

Texas Department of Public Safety
Chief Auditor's Office

Fiscal Year 2021 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 15, 2020.

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
FREEMAN F. MARTIN
RANDALL B. PRINCE
JEFF WILLIAMS
DEPUTY DIRECTORS

COMMISSION
STEVEN P. MACH, CHAIRMAN
NELDA L. BLAIR
STEVE H. STODGHILL
DALE WAINWRIGHT

October 15, 2020

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 2021 to continue our assistance to the Department in improving controls, reducing risk, and enhancing Department 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 2021 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,

A handwritten signature in blue ink, appearing to read 'Catherine A. Melvin'.

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

cc: Steven C. McCraw, Director
Freeman F. Martin, Deputy Director
Randall B. Prince, Deputy Director
Jeoff Williams, 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 2021 fiscal year. Accordingly, our strategy covers the period September 1, 2020, through August 31, 2021. 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 2021, 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 the Department's internal control framework.

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 2021 Internal Audit Strategy

For the Period September 2020 – August 2021

Internal Audit Assurance and Consulting/Advisory Efforts

1. Procurement and Contracting
2. Information Technology and Cybersecurity
3. Licensing and Regulatory Services
4. Reporting and Statistics
5. Completion of FY20 Projects in Progress
6. Emerging Risks (*Rapid Response Projects, as requested*)

Routine Internal Audit Efforts

7. Field Administration Review
8. Follow-Up Program
9. Efficiency and Effectiveness of Business Processes

Coordination of External Audits/Reviews

10. Statewide Single Audit – State Auditor's Office with Clifton Larson Allen
11. Other External Audits/Reviews – State Auditor's Office, Comptroller's Office, etc.

Mandatory Internal Audit Activities

12. Quality Assurance and Improvement Program
13. Continuing Professional Education
14. Development of the Fiscal Year 2022 Internal Audit Strategy

Other Internal Audit Activities

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

Discussion

NOTE: The Chief Auditor's Office (CAO) will determine the actual scope of any project undertaken at the time of planning, and will based the scope on an assessment of risk at that time.

Internal Audit Assurance and Consulting/Advisory Efforts

- 1. Procurement and Contract Management:** State contract management and 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. Information Technology and Cybersecurity:** Information Technology is vital to the Department's infrastructure. The CAO 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.
- 3. 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, the CAO will continue to include both assurance and advisory efforts in these areas.
- 4. Reporting and Statistics:** The accuracy, integrity, completeness, and reliability of the Department's data and underlying systems and processes to produce reports is critically important. The CAO will focus efforts on assessing the Department's processes to ensure high quality reporting in our projects.
- 5. Completion of FY20 Projects in Progress:** Current projects in progress include reviews in Payroll, Fleet Operations, select Performance Measures, and the LTC criminal history background check process.
- 6. Emerging Risks:** Internal audit plans must allow for flexibility to address any unanticipated risks that may emerge throughout the year. As in the past, the CAO prides itself in its agility and ability to focus resources to rapidly respond to any immediate needs of the Commissioners and of Department management that may arise not already contemplated in this plan.

Routine Internal Audit Efforts

- 7. Field Administration Reviews:** The 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. Focus areas contemplated for FY21 may include public safety operations, health/safety/welfare of employees, or supply chain management.
- 8. Follow-Up Program:** Professional auditing standards require the Chief Auditor establish a follow-up process 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 CAO may perform follow-up audits on select completed audits each year based on a risk assessment. These audits are intended to assess the extent, adequacy, and effectiveness of corrective actions taken to improve conditions noted. The CAO may also request management's assertion as to the status of corrective actions taken – these assertions are subject to audit during a follow-up audit.

Discussion

- 9. Efficiency and Effectiveness of Business Processes:** Government entities have a core responsibility to ensure efficiency and effectiveness of its operations. The CAO 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 CAO structured its office to support business process improvement. Business process improvement is complementary to progressive internal auditing. The CAO is committed to being a valuable resource and trusted adviser in improving the Department's operations. Our commitment to business process improvement enables our office to be responsive to management's needs proactively and provide more solutions-focused assistance.

Coordination of External Audits/Reviews

The CAO serves as a liaison for all external audits/reviews of the Department. The CAO assists Department management during external audits and reviews, and helps to shepherd these engagements through the Department with the goal of fair and accurate outcomes.

- 10. Statewide Single Audit:** The Statewide Single Audit is a mandatory audit for the State of Texas. The Department's administration of certain federal funds is typically included in the audit.
- 11. Other External Audits/Reviews:** The Department is routinely audited by external entities such as the State Auditor's Office (SAO), the Comptroller of Public Accounts (CPA), and any provider of federal grant funds.

Mandatory Internal Audit Activities

- 12. 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.
- 13. Continuing Professional Education:** Professional standards require each internal auditor to obtain 40 hours of continuing professional education annually. The CAO 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.
- 14. Development of the Fiscal Year 2022 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

- 15. Service to the Profession:** As part of the CAO's commitment to stay abreast of developments in its profession and its commitment to develop staff, we will continue to giving back 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

Discussion

staff, these efforts will help enhance the Department's stature in the professional internal audit community, and help to attract and retain high caliber professionals.

- 16. 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 CAO is committed to additional initiatives within the office to groom, develop, and retain superior audit talent. In FY2021, the office will continue to examine its career ladder and other development opportunities to ensure the DPS CAO remains a much sought-after place of employment for exceptional professional audit leaders.