

Texas Department of Licensing and Regulation

IA# 2020-01 Internal Audit over Revenue

June 26, 2020

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

This report presents the results of the internal audit procedures performed for Texas Department of Licensing and Regulation during the period of January 27, 2020 through June 26, 2020 relating to the Revenue process of the agency.

The objectives of the internal audit were to evaluate the design and effectiveness of Texas Department of Licensing and Regulation's Revenue process as follows:

- A. Determine whether internal controls over Revenue processes are in place 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. Verify that controls over critical Revenue processes are operating effectively and according to Texas law and TDLR policy and that fees, fines and penalties are accurately recorded.
- C. Verify that access to edit and modify licensing fees, renewals fees, fines and penalties, and material fees in licensing systems is restricted to the appropriate individuals.

To accomplish these objectives, we conducted interviews with personnel responsible for the Revenue process. We also reviewed documentation and performed specific testing procedures to assess controls. Procedures were performed at Texas Department of Licensing and Regulation's facilities and remotely and were completed on August 31, 2020.

The following report summarizes the findings identified, risks to the organization, recommendations for improvement and management's responses.

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August 31, 2020

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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. Fees for the various licenses are set by the Commission, and are published in the Texas Administrative Code. Periodically, licensing program fees are evaluated against program administration costs to ensure program fees align with program expenditures. Revenue data is collected and analyzed, by month, to determine if license fees for any of the programs should be adjusted.

The Commission also authorizes all program fee adjustments including license fees and the maximum amount of administrative penalties for each program regulated by TDLR. The range of penalty and fine amounts that apply to specific violations of rules enforced by TDLR are detailed in TDLR's Enforcement Plan. These penalty and fine amounts are reviewed and adjusted on an ad-hoc basis, upon request by an Advisory Board.

The agency's Financial Services Division is responsible for processing and reconciling revenue to TDLR's licensing systems and to the Uniform Statewide Accounting System (USAS). Currently, TDLR utilizes four different systems to process payments received for licensing fees, administrative fines and penalties, and material purchases for its 39 business and occupational licensing programs as of fiscal year 2020.

Revenue is received by TDLR through mail and online through Texas.gov. The Administrative Services Team within TDLR's Financial Services Division is responsible for processing payments made by mail. As the mail is opened and logged, batches of revenue payments, by program, are created for processing the different licensing systems. Revenue transactions are recorded individually into the applicable licensing system based on license program type. For licensing systems that do not have the functionality to record revenue payments, revenue transactions are recorded within TDLR's TULIP system. Revenue batch reports are reviewed by the Revenue Team prior to being submitted to the appropriate department for further verification that the revenue transaction is appropriately coded to the correct customer, program, and in the correct amount. Once the revenue reports are verified, the Revenue Team, then proceeds to finalize the deposit into the applicable licensing system or processes the return of the payment, as necessary. Revenue transactions are then batched by their agency object codes and entered in TDLR's accounting system, CAPPS, by the batch total amount. All daily deposits and revenue batches are approved by the Revenue and Administrative Services manager prior to recording in CAPPS. Online payments are processed directly by the Comptroller of Public Accounts via the Texas.gov portal. Revenue received online is transferred to TDLR on a daily basis in batch amounts based on the agency object codes. Amounts transferred are reported on the Detailed Accounting Financial Report (DAFR8190).

Revenue is reconciled on a monthly basis by the Financial Support and Reporting Team. Revenue recorded in USAS is first reconciled to TDLR's accounting system CAPPSS, by object code, and then reconciled to the different licensing systems. Any necessary adjustments are reviewed by the Manager of Financial Support and Reporting prior to posting any adjustments in the applicable system.

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Audit Objective and Scope

The audit focused on the TDLR's Revenue process in place within Financial Services. 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 Revenue process reviewed include processing revenue related to:

- License/License Renewal Fees
- Penalties and Fines
- Material Purchases/Records

The scope of this engagement did not include:

- Legislative Appropriations Request/General Appropriations Act
- Payment Processing
- Cash Management
- Budget and Planning

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

License/License Renewal Fees

- Fees are periodically evaluated for appropriateness
- Fees are authorized by the appropriate personnel
- Fees are configured accurately in licensing systems
- Access to modify fees is appropriately restricted
- Discounts and fee waivers are reviewed and approved
- Fees are recorded to the correct license and licensee
- Fees are recorded accurately and completely
- Fees are recorded in the proper period
- All appropriate fees are collected
- Revenue is reconciled on a periodic basis

Penalties and Fines

- Penalties and fines are periodically evaluated for appropriateness
- Penalties and fines are authorized by the appropriate personnel
- Penalty and fine adjustments or waivers are authorized by appropriate personnel
- Penalties and fines are recorded to the correct license and licensee
- Penalties and fines are recorded accurately and completely
- Penalties and fines are recorded in the proper period
- All penalties and fines are collected
- Revenue is reconciled on a periodic basis

Material Purchases (rules/books)/Records

- Prices are periodically evaluated for appropriateness
- Prices are authorized by the appropriate personnel
- Prices are configured accurately in licensing systems
- Access to modify prices is appropriately restricted
- Orders/requests are posted to the correct customer
- Invoices are submitted timely
- Invoices are recorded accurately and completely
- Invoices are recorded to the proper period

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- All revenue is collected
- All sales have correct price
- Revenue is reconciled on a periodic basis

Our procedures included interviewing key personnel associated with Revenue processes 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 July 1, 2018 through December 31, 2019.

Executive Summary

Through our interviews, evaluation of internal control design, and testing of transactions we identified four 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 Texas Department of Licensing and Regulation. 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	SATISFACTORY
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Scope Area	Result	Rating
<p>Objective A: Determine whether internal controls over Revenue processes are in place 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 12 controls to be in place within the Revenue process. However, there are opportunities to strengthen the processes and control environment including:</p> <ul style="list-style-type: none"> • Implement procedures to ensure that updates to fees are configured accurately in licensing systems • Implement review and approval procedures to ensure monthly revenue reconciliations are accurate and complete • Regularly review penalty and fine amounts • Regularly evaluate all program license fees and prices for material purchases 	<p>SATISFACTORY</p>

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Scope Area	Result	Rating
<p>Objective B: Verify that controls over critical Revenue processes are operating effectively and according to Texas law and TDLR policy and that fees, fines and penalties are accurately recorded.</p>	<p>Controls appear to be in place; however, there are opportunities to strengthen the processes and control environment including:</p> <ul style="list-style-type: none"> • Ensure monthly revenue reconciliations of USAS to CAPPS and USAS to TDLR Licensing systems are complete and accurate 	<p>SATISFACTORY</p>
<p>Objective C: Verify that access to edit and modify licensing fees, renewals fees, fines, penalties, and material fees in licensing systems is restricted to the appropriate individuals.</p>	<p>Access to TDLR's systems used for revenue processes is not appropriately restricted for the individuals identified. TDLR should perform the following:</p> <ul style="list-style-type: none"> • Remove inappropriate access to all systems, including access by former employees and unnecessary access • Review user access permissions to all systems used for Revenue processes at least annually to ensure that access is appropriate and aligns with the roles and duties of the assigned end user 	<p>UNSATISFACTORY</p>

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

Conclusion

Based on our evaluation, the Financial Services has procedures and controls in place to conduct effective management of the significant processes within TDLR. However, opportunities exist to improve the effectiveness of the controls within the Revenue process.

Specifically, TDLR should coordinate with Information Technology to remove inappropriate access for all revenue systems. TDLR should also review user access permissions to these systems at least annually to ensure that access is appropriate and aligns with the roles and duties of the assigned end user.

Additionally, TDLR should implement procedures to regularly review license fee amounts to ensure appropriateness of revenues collected, as well as ensure that revenues are reconciled on a monthly basis.

Follow-up procedures will be performed in Fiscal Year 2021 to evaluate the effectiveness of remediation efforts taken 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 Financial Services Division to gain an understanding of the current revenue processes in place, examining existing documentation, evaluating the internal controls over the process, and testing the effectiveness of the controls in place. We evaluated the existing policies, procedures and processes in their current state.

Objective A: Control Design

Determine whether internal controls over Revenue processes are in place to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.

- 1. Procedures Performed:** We conducted interviews of key personnel associated with Revenue processes and examine existing documentation to gain an understanding of the current processes from evaluation of fees and penalties, through recording and tracking of revenue. Document understanding of the process in a bullet point format, identifying controls over the critical sub processes:

- License/License Renewal Fees
- Penalties and Fines
- Material Purchases/Records

We evaluated the identified internal controls against expected controls to determine whether the identified controls are sufficiently designed to comply with TDLR policies and procedures and mitigate all critical risks associated with the Revenue process. We identified any unacceptable risk exposures due to control design inadequacy or any opportunities to strengthen the effectiveness of the existing control design

Results: We identified 12 controls in place over the significant activities within the Revenue process areas. We identified four findings where improvements in the process can be made.

Process Area	Control Coverage	Findings / Observations
Revenue Processes		
License / License Renewal Fees	9	Finding 1 Finding 2
Penalties and Fines	8	Finding 2
Material Purchases (rules/books) / Records	6	Finding 1 Finding 2 Finding 3
Total	23*	

***Duplicate Control:** The total number of controls identified is 12. However, based on their design, controls address risks in multiple processes. We have mapped the 12 unique controls to the processes in which they mitigate the risks within the processes.

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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.

Recommendation: TDLR should update procedures to include a review of program license fees to ensure new fee rates are accurately configured in the applicable licensing system, prior to their use in transactions. Upon completion of fee configuration by IT, License Program Managers should verify program license fees agree to the approved fee schedule.

Management's Response: Management agrees and will establish procedures to have Licensing Program Managers review all new or adjusted fees configured in the licensing system to ensure they are accurate prior to those fee amounts being collected. These procedures will be in place prior to the next new or adjusted fee changes.

Responsible Party: Director of Licensing

Implementation Date: January 1, 2021

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.

Recommendation: TDLR management should revise procedures to include a review of the monthly revenue reconciliations to ensure the reconciliations are complete and accurate. The review should include both the reconciliation of USAS to CAPPs and the reconciliation of USAS to TDLR Licensing systems.

Management's Response: TDLR acknowledges the finding related to the revenue reconciliation review. In February of 2020, the Financial Services Division was organizationally restructured and implemented a Deputy Director of Financial Services. A duty of this role is to review and approve general ledger accounting activities and reconciliations in accordance to agency policies and procedures, state statues, rules and requirements. The monthly revenue reconciliation will be reviewed and approved as recommended.

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Responsible Party: Deputy Director of Financial Services

Implementation Date: October 1, 2020

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.

Recommendation: Upon implementation of all legislative changes, TDLR should resume reviewing program activity fees against program administrative costs for all programs on, at minimum, a biennial basis, to ensure program activity fees remain reasonable and appropriate. TDLR should also update the process for performing fee studies to include a review of prices for material purchases. The evaluation of program activity fees should include analyzing prices for related program materials against all costs including costs to produce or distribute program materials.

Management's Response: Now that TDLR has two years of financial information for the programs transferred by SB 202, and has completed its Sunset Commission review and Strategic Fiscal Review, TDLR can now begin transitioning some of its license types from one-year to two-year licenses as authorized by the changes to Chapter 51, Occupations Code by HB 2847. As part of this undertaking TDLR will conduct a fee study for each program as the program's license types are transitioned. Following the transition in each program, TDLR will perform a fee study on a biennial basis. TDLR will also update the process for performing fee studies to include a review of prices for material purchases.

Responsible Party: Budget Analyst

Implementation Date: May 1, 2022

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Objective B – Control Testing

Verify that controls over critical Revenue processes are operating effectively and according to Texas law and TDLR policy and that fees, fines and penalties are accurately recorded.

1. **Procedures Performed:** We obtained a listing of all rulemaking actions related to program activity fee updates that occurred from July 1, 2018 through December 31, 2019. For the three rules identified, we reviewed the Texas Register and verified whether the amendments to reduce or remove license fees were authorized by the Texas Commission of Licensing and Regulation. The Texas Register outlined the amendments adopted by the Texas Commission of Licensing and Regulation to existing rules including amendments to TAC §66.80 and the two amendments to TAC §130.60 to reduce or remove program license fees.

Results: No findings identified

2. **Procedures Performed:** We obtained a system-generated report for each of the different systems in which license fees are recorded from the period July 1, 2018, through December 31, 2019. We selected a sample of 30 license fees (15 from the TULIP, five from the Versa system, five from QuickBooks, and five from the JO system). For each selected sample item, we verified the following:

- Verify fees are recorded to the correct license and licensee
- Verify fees are recorded accurately and completely
- Verify fees are recorded in the proper period
- Verify discounts and fee waivers are reviewed and approved, if applicable
- Verify fees are configured accurately in the licensing systems

Results: No findings identified

3. **Procedures Performed:** We obtained a system-generated report for each of their different systems of penalties assessed between July 1, 2018, and December 31, 2019. We selected a sample of 30 penalties (15 from the Tulip, a sample of five from Versa, a sample of five from QuickBooks, and a sample of five from JO) and verified the following:

- Verify penalties and fines are recorded to the correct license and licensee
- Verify penalties and fines are recorded accurately and completely
- Verify penalties and fines are recorded in the proper period
- Verify all penalties and fines are collected

Results: No findings identified.

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4. **Procedures Performed:** We obtained a system-generated report of license fees and fees from materials recorded in Tulip for July 1, 2018, and December 31, 2019. We selected a sample of 30 transactions and verified the following:
- Verify orders/requests are posted to the correct customer
 - Verify transactions are recorded accurately and completely
 - Verify transactions are recorded to the proper period
 - Verify prices are configured accurately in the system
 - Verify sales have the correct price

Results: No findings identified.

5. **Procedures Performed:** We obtained a system-generated report of parent taught driver education packet transactions recorded for December 2019. We selected a sample of 10 parent taught driver education packet revenue transactions and verified the following:
- Revenues are posted to the correct customer
 - Revenues are recorded accurately and completely
 - Revenues are recorded to the proper period
 - Prices are configured accurately in the system
 - Sales have the correct price.

Results: No findings identified.

6. **Procedures Performed:** 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.

Results: 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 reconciliations were complete and accurate.

Finding 2 – High – Revenue Reconciliation Review

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Objective C: Access Testing

Verify that access to edit and modify licensing fees, renewals fees, fines, penalties, and material fees in licensing systems is restricted to the appropriate individuals.

1. **Procedures Performed:** We obtained a listing of personnel with access to the following systems and evaluated whether their access is reasonable and appropriate based on their position:
 - QuickBooks
 - Jurisdiction Online
 - TULIP
 - Versa

We also verified whether user access is reviewed periodically to ensure user access rights for active users are appropriate.

Results: We identified six users with inappropriate access.

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:

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.

Recommendation: TDLR management should coordinate with Information Technology to remove inappropriate access for all licensing systems. Access to configure licensing fees and record licensing program fees including penalties should be appropriately restricted based on the user's current job function.

In addition, TDLR management should review user access to application and licensing function within each system at least annually to ensure that access is appropriate and aligns with the roles and duties of the assigned personnel.

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.

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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

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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