



# FY 2023 Annual Audit Report

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## I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Website

House Bill 16 (83<sup>rd</sup> Legislature, Regular Session) signed by Governor Perry on June 14, 2013, amended the Internal Auditing Act to require state agencies and institutions of higher education, as defined in the bill, to post internal audit plans, internal audit annual reports, and any weaknesses or concerns resulting from the audit plan or annual report on the entities' internet web site within 30 days after the audit plan and annual report are approved by an entity's governing board or chief executive.

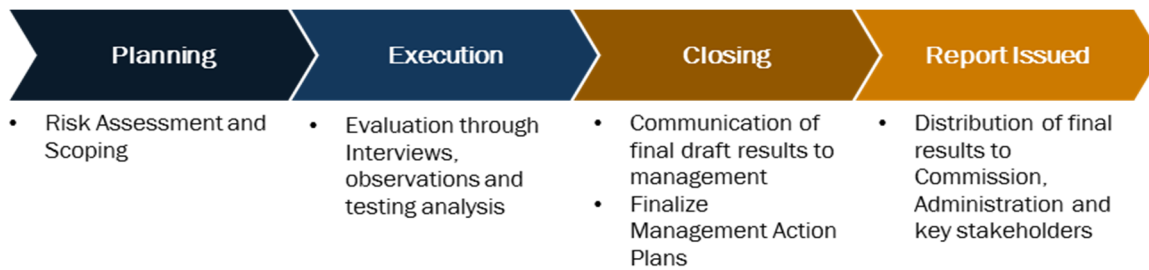
The requirements are met by posting the approved documents at the following link:

<https://www.txdot.gov/inside-txdot/administration/commission/subcommittee-meetings.html>

*A detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and a summary of actions taken by TxDOT to address concerns, if any, that are raised by the audit plan or annual report is included in the fiscal year (FY) 2023 Annual Audit Report.*

## II. Internal Audit Plan for Fiscal Year 2023

### PHASES OF THE AUDIT/CONSULTING SERVICES CYCLE



### Reports Issued

Report Number	Report Date	Report Name	Audit Service
LS2213	10/2022	Accounts Receivable - Damage Claims	Internal Audit
LS2209	11/2022	Equipment/Asset Make-Ready	Internal Audit
AG2202	11/2022	Materials Testing - Shared Lab Equipment	Internal Audit
AG2301	12/2022	Public Funds Investment Act	Internal Audit
LS2210	1/2023	Inventory Management - Cycle Counts	Internal Audit
LS2211	1/2023	Patch Management (Restricted)	Internal Audit
AG2204	1/2023	Policy Governance	Internal Audit
LS2215	2/2023	Material Maintenance Contracts	Internal Audit
LS2212	3/2023	PEPS Rate Negotiations	Internal Audit
AG2302	3/2023	Toll Facilities - Federal Reporting	Internal Audit
LS2216	5/2023	IT Hardware Management (Restricted)	Internal Audit

AG2304	6/2023	Contracted Bridge Inspections - Priority Level Modification (Restricted)	Internal Audit
AG2303	8/2023	Campus Consolidation III - Physical Security & Privacy (Restricted)	Internal Audit
LS2304	8/2023	IT Contracted Support Services Management (Restricted)	Internal Audit
LS2306	9/2023	Construction Project Management - Recordkeeper Development	Internal Audit
AG2305	9/2023	Grant Management - MPO Planning	Internal Audit
LS2301	9/2023	Right Of Way Budget Management	Internal Audit
LS2305	10/2023	Oversize/Overweight Permit Revenue	Internal Audit

**Detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the FY23 Audit Plan or Annual Audit Report are as follows:**

- 14 internal audits were completed and issued during FY 2023.
  - 27 findings were identified that included 50 control design and/or operating effectiveness deficiencies as noted below:
    - 24 control design
    - 26 operating effectiveness
- 4 internal audits were completed in FY 2023 and issued in September 2023.
  - 12 findings were identified that included 24 control design and/or operating effectiveness deficiencies as noted below:
    - 12 control design
    - 12 operating effectiveness
- 25 management action plan (MAP) follow-up engagements were completed during FY 2023. The results of those engagements were to determine whether previously communicated priority 1 or 2 risks have been mitigated and are as follows:
  - 72 closed MAPs – corrective actions have been completed.
  - 31 open MAPs – corrective actions require completion to address identified risk from the original audit.
- 53 lower risk management action plans were self-reported by the business owner as completed in FY 2023.

**Deviations from FY 2023 Planned Audits**

Continuous evaluation of the audit plan, based on risks identified, resulted in the modification of the FY 2023 Audit Plan. Any significant deviation from the formally approved work schedule shall be communicated to the Audit Subcommittee and Administration, through periodic activity reports.

Report Number	Report Title	Deviation
LS2302	Management and Oversight of Utility Accounts	These audit reports were combined into one report named Management and Oversight of Utility Accounts and Payments
LS2303	Monitoring of Third-Party Utility Payments	
Not Assigned	Post Implementation - TxDOTCONNECT	Audit reassessed as part of risk assessment for FY24 audit plan
Not Assigned	Work-Zone Safety - Contracted Traffic Control	Audit moved to FY24 Audit Plan

## Compliance with Texas Government Code, Section 2102.005(b)

Senate Bill 65 (86<sup>th</sup> Legislature, Regular Session) signed by Governor Abbott on June 14, 2019, amended the Internal Auditing Act to require state agencies to conduct the internal auditing program under Section 2102.005 subsection (a), a state agency shall consider methods for ensuring compliance with contract processes and controls and for monitoring agency contracts.

*The below is a listing of engagements completed in the last five years related to agency contracts and contracting processes and controls. Engagements arranged by fiscal year (FY 2019 – FY 2023) and then Report Number.*

Report Number	Report Date	Report Name	Audit Service
FS1903	8/2019	Construction Engineering & Inspection (CEI) Invoicing	Internal Audit
MP1909	7/2019	Construction Inspection Program	MAP Follow-Up
MP1916	8/2019	Contract Risk Assessment and Management	MAP Follow-Up
LS1915	8/2019	Contractor Performance Monitoring	Internal Audit
MP1925	8/2019	Design-Build Project Oversight	MAP Follow-Up
LS1905	5/2019	Design-Build Stipend Payments	Internal Audit
LS1906	8/2019	Interagency Contract Process	Internal Audit
MP1919	8/2019	Local Government Project Agreements	MAP Follow-Up
MP1911	8/2019	PEPS Consultant Procurement Process	MAP Follow-Up
MP1914	8/2019	PEPS Contract Negotiations	MAP Follow-Up
LS1904	2/2019	Work Zone Safety – State-Let Construction Contracts	Internal Audit
MP1924	8/2019	Work Zone Safety – State-Let Construction Contracts	MAP Follow-Up
MP2021	8/2020	Construction Engineering & Inspection (CEI) Invoicing	MAP Follow-Up
MP2002	5/2020	Contract Risk Assessment and Management	MAP Follow-Up
MP2009	5/2020	Contractor Performance Monitoring	MAP Follow-Up
MP2008	5/2020	Design-Build Stipend Payments	MAP Follow-Up
LS2003	4/2020	Independent Financial and Information Security Assessment Reports	Internal Audit

SP2001	8/2020	Information Technology (IT) Operations Assessment	Internal Audit
MP2007	8/2020	Interagency Contract Process	MAP Follow-Up
MP2024	8/2020	Local Government Project Agreements	MAP Follow-Up
MP2019	8/2020	Professional Engineering Procurement Services (PEPS) Consultant Procurement Process	MAP Follow-Up
LS2001	2/2020	PEPS Prime Provider Performance Monitoring	Internal Audit
LS2006	12/2019	Third-Party Website Administration	Internal Audit
MP2023	8/2020	Third-Party Website Administration	MAP Follow-Up
MP2005	5/2020	Work Zone Safety – State-Let Construction Contracts	MAP Follow-Up
LS2018	9/2020	Campus Consolidation Phase I: Invoice and Vendor Management	Internal Audit
LS2114	8/2021	Campus Consolidation Phase II: Construction Payments and Transitional Preparedness	Internal Audit
LS2102	12/2020	Local Government Projects Pre-award	Internal Audit
LS2101	2/2021	Maintenance Project Payment Review and Approval	Internal Audit
LS2112	8/2021	Professional Engineering Procurement Services (PEPS): Consultant Performance	Internal Audit
FS2201	6/2022	Construction Project Payments Review and Approval	Internal Audit
LS2208	7/2022	Grant Management - Aviation	Internal Audit
LS2201	3/2022	Maintenance Contract Change Order Scope and Classification	Internal Audit
LS2304	8/2023	IT Contracted Support Services Management	Internal Audit
LS2216	5/2023	IT Hardware Management	Internal Audit
LS2215	2/2023	Material Maintenance Contracts	Internal Audit
LS2212	3/2023	PEPS Rate Negotiations	Internal Audit



### **III. Consulting Services and Non-Audit Services Completed**

Consulting Services and Non-Audit Services are completed as part of TxDOT's Compliance Division's annual plan.

No consulting activities were performed by the Internal Audit Division.

## IV. External Quality Assurance Review (Peer Review)

October 13, 2023

Benito Ybarra  
Chief Audit and Compliance Officer  
Texas Department of Transportation  
125 E. 11th Street  
Austin, Texas 78701

### Objective

The primary objective was to perform a peer review of the quality control system in effect for the Texas Department of Transportation, Audit and Compliance Division for 2023. Our review was conducted in conformity with the Peer Review Bylaws and other guidelines of the American Association of State Highway and Transportation Officials Standing Committee on Finance and Administration, Administrative Subcommittee on Internal and External Audit, along with those set forth under the U. S. Government Accountability Office's Government Auditing Standards (2018 Revision) and the IIA International Standards for the Professional Practice of Internal Auditing.

### Scope

The scope of the review included:

- Questionnaires completed by various individuals in the Texas Department of Transportation
- Solicitation of comments from management of the areas audited, reviewed, or examined during the period under review concerning the scope, nature, and quality of services received.
- Interviews, as necessary, held with members of the senior management and auditing staff of the Texas Department of Transportation.
- A review of the Audit and Compliance Division's internal control system and the quality control policies, procedures, practices, and information used for managing the audit group.
- An examination of a sample of audits, reviews, or examination files completed during the review period sufficient to provide a reasonable basis to render an opinion with reasonable assurance of conforming with professional standards in the conduct of its work.
- Fieldwork conducted at the Texas Department of Transportation from June 26, 2023 through June 29, 2023.

## Opinion

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Based on our review, it is the opinion of the Peer Review Team that the Texas Department of Transportation Audit and Compliance Division receives a Rating of Pass based upon the Peer Review Bylaws and other guidelines of the American Association of State Highway and Transportation Officials Standing Committee on Administration, Administrative Subcommittee on Internal and External Audit and those of the U.S. Government Accountability Office's Government Auditing Standards (2018 Revision).

Based on our review, it is the opinion of the Peer Review Team that the Texas Department of Transportation Audit and Compliance Division receives a Rating Generally Conforms based upon the Peer Review Bylaws and other guidelines of the American Association of State Highway and Transportation Officials Standing Committee on Administration, Administrative Subcommittee on Internal and External Audit and those set forth under International Professional Practices Framework issued by the Institute of Internal Auditors.

The expressed opinion implies that the organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.

As is customary in a peer review, we have issued a letter under this date that sets forth a comment that was not considered to be of sufficient significance to affect the opinion expressed in this report.

  
Vickie Murphy, Team Leader



Shane Young, for the Peer Review Panel

## V. Internal Audit Plan for Fiscal Year 2024

### Risk Assessment

The Chief Audit and Compliance Officer, along with Internal Audit Division staff, perform a department-wide risk assessment to develop the Internal Audit Plan. The risk assessment process is also conducted to assign the audit resources and includes review and consideration of:

- Internal Audit Division Risk Assessment
- Input from members of the Commission, Administration, Divisions, Districts, and staff
- Federal Highway Administration (FHWA) Risk Assessment
- Department functions based on objective criteria and professional judgment
- Relevant state and federal legislation
- Professional/industry standards
- Investigative trends
- Prior audit results

The Chief Audit and Compliance Officer will provide quarterly status reports on audit activities to the Commission and Administration and will present the results of completed audits at quarterly Audit Subcommittee meetings.

### Internal Audit Plan

The Internal Audit Plan consists of 24 risk-based audit engagements and nine FY 2023 carryover audits. The audit engagements are divided into nine areas of focus and coverage, as follows:

- Project Delivery – Processes that develop, fund, and/or execute transportation or vertical structure projects.
- Financial Management and Asset Recovery – Oversight designed to maintain fiscal accountability and stewardship.
- Program Optimization – Programs and processes designed to support strategic goals and ensure cost-effectiveness.
- Information Technology and Cyber Security – Processes and activities designed to protect information systems and data contained within.
- Governance and Third-Party Monitoring – Oversight and validation frameworks and activities designed to ensure quality and promote accountability.
- Recurring – Programs, processes, and/or activities that are evaluated on a routine basis.
- Management Action Plan Follow-Up Evaluations – Priority 1 or 2 activities that are evaluated to determine mitigation of risks identified during a previously issued audit.
- Contingency – Potential areas of coverage to consider based on resource efficiencies.
- Carryovers in Closing Phase – engagements not completed in FY 2023 which remain important to cover.

## Audit Plan FY 2024

### Internal Audit Division

Project Delivery (4)	Budgeted Hours
Construction Project Development – Engineers Estimate	1,300
Letting Process Continuity	1,300
Material Maintenance Contracts – Item 10	1,300
Facilities Construction Project Management	2,600

Financial Management and Asset Recovery (3)	Budgeted Hours
Grant Management – Electric Vehicle	1,300
Management of Fund Allocation for Port Improvements	1,300
Federal Grant Management - Notification and Tracking	1,300

Program Optimization (4)	Budgeted Hours
TxDOT Hiring Process	1,300
Fleet Preventative Maintenance	1,300
Real Estate Acquisitions	1,300
Regional Distribution Center – Inventory Management	1,300

Information Technology and Cyber Security (3)	Budgeted Hours
Data Management and Security Controls (Enterprise Data Platform)	650
User Access – Non-Active Directory Access	650
TAC 202 – Key Controls	1,300

Governance and Third-Party Monitoring (4)	Budgeted Hours
Construction Project Management – Inspector Development	2,600
Third-Party Consultant Management	2,600
Construction Project Management – Pre-Qualification	1,300
TxRAMP – Cloud Service Compliance Program	650

Recurring (2)	Budgeted Hours
Public Funds Investment Act	450
Toll Facilities – Federal Reporting	450

Contingency (4)
PEPS Consultant Selection and Utilization
Change Orders – Federal Funding
Grant Management – Traffic Safety
Construction Project Audits

<b>Carryovers in Closing Phase (9)</b>	<b>Budgeted Hours</b>
Work Zone Safety - Contracted Traffic Control	1,000
Title VI Goal Setting and Reporting Process	35
CEI Expenditure Assessment	35
Management and Oversight of Utility Accounts and Payments	35
PCard Support Evaluation	35
Construction Contractor Performance Monitoring	35
Campus Consolidation IV – Surplus Property	35
Procurement of IT Infrastructure and Applications	35
Website Development and Management	35

<b>Management Action Plan (MAP) Follow-Up</b>	<b>Budgeted Hours</b>
Engagements to determine mitigation of risks previously communicated (increase will occur as new findings and MAPs identified)	7,712

<b>Summary – Internal Audit</b>	<b>Budgeted Hours</b>
Project Delivery	6,500
Financial Management and Asset Recovery	3,900
Program Optimization	5,200
Information Technology and Cyber Security	2,600
Governance and Third-Party Monitoring	7,150
Recurring	900
Management Action Plan (MAP) Follow-Up	7,712
Carryovers in Closing Phase	1,280
<b>Total Hours:</b>	<b>35,242</b>

## VI. External Audit Services Procured in Fiscal Year 2023

No External Audit Services were procured by the Internal Audit Division during Fiscal Year 2023.

## VII. Reporting Suspected Fraud and Abuse

### Actions taken to implement the requirements of:

#### ▪ Fraud Reporting

Article IX, Section 7.09 General Appropriations Act (86<sup>th</sup> Legislature, Conference Committee Report)

- A link to the State Auditor’s Office (SAO) Fraud Hotline is available on the TxDOT internet site: <https://www.txdot.gov/inside-txdot/division/compliance.html>
- Information about reporting suspected fraud involving state funds to the State Auditor’s Office is included in TxDOT policy. *Call the State Auditor’s Office fraud hotline at 1-800-TX-AUDIT (892-8348) or report online at [sao.fraud.state.tx.us](http://sao.fraud.state.tx.us)*
- Compliance Division (CMP) maintains an external hotline number (877-769-8936) and website ([txdotwatch.com](http://txdotwatch.com))

#### ▪ Coordination of Investigations

Texas Government Code, Section 321.022

- Reasonable Cause to Believe reports are completed by the Compliance Division and sent to SAO at least semi-annually
- SAO Hotline Complaint coordination with State Auditor’s Office, as needed