



Internal Audit Report

Traffic Logo Program

TxDOT Office of Internal Audit

Objective

To evaluate the Traffic Logo Program oversight and administration.

Opinion

Based on the audit scope areas reviewed, control mechanisms are effective and substantially address risk factors and exposures considered significant relative to impacting operational execution and regulatory compliance. The organization's system of internal controls provides reasonable assurance that most key goals and objectives will be achieved despite significant control gap corrections and improvement opportunities identified. Control gap corrections and improvement opportunities identified are likely to impact the achievement of the organization's business/control objectives, but management has agreed to corrective action plans to address the relevant risks within 6 months.

Overall Engagement Assessment		Satisfactory		
Finding				
	Title	Control Design	Operating Effectiveness	Rating
Finding 1	Traffic Logo Program Oversight	x	x	Needs Improvement

Management concurs with the above finding and prepared management action plans to address deficiencies.

Control Environment

The Traffic Operations Division and the District Sign Logo Coordinators have a positive attitude toward the program and expressed willingness to make program improvements. Further, the Traffic Operations Division and the third party contractor (LoneStar Logos & Signs), who is helping administer the Traffic Logo Program, communicate well on the overall goals of the programs. The staff from the Traffic Operations Division conducts periodic field reviews to ensure that the vendor is operating the program under the terms of the contract and governing state laws. Lone Star Logos and Signs maintains a comprehensive inventory of all signs that are part of the program, including participating businesses, location, and billing information.

Summary Results

Finding	Scope Area	Evidence
1	Program Oversight	<p>Independent monitoring coverage of sign installations and maintenance were found to be ineffective:</p> <ul style="list-style-type: none"> 19 of 25 (76%) districts have not received field audits to ensure signs have been installed correctly and are being maintained. Follow-up visits were also not conducted to verify if any identified deficiencies were properly addressed.

		<p>Roles and responsibilities of District Sign Logo Coordinators have not been documented or properly understood:</p> <ul style="list-style-type: none"> • 3 of 3 (100%) coordinators sampled had not received training or explanation of their roles and responsibilities • 2 of 3 (67%) coordinators sampled were not aware of any manual for the Traffic Logo Program <p>Updated traffic data is not being utilized per the current contract:</p> <ul style="list-style-type: none"> • The current contract (from 2012 – 2016) Billing Statement and Revenue computations are based on 2010 Traffic Count Data; instead of more recent data.
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Audit Scope

The scope of the audit work focused on activities in the Traffic Operations Division, specifically, the administration and monitoring of the contract for the Traffic Logo Program. The audit was performed by Tracy Beyer, Albert Bourque, Dennis Frazier, Robert Juarez, David Kossa, Keith Laird, and Jack Timmins (Engagement Lead) in the Corpus Christi, Dallas, Houston, Lufkin, Paris and Waco districts. The audit was conducted during the period from March 24, 2014 to May 27, 2014.

Methodology

The methodology(s) used to complete the objectives of this audit included:

- Reviewing TxDOT policy and procedures manuals, organizational charts, and contracts
- Reviewing state and federal codes
- Interviewing key personnel, including Traffic Operations Division employees, District Traffic Logo Coordinators, and the 3rd party Traffic Logo Contractor
- Reviewing billing statements and revenue calculations
- Reviewing Field Audits conducted by Traffic Operations Division staff and responses from the contractor
- Observing various program signs in selected districts
- Analyzing survey results, traffic counts, and inventory records

Background

This report is prepared for the Texas Transportation Commission, TxDOT Administration, and Management. The report presents the results of the Traffic Logo Program Audit which was conducted as part of the Fiscal Year 2014 Audit Plan.

In 1992, TxDOT established the information Logo Sign Program, commonly referred to as the Traffic Logo Program. In accordance with the Transportation Code, TxDOT is required to enter into a contract with a person, firm, or group for the implementation and operation of the Logo Program. Signs associated with the Traffic Logo Program, provide information to

the traveling public about available services on Texas highways. Not all services on Texas highways are eligible to be part of the Traffic Logo Program. Eligible services include: gas, food, lodging, camping, 24-hour pharmacies, and major shopping area guide signs.

The Traffic Logo Program is administered by TxDOT through a contractor, LoneStar Logos & Signs. TxDOT signed a contract with LoneStar Logos & Signs in 2007, with two optional five-year extensions. The administration of the program included installing and maintaining the signs, as well as, promoting the program to increase vendor participation. Under the terms of the contract, TxDOT is guaranteed a minimum amount of money annually from the contractor. During the period between 2007 and 2013, the Traffic Logo Program has generated total revenues of \$75.3 million, of which, TxDOT has received \$21.5 million. Averages of TxDOT revenues have ranged between 24% and 31% of total revenues over that same period. Additionally, the contractor has exceeded the guaranteed minimum revenue to TxDOT since the inception of this contract.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* and in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Recommendations to mitigate risks identified were provided to management during the engagement to assist in the formulation of the management action plans included in this report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The Office of Internal Audit transitioned to Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework version 2013 in December 2013.

A defined set of control objectives was utilized to focus on operational and compliance goals for the identified scope areas. Our audit opinion is an assessment of the health of the overall control environment based on (1) the effectiveness of the enterprise risk management activities throughout the audit period and (2) the degree to which the defined control objectives were being met. Our audit opinion is not a guarantee against operational sub-optimization or non-compliance, particularly in areas not included in the scope of this audit.

Detailed Findings and Management Action Plans (MAP)

Finding #1: Traffic Logo Program Oversight

Condition

Oversight of the monitoring and defining of roles and responsibilities for the Traffic Logo Program has been limited. Post Installation Field Audits, conducted by the Traffic Operations Division, have only occurred in six districts during the last two years. Additionally, when issues were discovered in these field audits, other than photos of the completed work submitted by the contractor, follow-up procedures were not conducted to independently verify the issues were corrected.

Traffic Logo Coordinators, who are to help review and monitor the contractor's work in the districts, had varying viewpoints regarding their understanding of roles and responsibilities for the program. Uncertainty was driven by the limited training and documented policy and procedures that were provided.

Program revenues from 2012 through 2016 are being based on 2010 traffic data, with no update being required per the contract.

Effect/Potential Impact

Unclear roles and responsibilities and limited monitoring activities may cause the Traffic Logo Program to not operate as effectively as it could. In addition, the use of 2010 traffic data may cause the understatement and resulting loss of revenue for the department and contractor.

Criteria

- To ensure a clear understanding of roles and responsibilities, manuals, policies, and procedures should be developed and documented. In addition, staff should be trained on their roles and responsibilities for the program.
- Monitoring of activities performed by the contractor should be done on a regular basis to ensure terms of the contracts are being fulfilled.
- Contracts should be written to ensure that changing environments address data variability that may affect the cost and revenue components during the tenure of the contract.

Cause

- The department has not provided an updated manual that outlines the roles and responsibilities of the District Sign Logo Coordinators and other Division employees that oversee the Traffic Logo Program. Furthermore, the District Sign Logo Coordinators have received limited training regarding this program.
- The current contract does not require the contractor to update the traffic count information used for billing purposes.

EvidencePost Installation Field Audits:

- 19 of 25 (76%) districts have not received field audits to ensure the signs have been installed correctly and are being maintained by the contractor:
 - The results of the audits conducted in the six districts that were visited by Traffic Operations staff were sent to the contractor to resolve any issues that were identified. However, no follow-up visits were conducted to independently verify that the issues were addressed by the contractor.

Survey and Interview Results - Traffic Logo Coordinators/State-Wide Coordinators:

Traffic Logo Coordinators were interviewed in the Beaumont, Paris and Corpus Christi districts; state-wide coordinators were also given the opportunity to participate in a survey:

- 3 of 3 (100%) coordinators sampled had not received any training regarding their roles and responsibilities
- 2 of 3 (67%) coordinators sampled were not aware of any manuals for the Traffic Logo Program
- 1 of 3 (33%) coordinators sampled had a manual that was last updated in 1993
- Survey results across the state also helped confirm the concerns around roles and responsibilities of the District Sign Logo Coordinators:
 - 14 of 17(82%) District Sign Logo Coordinators surveyed stated that they were not aware of any specific manual for the Traffic Logo Program
 - 12 of 17 (71%) indicated that they had not received any kind of training to conduct monitoring/oversight activities

Revenue and Billing Statement Criteria:

Auditors conducted a review of revenue and billing statements submitted to TxDOT. It was noted that traffic counts from 2010 were used to create the billing statement and revenue information. Both Traffic Operations and the contractor stated that billing information is based on the 2010 traffic counts and updates had not been considered for the current contract.

Management Action Plan (MAP):**MAP Owner(s):**

Michael Chacon, Transportation Engineer Supervisor

Meg Moore, Traffic Engineering Section Director

Carol Rawson, Traffic Operations Division Director

MAP 1.1:

- The Traffic Operations Division (TRF) will develop a District Logo Coordinator Manual within the next year. The manual content will include:
 - Program overview (purpose, goals)
 - Roles and Responsibilities of District Coordinators and Division staff
 - Requirements and Process for sign install, maintenance, and removal
 - Reference Material (TTC, TAC, TMUTCD, etc.)
 - Field Audits and Follow-up
 - Contact information

The manual will be distributed to each District Logo Coordinator and will be available on-line and updated when needed. Additionally, the manual contents will be the focus for web-based training provided to the District Logo Coordinators.

- The manual will provide details of an enhanced monitoring process that will include an expanded role for the District Logo Coordinators.
- In the next contract, if traffic counts are used to determine the annual fees assessed to business participants, language will be added requiring the contractor to annually update the traffic counts.
- Draft Manual to be circulated for review by the Districts

Completion Date:

April 15, 2015

MAP 1.2:

Draft manual to be circulated for review by Office of Internal and Office of General Counsel

Completion Date:

June 15, 2015

MAP 1.3:

Completed manual posted on-line

Completion Date:

July 15, 2015

Summary Results Based on Enterprise Risk Management Framework

Audit Results Dashboard Traffic Logo Program		
Business Objectives (Reporting, Operational, Compliance)		Scope Areas Evaluated
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ERM Component	Control Activities	Program Oversight
Control Environment	Organizational Tone	
	Planning	
	Forecasting	
	Goal-Setting	
	Cost-Benefit Analysis	
Risk Assessment	Business Continuity	
	Evaluations/Analysis	
	Management Action Plans	
Control Activities	Policies/Procedure Development & Maintenance	1
	Approvals/Authorizations	
	Supporting Evidence/Records Availability	1
	Segregation of Duties	
	Safeguarding Assets	
Information & Communication	Information Classification	
	Information Input	
	Information Processing	
	Output/Reporting and Messaging	
Monitoring	Exception Reporting Review	1
	Reconciliations/Root-Cause Analysis	
	Peer Reviews	
	Management Representations	
Scope Area Assessment		

Rating Assessment Grid	Exemplary	Satisfactory	Needs Improvement	Unsatisfactory
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Closing Comments

The results of this audit were discussed with the Traffic Operations Division Director and personnel supporting the Traffic Logo Program. The audit team would like to express our appreciation to the staff in Division and District Offices for the assistance and cooperation received from the staff during this audit.