Objective
To evaluate, for effectiveness and sustainability, the policies, procedures, and practices in place to ensure accurate and timely reporting of TxDOT bridge structures.

Opinion
Based on the audit scope areas reviewed, control mechanisms require improvement and only partially address risk factors and exposures considered significant relative to impacting reporting reliability, operational execution, and compliance. The organization's system of internal controls requires significant improvement in order to provide reasonable assurance that key goals and objectives will be achieved. Extensive improvements are required to correct control gaps and to address excessive residual risk that may result in potentially significant impacts to the organization including the achievement of the organization's business/control objectives. Progress to address the highest risk areas will likely not be achieved within 6 months.

Overall Engagement Assessment
Needs Improvement

<table>
<thead>
<tr>
<th>Findings</th>
<th>Control Design</th>
<th>Operating Effectiveness</th>
<th>Rating</th>
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<tbody>
<tr>
<td>Finding 1: Bridge Structure Reporting Controls</td>
<td>X</td>
<td>X</td>
<td>Needs Improvement</td>
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<tr>
<td>Finding 2: Financial Restatement Corrective Measures</td>
<td>X</td>
<td>X</td>
<td>Needs Improvement</td>
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</table>

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

Control Environment
The Bridge Division (BRG) provides the structure for reporting and maintaining an inventory for both on-system and off-system Texas bridge structures. BRG establishes the reporting requirements and guidance to ensure the accuracy of the "Bridge Inspection Database", which also functions as the bridge inventory.

The Finance Division (FIN) is responsible for identifying Texas bridges that meet the capitalization guidelines established by the Texas Comptroller of Public Accounts (Comptroller). FIN reports the assets, then calculates and records related depreciation on the bridges. While both BRG and FIN collect specific data about bridge structures, the reporting criteria recognized by BRG is different than the reporting criteria adopted by FIN resulting in the need for FIN to develop a separate bridge inventory.

During Fiscal Year (FY) 2014, TxDOT determined that a change in accounting estimate was appropriate and applied the change retroactively to September 1, 2013. The change modifies reporting of state highway roadway assets and bridges as depreciable infrastructure and adopts a simplified capitalization methodology, thereby eliminating the separate reporting of bridge assets and the need to maintain a bridge inventory for financial reporting.
## Summary Results

<table>
<thead>
<tr>
<th>Finding</th>
<th>Scope Area</th>
<th>Evidence</th>
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<tr>
<td>1</td>
<td>Bridge Reporting</td>
<td>Inquiry and review of the controls over bridge structure reporting identified the following:</td>
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<tr>
<td></td>
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<td>• 14 of 16 (88%) districts have not adopted a process to utilize data inputs such as key bridge dates, designed to notify District Bridge Coordinators, BRG, and FIN of bridge structure activity</td>
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<tr>
<td></td>
<td></td>
<td>• 52 of 259 (20%) bridge updates reviewed from FY 2010 to FY 2014 were not reported to FIN in the correct year the activity occurred</td>
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<td>• 37 of 259 (14%) projects did not include correct dates for either:</td>
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<td>• the date the bridge accepted traffic</td>
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<td>• the date the bridge was removed or replaced</td>
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<td>• 32 of 259 (12%) project updates were not reported within the target reporting period of 90 days from the date the project was opened (or closed) to traffic</td>
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<td>Review of documentation of 150 bridges at 3 district locations identified:</td>
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<td>• 28 of 150 (19%) projects did not include documentation to identify the ownership and custodial responsibility</td>
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<td>2</td>
<td>Financial Restatement</td>
<td>Audit testing identified the following for bridge activity in FY 2014:</td>
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<tr>
<td></td>
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<td>• 12 of 13 (92%) districts, with financial restatements in prior fiscal years, did not establish corrective measures to prevent late reporting of bridge structures and ensure completeness of FINs Bridge Inventory database:</td>
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<td></td>
<td></td>
<td>• 9 of 13 (69%) districts did not perform suggested quarterly comparisons of district bridge records to FINs capital asset inventory database</td>
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<td>• 8 of 13 (62%) districts continued to have reporting errors or did not report bridge structures before the date established by FIN</td>
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Audit Scope
The work performed in the audit included testing the process to report bridge structures, emphasizing the identification of operational areas for improvement, despite the financial reporting changes.

The audit was performed by Robert Juarez, David Kossa, Jennifer Stanush and Sonya Ayers (Engagement Lead). The audit was conducted during the period from January 13, 2014 to March 21, 2014.

Methodology
The methodologies used to complete the objectives of this audit included:

- reviewing capital asset guidance from the Comptroller
- reviewing Government Accounting Standards Board (GASB) Statement 34 for financial statement reporting
- reviewing applicable federal/state laws and regulations, and department policies/procedures/practices
- reviewing organization charts and internal memos
- inquiry and interview of key personnel
- reviewing prior audit reports from the State Auditor’s Office (SAO) and Federal Highway Administration (FHWA) for applicable findings
- selecting bridge structures for review and testing specific items including:
  - capital asset inventory records retained by FIN
  - bridge inspection database records maintained by BRG
  - bridge tracking reports and bridge structure documents at the districts
  - consideration of corrective measures taken for bridge structure financial restatements for FY 2011, 2012, and 2013 in 13 districts

These procedures were applied as necessary to perform the audit fieldwork.

The work performed included on-site testing of bridge documentation conducted for 150 randomly selected bridge structures in 3 districts. Testing for an additional 109 bridge structures was performed by collecting data from another 13 districts.

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

TxDOT’s BRG provides support and leadership on all matters relating to publicly owned, vehicular bridges, and other transportation structures. BRG maintains a repository of information on the characteristics of over fifty thousand Texas bridges including details about structural adequacy, safety, essentiality for public use, serviceability, and functional condition to meet the requirements of federal and state laws. This information is collected and stored in the Bridge Inspection Database, formerly known as BRINSAP.

To meet the Comptroller requirements and to comply with GASB 34, TxDOT began reporting highways, roadways, and bridges in the Department’s financial reports beginning FY 2002.
TxDOT elected to capitalize bridge structures that met certain conditions of ownership and custodial responsibility. These structures were then reported as a capital asset subject to depreciation. Through FY 2013, FIN maintained a capital asset inventory database for over nine thousand bridge structures that met the capitalization criteria and threshold for TxDOT’s Annual Financial Reports.

In FY 2014, TxDOT adopted a change in accounting estimate which modifies reporting of state highway roadway assets and bridges as depreciable infrastructure, thereby eliminating the reporting of bridge assets as a separate classification on TxDOT’s balance sheet and removing the necessity of maintaining a capital asset inventory database for bridge structures at FIN.

TxDOT’s bridge structures are designed, constructed, removed, maintained, and inspected across the state by districts and organizations providing services to TxDOT. The district’s responsibilities include monitoring and reporting for changes in bridge structures in the district and reporting any changes in status to BRG and FIN.

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 reporting, 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 reporting misstatement and reliability, operational sub-optimization, or non-compliance particularly in areas not included in the scope of this audit.
Finding No. 1: Bridge Structure Reporting Controls

Condition:
The bridge structure reporting process design does not ensure that bridge activity is reported consistently, accurately, and timely. Additionally, documentation supporting ownership and custodial responsibility is not consistently identified at the districts.

Effect/Potential Impact
Without controls in place for the accurate reporting of bridges, the following can occur:
- reporting errors resulting in incomplete bridge inventory information
- inadequate documentation supporting bridge structure reporting
- questioned reporting reliability

Criteria
23 US Code, Chapter 1, Section 144 – National Bridge and Tunnel Inventory and Inspection Standards, Federal Highway Administration Federal-Aid Policy Guide 23 CFR 650C and Texas Transportation Code Section 201.804 require that TxDOT maintain a repository of information on the characteristics of Texas vehicular bridge structures including details about structural adequacy, safety, essentiality for public use, serviceability, and functional condition. This includes:
- an inventory of numbered bridge structures in the state
- updates to the inventory for any change to the bridge structures under the state’s jurisdiction within 90 days of the status change (180 days for off-system structures)

Cause
Different reporting requirements exist for the Bridge Division (BRG) and Finance Division (FIN); as a result, instructions to the districts have been unclear. BRG reporting is focused on updates regarding the serviceability and functional condition of the bridge structure within 90 days of any status change for any on-system bridge (180 days for off-system structures). FIN is focused on the date and the costs when the bridge is ‘placed in service’ which is the date the bridge structure phase is available to accept traffic. The differences in reporting requirements have created confusion in the reporting process.

Evidence
Review of controls over bridge structure reporting identified the following:
- 14 of 16 (88%) districts have not adopted a process to utilize data inputs such as key bridge dates, designed to notify District Bridge Coordinators, BRG, and FIN of bridge structure activity

Testing identified that key data elements to ensure accurate, timely, and complete reporting were not evident (the following exceptions include items previously identified in external financial audits):
- 52 of 259 (20%) bridge updates reviewed from Fiscal Year (FY) 2010 to FY 2014 were not reported to FIN in the correct year the activity occurred
• 37 of 259 (14%) projects did not include correct dates for either:
  o the date the bridge accepted traffic
  o the date the bridge was removed or replaced
• 32 of 259 (12%) project updates were not reported within the target reporting period of 90 days from the date the project was opened (or closed) to traffic

Review of documentation of 150 bridges at 3 districts identified:
• 28 of 150 (19%) bridge structures did not have documentation to identify the ownership and custodial responsibility

Management Action Plan (MAP):

Short Term Plan:
MAP Owner:
Gregg Freeby, P.E., Director, Bridge Division

MAP 1.1:
The Bridge Division, as the Office of Primary Responsibility, will set up a meeting with the Finance Division, Construction Division, the District Engineers, representatives from other areas, and the Deputy Executive Director to discuss what is required for reporting bridge structures and identify a new governance structure.

During the meeting, a determination will be made regarding the participants in the new governance structure and the specific communication that should take place regarding the results of initiatives identified by the group. Results of the meeting(s) will be documented. In the first meeting, it will be determined –
1. Key stakeholders and participants, such as:
   • Finance Division
   • Department representatives from the Metro, Urban, and Rural Districts
   • Construction Division
   • Information Technology Division
   • Bridge Division
   • Administration

2. Priority list of key initiatives and deliverables from the group. The group will set short-term and longer-term goals at the initial meeting.

Completion Date: September 15, 2014

MAP Owner:
Roxana Garcia-Zinsmeyer, P.E., Section Director, Construction Division

MAP 1.2:
The Construction Division will advise the Bridge Division regarding the options available to strengthen the control environment and enhance the communication structure with SiteManager to support accurate and timely bridge structure reporting at TxDOT. This will
include the consideration of new controls in SiteManager and/or new reporting capabilities based on a cost/benefit analysis. As a result, should new controls and/or new reports be identified for future development, the development will be subject to the availability of IT resources.

**Completion Date:** September 15, 2014

**MAP Owners**
Dallas District – Moosa Saghian, Director Transportation Planning & Development
El Paso District - Ken Barnett, Director of Operations
Houston District – Bill Brudnick, District Design Engineer

**MAP 1.3:**
The Dallas, El Paso, and Houston districts will work with the Bridge Division to identify opportunities to improve department processes that will strengthen the control environment and enhance the communication structure over bridge structure reporting. This may include implementation of processes, training, and performance assessment for district bridge personnel, area office personnel and others at the districts that have roles and responsibilities for bridge structure reporting.

**Completion Date:** September 15, 2014

**Long Term Plan:**
**MAP Owner:**
Gregg Freeby, P.E., Director, Bridge Division

**MAP 1.4**
The group will identify the processes and practice necessary to ensure proper bridge reporting, including the following:
- Identify initiatives, assign personnel responsible for task completion, and identify timelines for implementation.
- Identify gaps in SiteManager, Permanent Structure Number, and DCIS applications that impede reporting and monitoring capabilities.

**Completion Date:** December 15, 2014

**MAP Owner:**
Gregg Freeby, P.E., Director, Bridge Division

**MAP 1.5**
Work with the Construction Division and stakeholders to implement improvements to SiteManager as identified in MAP 1.4. (Subject to availability of IT resources, if required.)

**Completion Date:** December 15, 2014
MAP Owner:
Gregg Freeby, P.E., Director, Bridge Division

MAP 1.6
Develop procedures to address timing, frequency and content of specific tasks to meet the reporting requirements at TxDOT for bridge structure reporting.
- Establish clear definitions of key terms such as “placed in service” for multi-lane and multi-phase structures to support the requirements at TxDOT for bridge structure reporting.
- Establish guidance for obtaining permanent structure numbers (PSN’s) including documentation to be submitted and retained, such as identification of any “specialty agreements” as those with Developers for design/build projects and identification of project manager for design/build projects.
- Develop guidelines for documentation standards addressing quality and retention of documents
- Establish specific assignments to monitor for performance
- Develop outline for corrective action when assignments are not completed or when errors are detected

Completion Date: December 15, 2014

MAP Owner:
Gregg Freeby, P.E., Director, Bridge Division

MAP 1.7
Work with Information Technology Division to address the gaps in data applications identified in MAP 1.4.

Completion Date: December 15, 2014

MAP Owner:
Gregg Freeby, P.E., Director, Bridge Division

MAP 1.8
Develop training and communication for the bridge structure reporting activities including completion and use of reports and monitoring tools.
- Communication and required training will be provided for field representatives including Area Office personnel overseeing projects that include the construction of bridge structures

Completion Date: December 15, 2014
Finding No. 2: Financial Restatement Corrective Measures

Condition
Corrective measures to prevent late reporting of bridge structures and ensure the completeness of Finance Division’s (FIN) Bridge Inventory Database were not implemented and late reporting of bridge structures to FIN continued.

Effect/Potential Impact
Without implementing corrective measures for timely reporting of bridge structures, reporting errors resulting in incomplete bridge inventory information and financial restatements will continue.

Criteria
TxDOT’s financial reports are prepared in accordance with Governmental Accounting Standards Board (GASB) 34 and Generally Accepted Accounting Principles (GAAP). Between FY 2002 and FY 2013, TxDOT elected to depreciate bridges based on useful life determinations and capital asset guidance provided by the Texas Comptroller of Public Accounts (Comptroller). For financial reporting purposes, TxDOT reported bridge structures meeting specific ownership, custodial, and values criteria in the fiscal year the activity occurred. This included the obligation to:

- identify bridge additions at the placed in service date
- identify bridge improvements at the placed in service date
- identify bridge removals at the service removal date
- aggregate and report appropriate costs of the addition and the improvements at the appropriate placed in service dates

Cause
- Expectations for reporting of bridge structures were not formalized, clearly defined, and effectively communicated
- Communication of bridge reporting requirements was not effective at the districts because of different reporting requirements by FIN and Bridge Division (BRG)
- New bridge coordinators do not have experience with queries and reports available in FIN’s database that assist in monitoring and reporting changes in bridge structures

Evidence
Audit testing identified the following for bridge activity in Fiscal Year 2014:
- 12 of 13 (92%) districts, with financial restatements in prior fiscal years, did not establish corrective measures to prevent late reporting of bridge structures and ensure completeness of FIN’s Bridge Inventory database:
  - 9 of 13 (69%) districts did not perform suggested quarterly comparisons of district bridge records to FIN’s capital asset inventory database
  - 8 of 13 (62%) districts continued to have reporting errors or did not report bridge structures before the date established by FIN
Management Action Plan (MAP):

MAP Owner: Glen Knipstein, Accounting Section Director, Finance Division

MAP 2.1: Finance received approval for changes to report state highway roadways and bridges as depreciable infrastructure. With this change, there will no longer be a need to segregate the value of bridges from the value of roadways. Such has eliminated the need entirely to maintain a separate finance bridge database. We have provided notice to the districts regarding the change on July 14, 2014.

Completed: Action Completed
## Summary Results Based on Enterprise Risk Management Framework

<table>
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<th>Scope Areas Evaluated</th>
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<td><strong>Risk Assessment</strong></td>
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<td><strong>Control Activities</strong></td>
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<td>Management Representations</td>
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### Closing Comments

The results of this audit were discussed with members of the Bridge Division, the Finance Division, and district representatives from the Dallas, Houston, and El Paso districts on March 19, 2014. We appreciate the assistance and cooperation received from the Bridge Division, Finance Division, and the districts contacted during this audit.