**Texas Department of Transportation**

# FY 2019
# Annual Audit Report

# TABLE OF CONTENTS

# 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 (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) 2019 Annual Audit Report.*

## II. Internal Audit Plan for Fiscal Year 2019

### PHASES OF THE AUDIT/CONSULTING SERVICES CYCLE



| Report Number | Report Date | Report Name | Audit Service |
|---|---|---|---|
| FS1902 | 8/2019 | Bridge Inspections | Internal Audit |
| FS1804 | 11/2018 | Contract Risk Assessment and Management | Internal Audit |
| LS1915 | 8/2019 | Contractor Performance Monitoring | Internal Audit |
| FS1903 | 8/2019 | Construction Engineering & Inspection (CEI) Invoicing | Internal Audit |
| LS1905 | 5/2019 | Design-Build Stipend Payments | Internal Audit |
| LS1917 | 8/2019 | Fleet Utilization | Internal Audit |
| LS1901 | 2/2019 | Fund Programming and Management | Internal Audit |
| LS1902 | 2/2019 | Grants – Traffic Safety Monitoring | Internal Audit |
| LS1806 | 2/2019 | Infrastructure Management – Shadow IT | Internal Audit |
| LS1906 | 8/2019 | Interagency Contract Process | Internal Audit |
| FS1901 | 7/2019 | Materials Quality Monitoring/Quality Assurance | Internal Audit |
| LS1907 | 8/2019 | Oracle Patch Management | Internal Audit |
| FS1807 | 10/2018 | Physical and Cycle Count Inventory Procedures | Internal Audit |
| FS1808 | 10/2018 | Preventive Maintenance – Equipment and Fleet | Internal Audit |
| LS1910 | 8/2019 | Printing Program | Internal Audit |
| LS1912 | 8/2019 | Procurement Organizational Efficiency | Internal Audit |
| LS1903 | 12/2018 | Public Funds Investment Act | Internal Audit |

| | | | |
|---|---|---|---|
| LS1813 | 11/2018 | Right of Way Mapping | Internal Audit |
| LS1908 | 8/2019 | Statement of Cost Issuance and Collection | Internal Audit |
| LS1911 | 8/2019 | Surplus Property Management | Internal Audit |
| LS1909 | 5/2019 | Toll Facilities – Federal Reporting | Internal Audit |
| LS1904 | 2/2019 | Work Zone Safety – State-Let Construction Contracts | Internal Audit |
| FS1904 | 8/2019 | Unified Transportation Program Category Funding | Internal Audit |
| MP1826 | 11/2018 | Aviation: Flight Services | MAP Follow-Up |
| MP1901 | 5/2019 | Aviation: Flight Services | MAP Follow-Up |
| MP1818 | 11/2018 | Bulk Fuel Management and Reporting | MAP Follow-Up |
| MP1902 | 7/2019 | Bulk Fuel Management and Reporting | MAP Follow-Up |
| MP1819 | 11/2018 | Business Continuity | MAP Follow-Up |
| MP1813 | 11/2018 | Change Management Firewall/Intrusion Prevention System (IPS) and IPS Access | MAP Follow-Up |
| MP1829 | 10/2018 | Civil Rights Division Program Management | MAP Follow-Up |
| MP1903 | 5/2019 | Communication of Policies and Guidance | MAP Follow-Up |
| MP1812 | 10/2018 | Construction Inspection Program | MAP Follow-Up |
| MP1909 | 7/2019 | Construction Inspection Program | MAP Follow-Up |
| MP1815 | 10/2018 | Contract Administration: 601CT | MAP Follow-Up |
| MP1916 | 8/2019 | Contract Risk Assessment and Management | MAP Follow-Up |
| MP1816 | 11/2018 | Data Classification | MAP Follow-Up |
| MP1831 | 11/2018 | Design-Build Project Oversight | MAP Follow-Up |
| MP1925 | 8/2019 | Design-Build Project Oversight | MAP Follow-Up |
| MP1907 | 8/2019 | Disadvantaged Business Enterprise (DBE) and Historically Underutilized Business (HUB) Management and Reporting | MAP Follow-Up |
| MP1913 | 8/2019 | Emergency Management | MAP Follow-Up |
| MP1905 | 8/2019 | Enterprise Resource Planning Conversion Rates | MAP Follow-Up |

| MP1832 | 10/2018 | Fleet Purchasing & Allocation | MAP Follow-Up |
|---|---|---|---|
| MP1917 | 8/2019 | Fund Programming and Management | MAP Follow-Up |
| MP1834 | 10/2018 | Grant Management Closeout | MAP Follow-Up |
| MP1918 | 8/2019 | Grants – Traffic Safety Monitoring | MAP Follow-Up |
| MP1919 | 8/2019 | Local Government Project Agreements | MAP Follow-Up |
| MP1920 | 8/2019 | Materials Quality Assurance – Utility Projects | MAP Follow-Up |
| MP1910 | 7/2019 | Origami Implementation – Vehicle and Injury Reporting | MAP Follow-Up |
| MP1835 | 10/2018 | PEPS Consultant Procurement Process | MAP Follow-Up |
| MP1911 | 8/2019 | PEPS Consultant Procurement Process | MAP Follow-Up |
| MP1914 | 8/2019 | PEPS Contract Negotiations | MAP Follow-Up |
| MP1912 | 8/2019 | Physical and Cycle Count Inventory Procedures | MAP Follow-Up |
| MP1908 | 5/2019 | Preventive Maintenance – Equipment & Fleet | MAP Follow-Up |
| MP1833 | 10/2018 | Real Estate Management Program | MAP Follow-Up |
| MP1921 | 8/2019 | Right of Way Mapping | MAP Follow-Up |
| MP1817 | 11/2018 | Server Management | MAP Follow-Up |
| MP1830 | 12/2018 | Software License Management | MAP Follow-Up |
| MP1922 | 8/2019 | Software License Management | MAP Follow-Up |
| MP1915 | 8/2019 | State Infrastructure Bank | MAP Follow-Up |
| MP1904 | 5/2019 | State Safety Oversight Program | MAP Follow-Up |
| MP1836 | 11/2018 | Veteran Toll Discount Program | MAP Follow-Up |
| MP1906 | 7/2019 | Veteran Toll Discount Program | MAP Follow-Up |
| MP1924 | 8/2019 | Work Zone Safety – State-Let Construction Contracts | MAP Follow-Up |

**Detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the FY19 Audit Plan or Annual Audit Report are as follows:**

- 23 internal audits were completed and issued during FY 2019.
  - 48 findings were identified that included 88 control design and/or operating effectiveness deficiencies as noted below:
    - 41 control design
    - 47 operating effectiveness
- 40 management action plan (MAP) follow-up engagements were also completed during FY 19. The results of those engagements to determine whether previously communicated risks have been mitigated are as follows:
  - 121 closed MAPs – corrective actions have been completed
  - 27 open MAPs – corrective actions require completion to address identified risk from the original audit
  - 16 new FMAPs – corrective actions that were newly identified and further actions are necessary to properly address the remaining risk

## Deviations from FY 2019 Planned Audits

Continuous evaluation of the audit plan, based on risks identified, resulted in the modification of the FY 2019 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 |
|---|---|---|
| LS1912 | Procurement Organizational Efficiency | Audit Added |
| LS1917 | Fleet Utilization | Audit Added |
| Not Assigned | Data Classification | Audit reassessed as part of risk assessment for FY 2020 audit plan |
| Not Assigned | Inspector Development Program | Audit reassessed as part of risk assessment for FY 2020 audit plan |
| Not Assigned | Site Manager Implementation | Audit reassessed as part of risk assessment for FY 2020 audit plan |
| Not Assigned | Facility Improvement Assessment and Selection Process | Audit reassessed as part of risk assessment for FY 2020 audit plan |
| Not Assigned | Post-Implementation – Modernize Portfolio and Project Management (Release 1) | Audit reassessed as part of risk assessment for FY 2020 audit plan |
| LS1806 | Infrastructure Management | Name changed to "Infrastructure Management – Shadow IT" |
| LS1807 | Physical Inventory and Cycle Counts | Name changed to "Physical and Cycle Count Inventory Procedures" |
| FS1808 | Fleet Preventive Maintenance | Name changed to "Preventive Maintenance – Equipment and Fleet" |
| LS1905 | Design-Build Financial Incentives | Name changed to "Design-Build Stipend Payments" |
| LS1909 | Tolling Facilities – Federal Reporting | Name changed to "Toll Facilities – Federal Reporting" |
| LS1910 | Records Management – Printing Program | Name changed to "Printing Program" |
| LS1911 | Surplus and Salvage Equipment | Name changed to "Surplus Property Management" |
| LS1915 | Post-Implementation – Contractor Performance Monitoring | Name changed to "Contractor Performance Monitoring" |

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

Senate Bill 65 (86th 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 Report Number for FY 2015 – FY 2019.*

| Report Number | Report Date | Report Name | Audit Service |
|---|---|---|---|
| LS1415 | 2/2015 | Professional Engineering Procurement Services (PEPS) Contract and Work Authorizations | Internal Audit |
| FS1511 | 12/2015 | Change Order Process | Internal Audit |
| LS1501 | 5/2015 | Construction Engineering Inspection (CEI) Contracts and Work Authorizations | Internal Audit |
| FS1506 | 12/2015 | Contract Administration | Internal Audit |
| FS1505 | 8/2015 | Toll Operations Contract Management | Internal Audit |
| MP1606 | 8/2016 | Change Order Process | MAP Follow-Up |
| LS1605 | 8/2016 | Cloud: Data Access and Contract Management | Internal Audit |
| FS1601 | 5/2016 | Contract Administration – Closeout Phase | Internal Audit |
| FS1602 | 8/2016 | Contract Administration: 601CT Contracts | Internal Audit |
| LS1602 | 8/2016 | Information Management Division Contract Management – Transformation | Internal Audit |
| FS1606 | 5/2016 | Performance Based Maintenance Contracts | Internal Audit |
| MP1605 | 8/2016 | Professional Engineering Procurement Services (PEPS) Contract and Work Authorizations | MAP Follow-Up |
| FS1613 | 8/2016 | Routine Maintenance Contracts | Internal Audit |
| LS1610 | 12/2016 | State Highway (SH) 183 Managed Lanes Project | Internal Audit |
| MP1606 | 8/2016 | Toll Operations Contract Management | MAP Follow-Up |
| FS1612 | 8/2016 | Toll Operations Division Back Office Operations | Internal Audit |
| LS1607 | 8/2016 | Toll Operations Division Customer Service Operations | Internal Audit |

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|---|---|---|---|
| MP1728 | 8/2017 | Cloud: Data Access and Contract Management | MAP Follow-Up |
| FS1703 | 8/2017 | Construction Contract Management – Pre-award and Liquidated Damages | Internal Audit |
| FS1701 | 5/2017 | Construction Inspection Program | Internal Audit |
| MP1711 | 11/2017 | Contract Administration | MAP Follow-Up |
| MP1730 | 8/2017 | Contract Administration: 601CT Contracts | MAP Follow-Up |
| LS1709 | 12/2017 | Design-Build Project Oversight | Internal Audit |
| LS1710 | 8/2017 | Professional Engineering Procurement Services (PEPS) Consultant Procurement Process | Internal Audit |
| MP1717 | 5/2017 | Performance Based Maintenance Contracts | MAP Follow-Up |
| MP1743 | 8/2017 | Professional Engineering Procurement Services (PEPS) Contract and Work Authorizations | MAP Follow-Up |
| MP1721 | 5/2017 | Routine Maintenance Contracts | MAP Follow-Up |
| MP1740 | 11/2017 | State Highway(SH) 183 Managed Lanes Project | MAP Follow-Up |
| MP1738 | 11/2017 | Toll Operations Division Back Office Operations | MAP Follow-Up |
| MP1739 | 11/2017 | Toll Operations Division Customer Service Operations | MAP Follow-Up |
| MP1814 | 8/2018 | Cloud: Data Access and Contract Management | MAP Follow-Up |
| MP1812 | 10/2018 | Construction Inspection Program | MAP Follow-Up |
| MP1815 | 10/2018 | Contract Administration: 601CT Contracts | MAP Follow-Up |
| FS1804 | 11/2018 | Contract Risk Assessment and Management | Internal Audit |
| MP1831 | 11/2018 | Design-Build Project Oversight | MAP Follow-Up |
| LS1804 | 2/2018 | Local Government Project Agreements | Internal Audit |
| MP1835 | 10/2018 | Professional Engineering Procurement Services (PEPS) Consultant Procurement Process | MAP Follow-Up |
| LS1812 | 8/2018 | PEPS Contract Negotiations | Internal Audit |
| MP1828 | 8/2018 | Toll Operations Division Customer Service Operations | MAP Follow-Up |
| 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 |

## 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

TxDOT Audit and Compliance Divisions
External Quality Assurance Review – July, 2017

## 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.
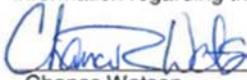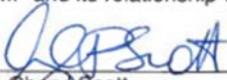
| | | | |
|---|---|---|---|
| _Chance Watson_     7-20-17 | | _Cheryl Scott_     7/25/17 | |
| Chance Watson    Date | | Cheryl Scott    Date | |

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

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

## V. Internal Audit Plan for Fiscal Year 2020

### 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:
- Input from members of the Commission, Administration, Divisions, Districts, and staff
- Department functions, based on objective criteria and professional judgment
- Federal Highway Administration (FHWA) prior year 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 47 risk-based audit engagements. The audit engagements are divided into eight areas of focus and coverage, as follows:
- Information Technology – activities designed to identify and safeguard confidential, proprietary, non-public information assets.
- Governance and 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.
- Program Optimization – key programs/processes are cost-effective, while maintaining or strengthening the internal control structure.
- Asset Management – processes and practices are designed and operating to maintain fiscal accountability and stewardship.
- 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 additional coverage to consider based on resource efficiencies.

# Audit Plan FY 2020

## Internal Audit Division

| Information Technology (3) | Budgeted Hours |
|---|---|
| Data Management | 1,715 |
| Data Classification | 1,715 |
| Information Management Division (IMD) Contract Management – FY 2020 Contracts Implementation | 3,400 |

| Governance and Program Management (4) | Budgeted Hours |
|---|---|
| Performance Measures | 1,715 |
| Advertising Effectiveness | 1,715 |
| Unified Transportation Program: Portfolio Analysis Tool | 1,715 |
| Title VI and Americans with Disabilities Act (ADA) Goal Setting and Reporting Process | 1,715 |

| Contracting/Third Party (3) | Budgeted Hours |
|---|---|
| Professional Engineering Procurement Services (PEPS) Contractor Performance Monitoring | 1,715 |
| Service Organization Controls (SOC) 1 and 2 Compliance | 1,715 |
| Construction Project Website Administration | 1,715 |

| Program Optimization (4) | Budgeted Hours |
|---|---|
| Reporting Integrity: Maintenance Management System (MMS) | 3,400 |
| Post-Implementation – Modernize Portfolio and Project Management | 1,715 |
| Post-Implementation – Travel and Expense Module | 1,715 |
| Facilities and Asset Management System (FAMIS) Efficiency | 1,715 |

| Asset Management (2) | Budgeted Hours |
|---|---|
| Non-Contracted Bridge Inspections | 1,715 |
| Lease Accounting Implementation | 1,715 |

| Recurring (4) | Budgeted Hours |
|---|---|
| Public Funds Investment Act | 1,715 |
| Toll Facilities – Federal Reporting | 1,715 |
| Physical Security | 3,400 |
| Tuition Assistance Program (TAP) | 1,715 |

| Management Action Plan (MAP) Follow-Up  (17) | Budgeted Hours |
|---|---|
| Engagements to determine mitigation of risks previously communicated (increase will occur as new findings and MAPs identified) | 4,815 |

| Contingency (10) |
|---|
| Network Security: Vulnerability Scanning & Penetration Testing |
| IT Purchasing Process |
| Segregation of Duties/Access Controls – Critical Applications |
| Third Party Website Purchases |
| Human Resources Operations |
| Vegetation Management – Contracted Operations |
| Legislative Budget Board (LBB) Contract Reporting |
| Site Manager – Post Implementation |
| TxDOT Business Impact Analysis |
| Performance Management |

| Summary – Internal Audit | Budgeted Hours |
|---|---|
| Information Technology | 6,830 |
| Governance and Program Management | 6,860 |
| Contracting/Third Party | 5,145 |
| Program Optimization | 8,545 |
| Asset Management | 3,430 |
| Recurring | 8,545 |
| Management Action Plan (MAP) Follow-Up | 4,815 |
| **Total Hours:** | **44,170** |

## VI. External Audit Services Procured in Fiscal Year 2019

No External Audit Services were procured by the Internal Audit Division during Fiscal Year 2019.

## VII. Reporting Suspected Fraud and Abuse

Actions taken to implement the requirements of:
- **Fraud Reporting**
  Article IX, Section 7.09 General Appropriations Act (86th Legislature, Conference Committee Report)
  - o 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
  - o 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*
  - o Compliance Division (CMP) maintains an external hotline number (877-769-8936) and website (txdotwatch.com)

- **Coordination of Investigations**
  Texas Government Code, Section 321.022
  - o Reasonable Cause to Believe reports are completed by the Compliance Division and sent to SAO at least semi-annually
  - o SAO Hotline Complaint coordination with State Auditor's Office, as needed