



FY 2017 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 Web site

House Bill 16 (83rd 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.

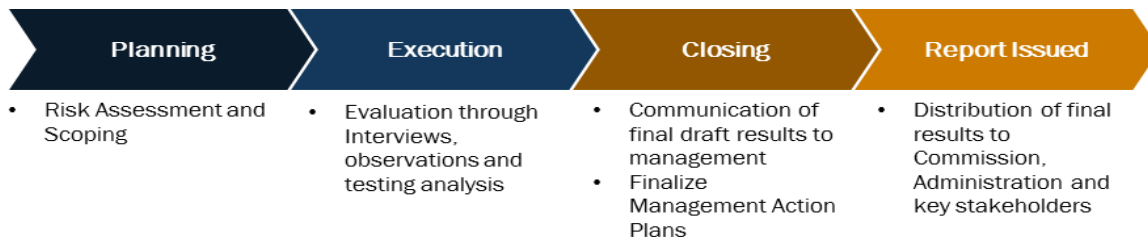
The requirements are met by posting the approved documents at the following link:

<http://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) 2017 Annual Audit Report.

II. Internal Audit Plan for Fiscal Year 2017

PHASES OF THE AUDIT/CONSULTING SERVICES CYCLE



Reports Issued

Report Number	Report Date	Report Name	Audit Service
LS1712	8/2017	Aviation: Flight Services	Internal Audit
LS1702	5/2017	Change Management Firewall/Intrusion Prevention System (IPS) and IPS Access	Internal Audit
LS1703	5/2017	Civil Rights Reporting Program	Internal Audit
FS1703	8/2017	Construction Contract Management – Pre-award and Liquidated Damages	Internal Audit
FS1701	5/2017	Construction Inspection Program	Internal Audit
FS1706	8/2017	County Assistance Program	Internal Audit
LS1707	8/2017	Grant Management Closeout Reporting	Internal Audit
LS1701	5/2017	NEPA Environmental Process	Internal Audit
FS1708	8/2017	Non-Capitalized (Controlled and Non-Controlled) Consumables Management	Internal Audit
LS1710	8/2017	Professional Engineering Procurement Services Division (PEPS) Consultant Procurement Process	Internal Audit
FS1704	7/2017	Physical Security	Internal Audit
LS1706	12/2016	Public Funds Investment Act	Internal Audit
LS1704	7/2017	Public Transportation Grants Indirect and Direct Cost Monitoring	Internal Audit
LS1705	5/2017	Purchasing Process Efficiency	Internal Audit
FS1702	8/2017	Real Estate Management Program	Internal Audit
FS1705	8/2017	Server Management	Internal Audit
LS1610	12/2016	SH 183 Managed Lanes Project	Internal Audit

MP1720	5/2017	Budget Development, Allocation, and Monitoring MAP Follow-Up	MAP Follow-Up
MP1715	5/2017	Civil Rights Division Program Management MAP Follow-Up	MAP Follow-Up
MP1728	8/2017	Cloud: Data Access and Contract Management MAP Follow-Up	MAP Follow-Up
MP1703	3/2017	Compass MAP Follow-Up	MAP Follow-Up
MP1701	8/2017	Construction Operations MAP Follow-Up	MAP Follow-Up
MP1730	8/2017	Contract Administration: 601CT Contracts MAP Follow-Up	MAP Follow-Up
MP1710	3/2017	Fair Labor Standards Act (FLSA) Overtime MAP Follow-Up	MAP Follow-Up
MP1709	3/2017	Fleet Operations Rental Equipment MAP Follow-Up	MAP Follow-Up
MP1737	8/2017	General Controls Review - IT MAP Follow-Up	MAP Follow-Up
MP1719	5/2017	Grant Reimbursement - Traffic Safety Program MAP Follow-Up	MAP Follow-Up
MP1713	3/2017	Local Letting Process MAP Follow-Up	MAP Follow-Up
MP1705	3/2017	Maintenance Operations MAP Follow-Up	MAP Follow-Up
MP1714	3/2017	Materials Testing MAP Follow-Up	MAP Follow-Up
MP1708	3/2017	Mobile Security MAP Follow-Up	MAP Follow-Up
MP1718	5/2017	Post Implementation Review PeopleSoft - Accounts Payable MAP Follow-Up	MAP Follow-Up
MP1716	5/2017	Post Implementation Review PeopleSoft - Payroll and Recruiting MAP Follow-Up	MAP Follow-Up
MP1743	8/2017	Professional Engineering Procurement Services Division Contract and Work Authorizations MAP Follow-Up	MAP Follow-Up
MP1717	5/2017	Performance Based Maintenance Contracts MAP Follow-Up	MAP Follow-Up
MP1723	5/2017	Physical Security MAP Follow-Up	MAP Follow-Up
MP1741	8/2017	Real Estate Management Program MAP Follow-Up	MAP Follow-Up
MP1704	8/2017	Receivables Management - Statement of Cost MAP Follow-Up	MAP Follow-Up
MP1707	3/2017	Records Management Program MAP Follow-Up	MAP Follow-Up
MP1706	3/2017	Right of Way Acquisition MAP Follow-Up	MAP Follow-Up
MP1721	5/2017	Routine Maintenance Contracts MAP Follow-Up	MAP Follow-Up
MP1724	8/2017	Software License Management MAP Follow-Up	MAP Follow-Up

MP1734	8/2017	Toll Facilities Compliance with Federal Highway Administration (FHWA) Reporting MAP Follow-Up	MAP Follow-Up
MP1712	3/2017	Travel Information Center Safety MAP Follow-Up	MAP Follow-Up
MP1722	5/2017	Unified Transportation Program MAP Follow-Up	MAP Follow-Up
MP1702	3/2017	Work Zone Safety MAP Follow-Up	MAP Follow-Up

Carryovers to FY 2018 Internal Audit Plan

Report Number	Report Name	Audit Service
LS1709	Design-Build Project Oversight	Internal Audit
Not Started	Local Government Project Monitoring	Internal Audit
Not Started	Oracle Patch Management	Internal Audit
LS1711	Performance Measurement and Programming	Internal Audit
LS1708	Toll Facilities - Federal Reporting	Internal Audit
MP1732	Bulk Fuel Management and Reporting MAP Follow-Up	MAP Follow-Up
MP1744	Business Continuity MAP Follow-Up	MAP Follow-Up
MP1742	Change Management Firewall/Intrusion Prevention System (IPS) and IPS Access MAP Follow-Up	MAP Follow-Up
MP1711	Contract Administration MAP Follow-Up	MAP Follow-Up
MP1736	Data Classification MAP Follow-Up	MAP Follow-Up
MP1733	Fuel Consumption Oversight and Coordination MAP Follow-Up	MAP Follow-Up
MP1727	Highway Performance Monitoring Systems Pavement Condition Data Collection Resources MAP Follow-Up	MAP Follow-Up
MP1726	Metropolitan Planning Organization MAP Follow-Up	MAP Follow-Up
MP1735	Post Implementation Review PeopleSoft – Inventory MAP Follow-Up	MAP Follow-Up
MP1729	Post-Implementation Review ERP – Purchasing MAP Follow-Up	MAP Follow-Up
MP1725	Right of Way Acquisition - Appraisal Oversight MAP Follow-Up	MAP Follow-Up
MP1740	SH 183 Managed Lanes Project MAP Follow-Up	MAP Follow-Up

MP1731	TAC 202 Reporting MAP Follow-Up	MAP Follow-Up
MP1738	Toll Operation Division Back Office Operations MAP Follow-Up	MAP Follow-Up
MP1739	Toll Operations Division Customer Service Operations MAP Follow-Up	MAP Follow-Up

Detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the FY17 Audit Plan or Annual Audit Report are as follows:

- 17 internal audits were completed
 - 30 findings were identified with control design and/or operating effectiveness deficiencies as noted below
 - 28 control design
 - 30 operating effectiveness
- 29 management action plan (MAP) follow-up engagements were completed to determine whether previously communicated risks have been mitigated. The following details were noted:
 - 102 closed MAPs – corrective actions have been completed
 - 18 open MAPs – corrective actions require completion to address identified risk from the original audit
 - 2 new MAPs – corrective actions that were newly identified and further actions are necessary to properly address the remaining risk

Deviations from FY 2017 Planned Audits

Continuous evaluation of the audit plan, based on risks identified, resulted in the modification of the FY 2017 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
LS1712	Aviation: Flight Services	Audit added
LS1702	Firewall/Intrusion Detection System Management	Name changed to “Change Management Firewall/Intrusion Prevention System (IPS) and IPS Access“
FS1707	NEPA Public Involvement	The Federal Highway Administration (FHWA) had published an audit report addressing public involvement and was about to begin another audit during the same timeframe as our engagement. We determined not to proceed past our planning due to this overlap, but to reassess the risks identified by the team in the FY 2018 Risk Assessment.

FS1708	Non-MES Equipment/Consumables Management	Name changed to “Non-Capitalized (Controlled and Non-controlled) Consumables Management“
FS1704	Physical Security Design	Name changed to “Physical Security“
MP1715	Office of Civil Rights Program Management MAP Follow-Up	Named changed to “Civil Rights Division MAP Follow-Up”

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.

IV. External Quality Assurance Review (Peer Review)

**Report on the External Quality Assurance Review of the
Texas Department of Transportation (TxDOT)
Internal Audit and Compliance Divisions**

July, 2017



**Performed by
Chance Watson
Director of Internal Audit
Texas Department of Family and Protective Services**

**Cheryl Scott
Director of Internal Audit
Texas Comptroller of Public Accounts**

**Performed in Accordance with the
State Agency Internal Audit Forum
Peer Review Policies and Procedures**

Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Department of Transportation (TxDOT) Internal Audit and Compliance (AUD & CMP) Divisions receive a rating of **"Pass/Generally Conforms"** and are in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the audit function.

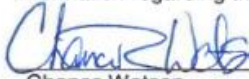
We found that AUD & CMP are independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

AUD & CMP are well managed internally. In addition, the Divisions have effective relationships with the Texas Transportation Commission and are well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers AUD & CMP a useful part of the overall agency operations and finds that the AUD & CMP processes and recommendations provided in the reporting process add value and help improve TxDOT's operations and its ability to provide assurance and accountability regarding the agency's business partners.

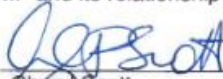
AUD & CMP have reviewed the results of the peer review team's work and has accepted them to be an accurate representation of the Divisions' operations.

Acknowledgements

We appreciate the courtesy and cooperation extended to us by the Chief Audit and Compliance Officer, Internal Audit Division Director, Compliance Division Director, Internal Audit staff, Compliance staff, the Texas Transportation Commission Chairman, the Texas Transportation Commission Audit Subcommittee Chairman, Texas Transportation Commission Members, the Executive Director, and the members of TxDOT Executive Management who participated in the interview process. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of AUD & CMP and its relationship with management.


Chance Watson
Director of Internal Audit
Texas Department of Family &
Protective Services
SAIAF Peer Review Team Leader

7-20-17
Date


Cheryl Scott
Director of Internal Audit
Texas Comptroller of Public Accounts
SAIAF Peer Review Team Member

7/25/17
Date

V. Internal Audit Plan for Fiscal Year 2018

Risk Assessment

The Chief Audit and Compliance Officer performs a department-wide risk assessment to develop the Plan. The risk assessment process is also conducted to assign the audit resources and includes review and consideration of:

- Objective Risk Assessment (12 elements)
- Compliance Division Risk Assessment
- Federal Highway Administration (FHWA) Risk Assessment
- Commission, Administration, Management, and staff
- 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 77 risk-based audit engagements. The audit engagements (including FY2017 audits carried over) are divided into nine areas of focus and coverage, as follows:

- Governance/Program Management - Business activities of the organization are designed and operating toward achievement of objectives, with appropriate oversight
- Contracting/Third Party – Programs, processes and/or activities designed to monitor and provide assurance regarding outsourced services, procurements or program eligibility
- District Operations – Performance of key distributed activities statewide, while maintaining an acceptable level of efficiency and risk
- Financial – Principles of financial accounting, stewardship, accountability, and reporting effectiveness and reliability
- Information Technology – Programs, processes and/or activities designed to identify and safeguard confidential, proprietary, non-public information assets
- Program Efficiency – Streamline key programs/processes, while maintaining or strengthening the internal control structure
- Carryover Audits – Engagements not completed in FY17 which remain important to cover
- Management Action Plan (MAP) Follow-Up – Engagements to determine mitigation of risks previously communicated
- Contingency – Additional area of risk that could be audited as time/resources permit

Audit Plan FY 2018

Internal Audit Division

Governance/Program Management (3)	Budgeted Hours
Disadvantaged Business Enterprise (DBE) & Historically Underutilized Business (HUB) Management and Reporting	1,400
Contract Risk Assessment and Management	1,400
Salary Growth Plan and Hiring Management	1,885

Contracting/Third Party (4)	Budgeted Hours
Materials Quality Assurance – Utility Projects	1,400
Commercially Useful Function Reviews	1,400
Origami Implementation – Vehicle and Injury Reporting	1,885
SiteManager Implementation	1,400

District Operations (2)	Budgeted Hours
Physical and Cycle Count Inventory Procedures	1,885
Surplus and Salvage Equipment Management	1,885

Financial (6)	Budgeted Hours
Veteran Toll Discount Program	1,400
Fund Programming and Management	1,400
Local Government Project Agreements (Fixed vs. Variable Cost)	1,400
Public Funds Investment Act	1,400
Toll Facilities – Federal Reporting	1,400
Emergency Management	1,400

Information Technology (3)	Budgeted Hours
IT Security Management	1,885
Network Security: Vulnerability Scanning & Penetration Testing	1,400
Infrastructure Management	1,885

Program Efficiency (5)	Budgeted Hours
Fleet Purchasing and Allocation Program	1,400
Enterprise Resource Planning Conversion Rates	1,400
Right of Way Mapping	1,400
Preventive Maintenance – Equipment/Fleet	1,400
Strategic Process Improvement Program	1,400

Carryover Audits (4)	Budgeted Hours
Oracle Patch Management	1,400
Performance Measurement & Programming	1,400
Design-Build Project Oversight	80
Toll Facilities – Federal Reporting	40

Management Action Plan (MAP) Follow-Up (41)	Budgeted Hours
Engagements to determine mitigation of risks previously communicated (increase will occur as new findings and MAPs identified)	11,890

Contingency (9)
Consultant Prioritization and Selection
Inspector Development Program
Specific Deliverable Contract Management
Access Control/Segregation of Duties – Critical Applications
Construction Project Compliance and Monitoring Process
Bridge Inspection Data System – Inventory and Inspections
Railroad Grade Crossing Replanking Program
Local Government Project Monitoring
Subcontractor Qualification Program

Summary – Internal Audit	Budgeted Hours
Governance/Program Management	4,685
Contracting/Third Party	6,085
District Operations	3,770
Financial	8,400
Information Technology	5,170
Program Efficiency	7,000
Management Action Plan Follow-Ups	11,890
Carryover Audits	2,920
Total Hours:	49,920

VI. External Audit Services Procured in Fiscal Year 2017

No External Audit Services were procured by the Internal Audit Division during Fiscal Year 2017.

VII. Reporting Suspected Fraud and Abuse

Actions taken to implement the requirements of:

- **Fraud Reporting**

Article IX, Section 7.09 General Appropriations Act (83rd Legislature, Conference Committee Report)

- A link to the State Auditor's Office (SAO) Fraud Hotline is available on the TxDOT internet site: <http://www.txdot.gov/inside-txdot/division/compliance/reporting-fraud.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*
- Compliance Division (CMP) maintains an external hotline number (877-769-8936) and website (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 Cesar Saldivar, Audit Manager