



# FY 2018 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 (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.

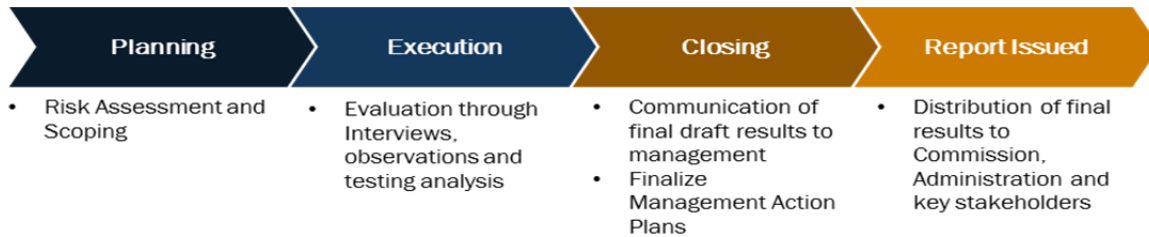
The requirements are met by posting the approved documents at the following link:

<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) 2018 Annual Audit Report.*

## II. Internal Audit Plan for Fiscal Year 2018

### PHASES OF THE AUDIT/CONSULTING SERVICES CYCLE



### Reports Issued

Report Number	Report Date	Report Name	Audit Service
LS1809	8/28/18	Career Development Program	Internal Audit
FS1803	8/30/18	DBE and HUB Management and Reporting	Internal Audit
LS1709	12/12/17	Design Build Project Oversight	Internal Audit
FS1806	8/30/18	Emergency Management	Internal Audit
LS1807	5/10/18	Enterprise Resource Planning (ERP) Conversion Rates	Internal Audit
LS1802	2/28/18	Fleet Purchasing and Allocation Program	Internal Audit
LS1801	6/26/18	IT Security Management	Internal Audit
LS1804	2/28/18	Local Government Project Agreements	Internal Audit
LS1808	8/30/18	Material Quality Assurance - Utility Projects	Internal Audit
FS1802	8/28/18	Origami Implementation - Vehicle and Injury Reporting	Internal Audit
LS1812	8/28/18	PEPS Contract Negotiations	Internal Audit
LS1805	12/19/17	Public Funds Investment Act	Internal Audit
LS1809	8/28/18	Salary Growth Plan	Internal Audit
LS1811	6/25/18	State Infrastructure Bank	Internal Audit
FS1801	6/22/18	State Safety Oversight Program	Internal Audit
LS1708	11/17/17	Tolling Facilities - Federal Reporting	Internal Audit
LS1803	2/28/18	Veteran Toll Discount Program	Internal Audit

MP1732	11/17/17	Bulk Fuel Management and Reporting MAP Follow-Up	MAP Follow-Up
MP1744	11/17/17	Business Continuity MAP Follow-Up	MAP Follow-Up
MP1742	11/17/17	Change Management Firewall/Intrusion Prevention System (IPS) and IPS Access MAP Follow-Up	MAP Follow-Up
MP1823	8/30/18	Civil Rights Reporting Program MAP Follow-Up	MAP Follow-Up
MP1814	8/10/18	Cloud: Data Access and Contract Management MAP Follow-Up	MAP Follow-Up
MP1801	2/28/18	Communication of Policies Guidance MAP Follow-Up	MAP Follow-Up
MP1711	11/17/17	Contract Administration MAP Follow-Up	MAP Follow-Up
MP1802	2/28/18	County Assistance Program MAP Follow-Up	MAP Follow-Up
MP1736	11/17/17	Data Classification MAP Follow-Up	MAP Follow-Up
MP1803	8/30/18	Fair Labor Standards Act (FLSA) Overtime MAP Follow-Up	MAP Follow-Up
MP1822	2/28/18	Fleet Operations Rental Equipment MAP Follow-Up	MAP Follow-Up
MP1733	11/17/17	Fuel Consumption Oversight and Coordination MAP Follow-Up	MAP Follow-Up
MP1727	11/17/17	Highway Performance Monitoring System (HPMS) – Pavement Condition Data Collection Resources MAP Follow-Up	MAP Follow-Up
MP1804	2/28/18	Maintenance Operations MAP Follow-Up	MAP Follow-Up
MP1726	11/17/17	Metropolitan Planning Organization MAP Follow-Up	MAP Follow-Up
MP1805	2/28/18	NEPA Environmental Process MAP Follow-Up	MAP Follow-Up
MP1827	8/30/18	Non-Capitalized (Controlled and Non-Controlled) Consumables Management MAP Follow-Up	MAP Follow-Up
MP1820	8/10/18	Physical Security MAP Follow-Up	MAP Follow-Up
MP1735	11/17/17	Post Implementation Review ERP - Inventory MAP Follow-Up	MAP Follow-Up
MP1824	8/30/18	Post Implementation Review ERP - Inventory MAP Follow-Up	MAP Follow-Up
MP1807	8/30/18	Post Implementation Review ERP - Payroll and Recruiting MAP Follow-Up	MAP Follow-Up
MP1806	8/30/18	Post Implementation Review ERP - Purchasing MAP Follow-Up	MAP Follow-Up
MP1808	8/30/18	Public Transportation Grants Indirect and Direct Cost Monitoring MAP Follow-Up	MAP Follow-Up

MP1809	8/30/18	Purchasing Process Efficiency MAP Follow-Up	MAP Follow-Up
MP1810	2/28/18	Right of Way Acquisition MAP Follow-Up	MAP Follow-Up
MP1725	11/17/17	Right of Way Acquisition – Appraisal Oversight MAP Follow-Up	MAP Follow-Up
MP1740	11/17/17	State Highway 183 Managed Lanes Project MAP Follow-Up	MAP Follow-Up
MP1731	11/17/17	TAC 202 Reporting MAP Follow-Up	MAP Follow-Up
MP1738	11/17/17	Toll Operations Division Back Office Operation MAP Follow-Up	MAP Follow-Up
MP1739	11/17/17	Toll Operations Division Customer Service Operations MAP Follow-Up	MAP Follow-Up
MP1828	8/30/18	Toll Operations Division Customer Service Operations MAP Follow-Up	MAP Follow-Up
MP1825	8/30/18	Tolling Facilities – Federal Reporting MAP Follow-Up	MAP Follow-Up
MP1821	2/28/18	Unified Transportation Program MAP Follow-Up	MAP Follow-Up
MP1811	2/28/18	Work Zone Safety MAP Follow-Up	MAP Follow-Up

**Carryovers to FY 2019 Internal Audit Plan**

Report Number	Report Name	Audit Service
FS1804	Contract Risk Assessment and Management	Internal Audit
LS1806	Infrastructure Management	Internal Audit
FS1807	Physical and Cycle Count Inventory Procedures	Internal Audit
FS1808	Preventive Maintenance – Equipment and Fleet	Internal Audit
LS1813	Right of Way Mapping	Internal Audit
MP1826	Aviation: Flight Services MAP Follow-Up	MAP Follow-Up
MP1818	Bulk Fuel Management and Reporting MAP Follow-Up	MAP Follow-Up
MP1819	Business Continuity MAP Follow-Up	MAP Follow-Up
MP1813	Change Management Firewall/Intrusion Prevention System (IPS) and IPS Access MAP Follow-Up	MAP Follow-Up
MP1829	Civil Rights Division Program Management MAP Follow-Up	MAP Follow-Up

MP1815	Construction Inspection Program MAP Follow-Up	MAP Follow-Up
MP1812	Contract Administration: 601CT Contracts MAP Follow-Up	MAP Follow-Up
MP1816	Data Classification MAP Follow-Up	MAP Follow-Up
MP1831	Design-Build Project Oversight MAP Follow-Up	MAP Follow-Up
MP1832	Fleet Purchasing and Allocation MAP Follow-Up	MAP Follow-Up
MP1834	Grant Management Closeout Reporting MAP Follow-Up	MAP Follow-Up
MP1835	PEPS Consultant Procurement Process MAP Follow-Up	MAP Follow-Up
MP1833	Real Estate Management Program MAP Follow-Up	MAP Follow-Up
MP1817	Server Management MAP Follow-Up	MAP Follow-Up
MP1830	Software License Management MAP Follow-Up	MAP Follow-Up
MP1836	Veteran Toll Discount Program MAP Follow-Up	MAP Follow-Up

**Detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the FY18 Audit Plan or Annual Audit Report are as follows:**

- 17 internal audits were completed
  - 31 findings were identified that included 50 control design and/or operating effectiveness deficiencies as noted below
    - 23 control design
    - 27 operating effectiveness
- 34 management action plan (MAP) follow-up engagements were completed to determine whether previously communicated risks have been mitigated. The following details were noted:
  - 88 closed MAPs – corrective actions have been completed
  - 13 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 2018 Planned Audits

Continuous evaluation of the audit plan, based on risks identified, resulted in the modification of the FY 2018 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
LS1812	PEPS Contract Negotiations	Audit Added
LS1811	State Infrastructure Bank	Audit Added
FS1801	State Safety Oversight Program	Audit Added
Not Assigned	Fund Programming and Management	Audit moved to FY19 Audit Plan
Not Assigned	Oracle Patch Management	Audit moved to FY19 Audit Plan
Not Assigned	SiteManager Implementation	Audit moved to FY19 Audit Plan
Not Assigned	Surplus and Salvage Equipment Management	Audit moved to FY19 Audit Plan
Not Assigned	Network Security: Vulnerability Scanning & Penetration Testing	Audit moved to FY19 Audit Plan/Contingency
Not Assigned	Performance Measurement & Programming	Audit reassessed as part of risk assessment for FY19 audit plan
Not Assigned	Strategic Process Improvement Program	Audit reassessed as part of risk assessment for FY19 audit plan
LS1809	Salary Growth Plan and Hiring Management	Name changed to "Salary Growth Plan" and "Career Development Program"; broken up into two engagements
LS1708	Toll Facilities – Federal Reporting	Name changed to "Tolling Facilities – Federal Reporting"



LS1810	Commercially Useful Function Reviews	These audits were combined into one.
FS1803	Disadvantaged Business Enterprise (DBE) & Historically Underutilized Business (HUB) Management and Reporting	

### **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)

**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.

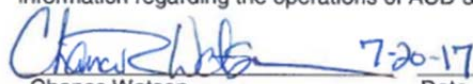
We found that AUD & CMP are independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions 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                      7-20-17                      Date  
Director of Internal Audit  
Texas Department of Family &  
Protective Services  
SAIAF Peer Review Team Leader

  
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Cheryl Scott                      7/25/17                      Date  
Director of Internal Audit  
Texas Comptroller of Public Accounts  
SAIAF Peer Review Team Member

## V. Internal Audit Plan for Fiscal Year 2019

### 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:

- Input from members of the Commission, Administration, Divisions, Districts, and staff
- Department functions, based on objective criteria and professional judgment
- Federal Highway Administration (FHWA) Risk Assessment
- Internal Audit Division Risk Assessment
- Compliance Division Input
- 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 59 risk-based audit engagements. The audit engagements (including FY2018 audits carried over) are divided into 8 areas of focus and coverage, as follows:

- Governance/Program Management – business activities of the organization are optimized toward achievement of objectives, with appropriate oversight
- Contracting/Third Party – reporting and operational reliability impacting stakeholders
- Asset Management – processes and practices are designed and operating to maintain fiscal accountability and stewardship
- Program Optimization – key programs/processes are cost-effective, while maintaining or strengthening the internal control structure
- Recurring – programs, processes, and/or activities that are evaluated on a routine basis
- Management Action Plan (MAP) Follow-Up – to determine mitigation of residual risks identified during a previously issued audit engagement
- Contingency – potential areas of coverage to consider, based on resource efficiencies
- Carryovers in Closing Phase – engagements not completed in FY 2018 which remain important to cover

## Audit Plan FY 2019

### Internal Audit Division

Governance/Program Management (3)	Budgeted Hours
Oracle Patch Management	1,800
Materials Quality Monitoring/Quality Assurance	2,400
SiteManager Implementation	1,800

Contracting/Third Party (3)	Budgeted Hours
Construction Engineering & Inspection (CEI) Invoicing	2,400
Interagency Contract Process	1,800
Post-Implementation – Contractor Performance Monitoring	1,800

Asset Management (3)	Budgeted Hours
Bridge Inspections	2,400
Fund Programming and Management	1,800
Statement of Cost Issuance and Collection	1,800

Program Optimization (6)	Budgeted Hours
Data Classification	2,400
Facility Improvement Assessment and Selection	2,400
Inspector Development Program	2,400
Post-Implementation – Modernize Portfolio and Project Management (Release 1)	1,800
Surplus and Salvage Equipment	2,400
Unified Transportation Program Category Funding	2,400

Reoccurring (6)	Budgeted Hours
Design-Build – Financial Incentives	1,800
Grants – Traffic Safety Monitoring	1,800
Public Funds Investment Act	1,800
Records Management – Printing Program	1,800
Tolling Facilities – Federal Reporting	1,800
Work Zone Safety – State-let Construction Contracts	1,800

<b>FY 2018 Carryover Audits (5)</b>	<b>Budgeted Hours</b>
Contract Risk Assessment and Management	100
Infrastructure Management	100
Physical Inventory and Cycle Counts (known as Physical and Cycle Count Inventory Procedures in the FY 2018 Audit Plan)	100
Fleet Preventive Maintenance (known as Preventive Maintenance - Equipment & Fleet in the FY 2018 Audit Plan)	100
Right of Way Mapping	100

<b>Management Action Plan (MAP) Follow-Up (25)</b>	<b>Budgeted Hours</b>
Engagements to determine mitigation of risks previously communicated (increase will occur as new findings and MAPs identified)	6,743

<b>Contingency (8)</b>
Access Control/Segregation of Duties - Critical Applications
Advertising Effectiveness
Capital Assets Accounting - Capital Improvements
Construction Project Authorization
Network Security: Vulnerability Scanning & Penetration Testing
Post-Implementation - Travel and Expense Module
Right of Way Relocation Process
Salary Growth Plan - Operational Performance

<b>Summary - Internal Audit</b>	<b>Budgeted Hours</b>
Governance/Program Management	6,000
Contracting/Third Party	6,000
Asset Management	6,000
Program Optimization	13,800
Reoccurring	10,800
Carryover Audits	500
Management Action Plan (MAP) Follow-Up	6,743
<b>Total Hours:</b>	<b>49,843</b>



## VI. External Audit Services Procured in Fiscal Year 2018

No External Audit Services were procured by the Internal Audit Division during Fiscal Year 2018.

## VII. Reporting Suspected Fraud and Abuse

### Actions taken to implement the requirements of:

- **Fraud Reporting**

Article IX, Section 7.09 General Appropriations Act (83<sup>rd</sup> 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](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