

Texas Department of Public Safety
Chief Auditor's Office

Fiscal Year 2020 Internal Audit Strategy



This Internal Audit Strategy was prepared by the Chief Auditor and presented to the Commissioners of the Texas Department of Public Safety for approval on October 10, 2019.

TEXAS DEPARTMENT OF PUBLIC SAFETY

5805 N LAMAR BLVD • BOX 4087 • AUSTIN, TEXAS 78773-0001

512/424-2000

www.dps.texas.gov



STEVEN C. McCRAW
DIRECTOR
SKYLOR HEARN
FREEMAN F. MARTIN
RANDALL B. PRINCE
DEPUTY DIRECTORS



COMMISSION
STEVEN P. MACH, CHAIR
A. CYNTHIA LEON
STEVE H. STODGHILL

October 10, 2019

Commissioners of the Texas Department of Public Safety

The work performed by the Chief Auditor's Office is a key element in assuring accountability, economy, efficiency, and effectiveness within the Texas Department of Public Safety operations. Our office is committed to being a trusted, independent and objective resource and providing quality internal auditing services. We will aggressively pursue projects in fiscal year 2020 to continue our assistance to the Department in improving controls, reducing risk, and enhancing agency operations.

As discussed under "Acceptable Level of Risk", our strategy does not, nor is it intended to, address or provide complete coverage for all Department components or systems. We believe, however, that our strategy provides for the effective allocation of the Chief Auditor's resources to the critical priorities and risks of the Department at this point in time.

We wish to thank Department management and staff for their assistance in providing information which led to the development of this proposal. The Chief Auditor's Office looks forward to helping the Department meet its objectives. For further information on the Fiscal Year 2020 Internal Audit Strategy, please don't hesitate to contact me at (512) 424-7573, or by email at catherine.melvin@dps.texas.gov.

Respectfully Submitted,

Catherine A. Melvin, CPA, CIA, CLEA
Chief Auditor

cc: Steven C. McCraw, Director
Skylor Hearn, Deputy Director
Freeman F. Martin, Deputy Director
Randall B. Prince, Deputy Director

Overview

Introduction

We appreciate the opportunity to provide our vision of Internal Audit efforts for the Texas Department of Public Safety for the 2020 fiscal year. Accordingly, our strategy covers the period September 1, 2019, through August 31, 2020. This document provides our audit plan as required by professional auditing standards and *Texas Government Code §2102.008*.

The Chief Auditor's Office is committed to being a valuable resource and trusted adviser in improving the Department's operations, and is proposing a strategy that focuses on critical risk areas, yet builds in flexibility to allow for the Commissioners' and management's special requests as they may arise throughout the year. Our strategy allows for flexibility to respond when such services will be needed.

Purpose of Internal Auditing

The Chief Auditor's Office Charter, approved by the Public Safety Commission in February 2019, provides the purpose, authority, and framework for the internal auditing function of the Texas Department of Public Safety.

As the internal audit profession has evolved, so has the definition of our work efforts.

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*¹

Types of Internal Audit Services

Internal Audit services consist of two types of engagements – assurance and consulting/advisory. In fiscal year 2020, the Chief Auditor's Office will continue to provide both types of services.

Assurance Engagements

The Chief Auditor's Office provides assurance services for the agency which are defined as objective examinations of evidence for the purpose of providing an independent assessment on risk management, control, and governance processes for the organization.

Assurance engagements by the Chief Auditor's Office are often in the form of a performance audit. A performance audit is a dynamic process that includes

¹ Institute of Internal Auditors

Overview

consideration of applicable standards throughout the course of the audit. Performance audit objectives may vary widely and include assessments of program effectiveness, economy and efficiency, internal controls, compliance with laws and regulations, and prospective analysis.

Consulting/Advisory Engagements

By definition, internal auditing also includes the provision of consulting services. Consulting services are advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve the organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

Progressive Internal Audit departments provide additional management assistance or consulting services to their organizations. We will continue to provide representation on Department committees and work groups as needed and requested by the Commissioners and management. We will provide both formal and informal counsel and recommendations on management issues, concerns, and draft policies and procedures.

By providing consulting/advisory activities, the Chief Auditor's Office adds value to the Department beyond assurance services. These activities are an important component of strengthening agency internal control.

Strategy Development

The Chief Auditor's Office develops the proposed Internal Audit Strategy by first assessing the risk environment facing the Department.

Risk Assessment

Risk assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events. The risk assessment process provides a means of organizing and integrating professional judgments for development of the work priorities. Critical functional areas with higher risk are assigned higher audit priorities. The risk assessment process leads the Chief Auditor's Office to establish priorities which become the Internal Audit Strategy.

Strategy Development

Ultimately, the Internal Audit Strategy is derived based on the results of the risk assessment which incorporates management and Commissioner input, auditor judgment, and relative risk. From this assessment emerges the strategic direction for CAO efforts.

Overview

Agency Core Values

The core values which support the mission statement of the Texas Department of Public Safety are Integrity, Excellence, Accountability, and Teamwork. The Chief Auditor's Office plays an important role in supporting the Department's efforts toward meeting its goals and objectives. We consider the Department's core values in each project and engagement undertaken, and ensure the alignment of our efforts.

Acceptable Level of Risk

While the proposed Internal Audit Strategy results from our consideration of a wide-ranging scope of projects, it does not, nor does it intend to, address or provide coverage for all Department programs, activities, systems, or responsibilities. Our goal is to optimize our limited resources to provide reasonable coverage in the areas we believe would most benefit from our services and address key risks.

However, because we cannot address every risk area, it is important for the Commission and management to understand the limitations of the audit coverage and the risks they assume in areas not audited. We believe that this plan appropriately and best allocates resources of the Chief Auditor's Office to the critical priorities and risks of the Department at this point in time.

Professional Standards

We adhere to *Government Auditing Standards*, as promulgated by the U.S. Government Accountability Office, and the *International Standards for the Professional Practice of Internal Auditing*, as promulgated by the Institute of Internal Auditors which includes the Code of Ethics. In addition, we conform to requirements found under the Texas Internal Auditing Act and comply with the policies and procedures of the Texas Department of Public Safety.

Fiscal Year 2020 Internal Audit Strategy

For the Period September 2019 – August 2020

Internal Audit Assurance and Consulting/Advisory Engagement Areas

1. Procurement and Contract Management
2. Licensing and Regulatory Services
3. Efficiency and Effectiveness of Business Processes
4. Financial Controls and Processes
5. Information Resources - IT/CyberSecurity
6. Reserve for Special Projects and Requests

Routine Internal Audit Efforts

7. Field Administration Reviews
8. Follow-Up Program:
 - a. Follow-Up Audits
 - b. Status of Outstanding Findings/Recommendations

Coordination of External Audits/Reviews

9. Statewide Single Audit – SAO
10. Other External Audits/Reviews – State Auditor's Office, Comptroller's Office, Office of the Governor, federal agencies, etc.

Mandatory Internal Audit Activities

11. Quality Assurance and Improvement Program
12. Continuing Professional Education
13. Development of the Fiscal Year 2021 Internal Audit Strategy

Other Internal Audit Activities

14. Service to the Profession
15. Administration of the Chief Auditor's Office

Discussion

NOTE: The actual scope of any project undertaken will be determined at the time of planning, and will be based on an assessment of risk at that time.

Internal Audit Assurance and Consulting/Advisory Engagement Areas

- 1. Procurement and Contract Management:** State procurement and contract management/administration practices remain a topic of interest to state oversight and leadership offices. In addition, state agencies are faced with increasingly complex and challenging requirements to ensure maximization of value while providing for fair, open, and transparent processes.
- 2. Licensing and Regulatory Services:** The Department holds certain licensing and regulatory responsibilities for the state. Primary among these are the driver license services provided across the state. The state driver license remains one of the most important documents people carry with them. Beyond showing proof of driver eligibility, the driver license is used for identification and establishment of legitimacy. In addition to driver licenses, the Department is also responsible for other important licensing and regulatory services, such as licenses to carry handguns and licensing of certain private security professionals. As licensing and regulatory services represent a critical and high risk area for the Department, CAO will continue to include both assurance and advisory efforts in these areas.
- 3. Efficiency and Effectiveness of Business Processes:** The Chief Auditor's Office will continue to dedicate resources to both advisory and assurance projects focused on reviewing the efficiency and effectiveness of various Department business processes and policies. In FY2017, the Chief Auditor's Office launched an initiative focused on business process improvement, and hired a Process Improvement Manager to join the CAO team. Business process improvement is complementary to progressive internal auditing. As stated earlier, The Chief Auditor's Office is committed to being a valuable resource and trusted adviser in improving the Department's operations. The development of a business process improvement team will enable our office to be responsive to management's needs proactively and provide more solutions-focused assistance.
- 4. Financial Controls and Processes:** The financial controls and processes represent the backbone of an organization. The Chief Auditor's Office considers the related financial controls and processes in most engagements it undertakes. Without adequate and effective financial controls and processes in place, an organization is challenged in successfully achieving its goals and objectives. In FY2020, the Chief Auditor's Office will continue its efforts assessing Department controls over financial processes.
- 5. Information Technology & Cybersecurity:** Information Technology is vital to the Department's infrastructure. The Chief Auditor's Office intends to focus efforts on assisting the IT function in meeting its critical goals and objectives. Utilizing the NIST "Framework for Improving Critical Infrastructure Cybersecurity", the Chief Auditor's Office will also continue its efforts in partnering with the Department's Cybersecurity team to assess the Department's cybersecurity practices, risks, and program overall.
- 6. Reserve for Special Projects and Requests:** Resources are reserved for unanticipated and special project requests for internal audit assistance that arise throughout the year so that the CAO can be responsive to the immediate needs of the Commissioners and management. This flexibility also allows for the Chief Auditor's Office to proactively focus efforts on assisting agency management and employees regarding control activities. The Chief Auditor's Office can assist in the consideration of risks and associated controls during process discussions.

Discussion

Routine Internal Audit Efforts

7. **Field Administration Reviews:** CAO will continue to provide an audit presence in field administration through a concentrated program examining selected processes of interest at a high level at regional offices.
8. **Follow-Up Program:** The purpose of follow-up programs is to “monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.” To that end, the Chief Auditor's Office has established the following to address open audit issues:
 - **Follow-up Audits:** CAO may perform follow-up audits on select completed audits each year based on a risk assessment. These audits will be substantive and will assess the extent, adequacy, and effectiveness of corrective actions taken to improve conditions noted.
 - **Status of Outstanding Findings/Recommendations:** The CAO may compile and report on the status of open audit issues. Status is based on management assertions of corrective actions taken. These assertions are subject to audit during a follow-up audit (see above).

Coordination of External Audits/Reviews

9. **Statewide Single Audit:** Due to the amount of federal grant pass-through funds received, the Department is typically selected for audit under Statewide Single Audit. The State Auditor's Office is responsible for conducting the Single Audit for Texas. A team of auditors reviews the Department's administration of its federal grant funds. The audit typically involves several large divisions of the agency, including Finance and Administration. The Chief Auditor's Office assists Department management during this audit and serves as a liaison for the external auditors to help shepherd the audit through the Department.
10. **Other External Audits/Reviews:** The Chief Auditor's Office serves as a liaison for all external audits/reviews of the Department. The Department is routinely audited by entities such as the State Auditor's Office (SAO), the Comptroller of Public Accounts (CPA), the Office of the Governor, and federal entities.

Discussion

Mandatory Internal Audit Activities

- 11. Quality Assurance and Improvement Program:** In accordance with the Texas Internal Auditing Act (Gov't Code Chapter 2102) and our professional standards, the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The quality assurance and improvement program is designed to enable an evaluation of the internal audit function's conformance with professional standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit function and identifies opportunities for improvement.
- 12. Continuing Professional Education:** Professional standards require each internal auditor to obtain 40 hours of continuing professional education annually. The Chief Auditor's Office strives to conserve and maximize its budget while seeking quality continuing professional education to develop and enhance our professional competencies to better serve the Department.
- 13. Development of the Fiscal Year 2021 Internal Audit Strategy:** The Chief Auditor is required to establish plans to carry out the responsibilities of the internal auditing department. An effective plan allocates internal audit resources to the most critical areas of the agency needing independent review. Integral to this process is the performance of an agency-wide risk assessment. Risk assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events. The risk assessment process leads the Chief Auditor to establish audit work schedule priorities which become the Internal Audit Strategy and plan for the coming year.

Other Internal Audit Activities

- 14. Service to the Profession:** As part of the Chief Auditor's Office's commitment to stay abreast of developments in its profession and its commitment to develop staff, we will continue to devote a small number of hours to the internal audit community. Potential activities include mentoring, speaking, training, participating in professional organizations, and participating in peer reviews of other internal audit shops. In addition to developing staff, these efforts will help enhance the Department's stature in the professional internal audit community, and help to attract and retain quality staff.
- 15. Administration of the Chief Auditor's Office:** In addition to routine administration necessary to ensure the effectiveness of a high performing internal audit function, the Chief Auditor's Office is committed to additional initiatives within the office to groom, develop, and retain superior audit talent. In FY2020, the office will continue to examine its career ladder and other development opportunities to ensure the DPS Chief Auditor's Office remains a much sought-after place of employment for exceptional professional audit leaders.