. The majority of TDLR programs utilize the TULIP system.

##### Results: Closed

TDLR has issued a RFP to start the procurement of a new system. A vendor schedule for deliverables and implementation is pending, with implementation anticipated to commence by December 31, 2020.

The new system is expected to be implemented over multiple years and management has indicated they will be actively monitoring and overseeing its implementation. Due to the extended timeframe required for implementation and the oversight anticipated to be provided by management, Internal Audit considers this finding closed.

##### Finding 02 – 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: Partially Remediated

Processing checklists were revised to include a requirement to send a RFI letter if any part of the application or required documentation is missing. We verified the checklists were revised to include this requirement; however, implementation of the checklists was effective June 1, 2020. Due to the implementation date, a sufficient period of time has not passed to perform remediation testing in order to effectively validate remediation efforts, and will be performed in FY 2021.

# Texas Department of Licensing and Regulation

## IA # 2020-02 Internal Audit Follow-Up Procedures Report over Licensing June 29, 2020

**Management's Response:** Licensing staff began using updated checklists that include the RFI letter requirement on June 1, 2020. Staff will continue 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.

**Responsible Party:** Licensing Director

**Implementation Date:** June 1, 2020

### Finding 03 – 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: Open

The TOOLS system has not been updated to automatically void applications outstanding for more than a year, and manual procedures have not been implemented to void outstanding applications. As such, we performed no testing procedures over this finding. We will perform follow-up procedures after corrective actions have been made.

**Management's Response:** Tools – We generated a list of the Towing and VSF applications that were over one year and set their status to "inactivated" for the ones that could be. Some applications cannot be similarly inactivated because the license was revoked and changing that status will affect the revoked license status. IT staff is working to create a process that will allow us to inactivate old applications for licenses that have been revoked.

FileMaker Pro, IHB and DES Access Databases – IT programmers cannot provide lists of old applications in these databases. Licensing personnel will work with IT staff and staff in various divisions to identify aged applications and inactivate them.

**Responsible Party:** Chief Information Officer and Director of Licensing.

**Implementation Date:** TOOLS - March 31, 2021; Other Databases - August 31, 2020

# Texas Department of Licensing and Regulation

## IA # 2020-02 Internal Audit Follow-Up Procedures Report over Licensing June 29, 2020

### **Finding 04 – Moderate – Monitoring of Renewal Notifications**

TDLR does not have procedures in place to ensure that all notifications for renewal are sent to licensees at least 30 days prior to license expiration, as required by the Chapter 60 of the Texas Administrative Code. Some licensing systems such as TULIP and Versa provide automated notifications for renewal to licensees. For licenses in the FileMaker Pro system, Licensing staff must manually prepare and send the notifications to licensees. Currently, there is no process in place to ensure that notifications for renewal are sent to all licensees at least 30 days prior to license expiration.

We selected a sample of 50 out of 133,936 license expirations from July 1, 2017, through December 31, 2018, and verified whether renewal notifications were provided to licensees at least 30 days prior to the expiration. We determined that evidence of timely renewal notification was not available for five license expirations, all of which were related to the Podiatry program and maintained in the FileMaker Pro system.

**Results: Remediated**

### **Finding 05 – Moderate – Requests for Evaluation of Criminal History**

We randomly selected a sample of 50 out of 804 requests for evaluation of criminal history that were submitted to TDLR from July 1, 2017 through December 31, 2018. For each selected request, we verified whether appropriate forms were submitted and the fee paid by the requestor. We identified one exception:

One request was erroneously recorded in the system. The applicant submitted a license application along with the \$20.00 payment for the application fee and an additional check of \$25.00 which equals the amount of the fee for evaluation of criminal history. The payment of \$25.00 was unnecessary since the criminal history is evaluated as part of application processing and additional payment is not required. Additionally, the applicant did not provide the request form for the evaluation of criminal. However, Licensing recorded the payment as a fee for evaluation of criminal history and created a separate account for the applicant to process the request in the system. The Licensing staff subsequently concluded that the payment was not related to a request for evaluation of criminal history and merged these accounts in the system. The request for evaluation of criminal history was never processed and the unnecessary payment of \$25 was not refunded to the applicant.

**Results: Closed**

Management has evaluated the finding and has accepted the risk.

### **Finding 06 – Moderate – License Renewals**

We selected a sample of 50 out of 380,721 license renewals from July 1, 2017, through December 31, 2018, to verify whether renewal fees were accurately assessed, and whether renewals were processed timely and in accordance with all State requirements. We identified the following exceptions:

- 2 applicants were not assessed a late renewal fee even though they submitted their applications after the license expiration (TULIP and Versa)

**Results: Remediated**

# Texas Department of Licensing and Regulation

## IA # 2020-02 Internal Audit Follow-Up Procedures Report over Licensing June 29, 2020

### **Finding 07 – 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: Partially Remediated**

We selected a random sample of 39 from the 159 user access exceptions identified within the original internal audit to verify the users' access had been revoked, revised or was confirmed to be appropriate based on the users role (which may have changed since the original finding). Of the testing sample of 39, 12 instances were identified to have maintained previously determined inappropriate access at June 1, 2020.

**Management's Response:** Last year TDLR completed an initial check of the user permissions and levels. This included reviewing all Active Directory accounts to ensure off-boarding processes for employees to ensure Active Directory was correct. Following the audit of Active Directory, a project was coordinated with the ePMO to review all employees' systems permissions then inactivate or correct the level of permission. Each system noted in the finding has had all user permissions pulled and those lists were then provided to division directors to verify and update permissions for their staff. IT has updated the data according to director feedback.

A procedure has been developed to review the user permissions for each system on an annual basis. This procedure and an initial schedule for updating accesses have been created in conjunction with the Information Security Office. Each quarter that office is expected to conduct a review of a subset of TDLR systems so that the result is all system permissions are reviewed annually.

**Responsible Party:** Chief Information Security Officer

**Implementation Date:** December 31, 2020

# Appendix

# Texas Department of Licensing and Regulation

## IA # 2020-02 Internal Audit Follow-Up Procedures Report over Licensing June 29, 2020

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.

# Texas Department of Licensing and Regulation

## IA # 2020-02 Internal Audit Follow-Up Procedures Report over Licensing June 29, 2020

### 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