



FY 2013 Annual Internal Audit Report

TxDOT Audit Office

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I. Compliance with House Bill 16

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 agency 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 Audit Office meets the requirements by posting the approved documents at the following link:

<http://www.txdot.gov/inside-txdot/administration/commission/subcommittee-meeting.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 2013 Internal Audit Annual Report.

II. Internal Audit Plan for Fiscal Year 2013

PHASES OF THE AUDIT/CONSULTING ENGAGEMENT CYCLE



Reports Issued

Report Number	Report Date	Report Name	Audit Service
FS1301	03/11/2013	Accounts Payable (SOX)	Audit
FS1302	03/11/2013	General Controls Review – IT	Audit
FS1303	05/31/2013	Office of Civil Rights Program Management	Audit
FS1304	05/31/2013	Ferry Operations	Audit
FS1305	08/20/2013	Incident Response – IT	Audit
FS1307	08/21/2013	Local Government Project Monitoring	Audit
FS1309	08/28/2013	CDA Monitoring Process	Audit
FS1310	08/28/2013	Disaster Recovery – IT	Audit
FS1311	08/23/2013	Privacy	Audit
RD1301	03/11/2013	Physical Security	Audit
RD1302	05/31/2013	Equipment Maintenance & Repair	Audit
RD1303	04/17/2013	Safety Program	Audit
RD1304	04/17/2013	Radiation Protection Program	Audit
RD1305	08/22/2013	Inventory Management	Audit
RD1306	08/28/2013	Construction Operations	Audit
MP01	05/28/2013	Multiple Use Agreement MAP Follow-Up	MAP
MP02	05/28/2013	Permit Operations MAP Follow-Up	MAP
MP03	05/28/2013	Compliance of Executives, Division and Office Directors MAP Follow-Up	MAP
MP1304	07/31/2013	Tuition Assistance Program MAP Follow-Up	MAP
MP1305	07/31/2013	Delegation of Authority/Budget Compliance MAP Follow-Up	MAP

MP1306	07/31/2013	CDA SH 130 Segments 5 & 6 MAP Follow-Up	MAP
MP1307	08/22/2013	Construction/Maintenance Inspection MAP Follow-Up	MAP
MP1308	08/22/2013	Facilities Management MAP Follow-Up	MAP
MP1309	08/22/2013	Accounts Payable MAP Follow-Up	MAP
RR1302	05/28/2013	ProCard Risk Response	Risk Response
RR1304	08/28/2013	Vendor Examination	Risk Response
P24601	07/08/2013	Grant Monitoring	Risk Response
P50103	11/30/2012	Regionalization	Audit
P10705	11/09/2012	CDA - SH 130 Segments 5 & 6	Audit
P30205	09/26/2012	Purchase of Service	Audit
P30501	11/16/2012	Facilities Management	Audit
P25106	05/31/2013	Communication of Policies and Guidance	Audit
1501	11/30/2012	Compliance of Executives, Division and Office Directors	Audit
1502	08/28/2013	Toll Equity Oversight	Audit
P22101	03/11/2013	Construction/Maintenance Inspection Oversight	Audit
CT1301	05/31/2013	Sarbanes-Oxley (SOX) Internal Controls	Consulting
1107	03/01/2013	CDA - Consulting Assignment for Development of Future CDAs	Consulting
CT1302	08/22/2013	Data Classification	Consulting
C00002	09/12/2012	Accounts Payable Control Design Evaluation	Consulting
C00001	07/08/2013	Affiliation Review	Consulting

Carryovers to FY 2014 Audit Plan (Closing Phase)

Report Number	Report Name	Audit Service
FS1306	Receivables Management - Statement of Cost	Audit
FS1308	Bond Covenants	Audit
FS1312	Toll Operations	Audit
RD1307	Advance Funding Agreements	Audit

Detailed Summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the Audit Plan or Annual Internal Audit Report.

- 31 Audit Engagements Completed (includes Consulting Engagements)
 - 68 Findings Identified
 - 64 Control Design
 - 60 Operating Effectiveness
- 9 Management Action Plans (MAPs) Follow-Up Audits completed to determine if management addressed risk identified.
 - 26 of the 68 Findings Reviewed (42 Findings Not Yet Due)
 - 19 findings addressed, as agreed; 7 open for further action

Deviations from FY 2013 Planned Audits

Continuous evaluation of the Plan, based on risks identified, resulted in the modification of the FY 2013 Audit Plan. Modifications were approved by the Texas Transportation Commission’s Audit Sub-committee.

The following audits were added to the FY 2013 Audit Plan:

Report Number	Report Title	Requested by:	Approved
P22101	Construction/Maintenance Inspection	TxDOT Chief Audit Executive	08/14/2013
FS1304	Ferry Operations	Audit Sub-committee	12/12/2012
RR1302	ProCard	TxDOT Chief Audit Executive	12/12/2012
C00001	Affiliation Review Consulting Engagement	Construction Division	08/14/2013
C00002	Accounts Payable Control Design Evaluation Consulting Engagement	Executive Director/Chief Financial Officer	08/14/2013

The following audit engagements were placed on the FY Audit Plan contingency list and will be considered in subsequent risk assessments/audit planning activities:

Report Title	Removed by:	Approved
Strategic Project Office	TxDOT Chief Audit Executive	12/12/2012
Grant Monitoring (1)	TxDOT Chief Audit Executive	12/12/2012
Payroll Review	TxDOT Chief Audit Executive	08/14/2013
Materials Testing Standards Consulting Engagement	TxDOT Chief Audit Executive	08/14/2013
Business Continuation Planning	TxDOT Chief Audit Executive	08/14/2013

III. Consulting Services and Nonaudit Services Completed

1. Sarbanes-Oxley (SOX) Internal Controls- Consulting (CT1301)

Objective:

Facilitate the FY2012 Sarbanes-Oxley Self-assessment of Internal Controls by documenting the verification of control owners and their self-certifications of control activities.

Results:

The Audit Office has confirmed and documented responses from 100% of control owners. No procedures were performed to provide assurance regarding the appropriateness or effectiveness of the SOX internal controls.

Report Date: 05/31/2013

2. CDA – Consulting Assignment for Development of Future CDAs- Consulting (1107)

Objective:

Review the DFW Connector and North Tarrant Express (NTE) Comprehensive Development Agreement (CDA) programs to ensure controls are documented, functioning as designed, and consistent with Department business needs and purposes.

Results:

Requirements for CDA Program monitoring by Fort Worth District (FTW) for the DFW Connector and NTE, are documented. Improvement opportunities related to the deviation from documented requirements were identified and provided to management. Employees assigned to the administration of the CDA program received training related to contractual and procedural components.

Report Date: 03/01/2013

3. Data Classification (CT1302)

Objective:

Provide recommendations for the establishment of a department-wide data classification policy, based on industry best practices and regulatory considerations.

Results:

Recommend that Information Technology Division (ITD) create and implement a data classification policy that would help protect and manage data, increase efficiency, optimize security resources, reduce risk and loss of data, and continue their progression towards becoming best in class.

Report Date: 08/22/2013

4. Accounts Payable Control Design Evaluation (C00002)

Objective:

Determine operating and internal control structure of the Accounts Payable process, including Finance (FIN) and Information Technology Services (ITS) activities. This information will be utilized to help prepare for a full scope audit engagement to be performed in fiscal year 2013.

Results:

Improvement opportunities within the accounts payable process were identified to help mitigate the risk of duplicate and late payments.

Report Date: 09/12/2012

5. Affiliation Review (C00001)

Objective:

Conduct an on-site visit of both facilities and review any necessary transactions to determine with reasonable certainty that the two firms are operating independently of each other and the extent to which the potential bidders may share equipment, personnel, office/storage space or finances.

Results:

Based upon the physical locations reviewed, interviews conducted, employee list comparisons, payroll listing comparisons, banking documentation reviews, and equipment reviewed, it is my determination that these two entities are not affiliated.

Memo Date: 07/08/2013

IV. External Quality Assurance Review (Peer Review)

The last Peer Review was performed in 2010 and is provided for your reference. A Peer Review is being conducted in 2013 as required.



October 28, 2010

Mr. Owen Whitworth, CIA, CPA, Director
Texas Department of Transportation Audit Office
Greer Building, 3rd Floor
125 E. 11th Street
Austin, TX 78701-2483

Dear Mr. Whitworth,

I have reviewed the Peer Review Report of the Texas Department of Transportation Audit Office. I based my review on the Peer Review Bylaws and the guidelines of the American Association of State Highway and Transportation Officials Standing Committee on Administration, Administrative Subcommittee on Internal and External Audit.

I have concluded, based on my review, that the prescribed process was followed. Therefore, according to the Peer Review Bylaws, I approve and issue the subject report with responses (attached).

The electronic file containing the audit workpapers for the review will be sent to you electronically. In accordance with the AASHTO Peer Review Bylaws, the workpapers relating to the audit group are now the exclusive property of the transportation agency and must be maintained for four years from the date of such report or until completion of the next Peer Review, whichever occurs first.

If you have questions or need additional information, please contact me at 502-564-6760 or alice.wilson@ky.gov.

Sincerely,

Alice S. Wilson, CPA
Peer Review Committee Chair

Attachment



**AASHTO Peer Review of the
Texas Department of Transportation
Audit Office**

**Review Period
April 1, 2006 through December 31, 2009**

Peer Review Team Members
Johnny Alexander, Oregon Department of Transportation, Team Lead
Allen Kachelmyer, Minnesota Department of Transportation
Michelle Kelly, Idaho Transportation Department
Vickie Murphy, Montana Department of Transportation



September 13, 2010

Mr. Owen Whitworth, CIA, CPA, Director
Texas Department of Transportation Audit Office
Greer Building, 3rd Floor
125 E. 11th Street
Austin, TX 78701-2483

Mr. Whitworth,

We have completed a peer review of the Texas Department of Transportation's Audit Office (Audit Office) for the period April 1, 2006 through December 31, 2009. We have summarized the results of the review below.

Objectives

Professional auditing standards require a periodic assessment of audit operations to determine if audit activities are independently and effectively performed. Consistent with this requirement, the objectives of our review were to:

- Determine if the Audit Office's operating policies, procedures and practices were consistent with applicable professional auditing standards; and
- Identify opportunities to improve the quality of audit performance.

Scope

Review period. Our peer review was for the period April 1, 2006 through December 31, 2009.

District/Division Auditors Excluded. Audit activities are performed by the Audit Office's staff located in Austin, and by district/division staff located throughout Texas. We did not perform a peer review of district/division auditors.

Evaluation Criteria. Texas Government Code, Chapter 2102, The Texas Internal Auditing Act, § 2102.12, Internal Audit Standards, requires the internal audit function to conform to the Standards for the Professional Practice of Internal Auditing, the Code of Ethics contained in the Professional Practices Framework as promulgated by the Institute of Internal Auditors, and generally accepted government auditing standards. This peer review evaluated the internal audit office for compliance with both standards. The TxDOT Audit Manual revised April 2008, indicated that the external audit function followed both standards; however, the Director and the Manager of the External Audit Section indicated that the External Audit Section followed Government Auditing Standards. The peer review team used the AASHTO Peer Review guidance to evaluate the External Audit Section.

The External Audit section asserted that their work follows standards for approximately half of the reviews they accomplish. GAS 3.58 (2) indicates that the peer review team select audits and attestation engagements that provide a reasonable cross-section from all types of work subject to the reviewed audit organization's quality control system, including one or more assignment performed in accordance with GAGAS.

Methodology

Our review was conducted in conformance with the Peer Review Bylaws and other guidelines of the American Association of State Highway and Transportation Officials' (AASHTO), Administrative Subcommittee on Internal and External Audit. This review was a pilot review evaluating the effectiveness of remotely reviewing all information with limited travel for team members. The AASHTO Administrative Sub committee's *Peer Review Guide* and the Institute of Internal Auditors' *Quality Assessment manual* (6th edition) were used as guidelines during the review. In accordance with these guidelines, we conducted the following audit procedures:

- Evaluated questionnaires completed by TxDOT staff, TxDOT Commissioners, internal and external auditees.
- Interviewed the TxDOT Executive Director, Deputy Director, Audit Director selected Audit Staff, and a representative of the Texas State Auditor's Office.
- Reviewed audit policies, procedures, practices and information used for annual audit planning and managing the audit office.
- Examined a sample of audit files completed during the review period.
- Conducted field work at TxDOT's Austin headquarters March 22 and March 23, 2010.
- Conducted field work remotely in Oregon, Idaho, Montana and Minnesota

relevant potential criteria and matters, sources of audit evidence, or revise audit objectives and modify if evidence not available. Consider other auditors and specialists qualifications and experience. Communicate planning and performance, write audit plans and update if necessary.

In the majority of the 27 external files we reviewed, there were no planning documents noted.

- 3 - Reporting standards related to the contents of the report for performance audits (repeat finding).

GAS 8.08

Auditors should prepare audit reports that contain a statement about the auditor's compliance with GAGAS.

In several TxDOT reviews, the GAGAS statement was incorrectly used for review work that did not follow standards.

The matter below is discussed in detail in a separate letter of comments.

- 4 - Continuing Professional Education

Except for the discrepancies described above, the Audit Office complied with 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, Generally Accepted Government Standards and Standards for the Professional Practice of Internal Auditing.

Other than the deficiencies noted above, this opinion implies that the internal quality control system found within this area was adequate and the quality control policies and procedures were complied with to provide the audit organization with reasonable assurance of conforming to these Standards.

As is customary in a system review, we have included in the letter of comments additional observations that were not considered to be sufficient to affect the opinion expressed in this report.

V. Internal Audit Plan for Fiscal Year 2014

Risk Assessment

The Audit Office performed a department-wide risk assessment to develop the annual Internal Audit Plan. The risk assessment process was conducted to assign the Audit Office's resources and includes:

- Performing an evaluation of department functions, based on objective criteria and professional judgment
- Review and consideration of prior audit results
- Obtaining input from members of the Commission, Administration and Management
- Review and consideration of the Federal Highway Administration (FHWA) Risk Assessment
- Review and consideration of the Office of Compliance and Ethics Risk Assessment
- Review and consideration of Investigative Trends
- Review and consideration of Professional/Industry standards
- Review and consideration of Moving Ahead for Progress in the 21st Century (MAP-21)

Continuous evaluation of the annual Internal Audit Plan, based on risks identified, could result in modifications being made during the year. These modifications will be proposed to the Audit Subcommittee and included in the Plan, if approved.

Audit Plan

The Plan consists of 55 risk-based, value-adding engagements for the fiscal year. The audit engagements (including FY 2013 Audits Carried Over) are divided into four areas of focus and coverage, as follows:

- Full Scope Audits – Large scale program and/or business unit focus
- Limited Scope Audits – Limited-scope engagements; focused on design and effectiveness of key regional/district business operations
- Management Action Plan (MAP) Follow Up – Follow up engagements designed to determine risk remediation (these can occur at least 6 months from the original audit engagement's completion, based on risk)
- Advisory Service – Requests by management to assist in improving risk management and operations (value-added, non-audit services/consulting)

A contingency list of five engagements is also included in the Plan. This provides for additional coverage if the above engagements are completed prior to the conclusion of the fiscal year.

Audit Plan FY 2014

Internal Audit Section

Full Scope Audits (17)	Budgeted Hours
Records Management Program	1750
Bid Estimation	1565
Revenue Accounting	1565
Encumbrance Review	1365
Work Zone Safety	1750
CCO - Work Authorization Process	1565
PEPs Contract Process Review	1565
FIN Penalties/Mitigation	1565
IT Service Level Contract Management/Billing	1610
HR Procedures Management	1565
Rail Project Management	1365
ROW Acquisition	1565
FIN Project Ledger and Federal Receivables	1565
Toll Operations Contract Management	1565
Highway Performance Monitoring Systems Reporting	1365
CDA South and Central Texas	1565
Off-System Bridge Program	1750

Limited Scope Audits (15)	Budgeted Hours
Material Quality of Non-Bid Items	1420
Maintenance Operations	1600
Metropolitan Planning Organization	1420
Plan Review Process	1420
COMPASS	1600
Vegetation Management	1250
Procurement Policies and Procedures	1420
Unified Transportation Program (UTP)	1420
Public Transportation Grant Management	1420
ROW Maps, Survey, & Utilities	1420
RTI Billing/Accounts Payable	1220
Traffic Logo Program	1600
Electronic Bidding Letting Management	1420
Highway Condition Reporting	1250
Travel Information Center Safety	1420

Management Action Plan (MAP) Follow-Up (12)	Budgeted Hours
Ferry Operations	445
Physical Security	645
Receivables Management - Statement of Cost	445
Equipment Maintenance & Repair	345
General Controls Review - IT	445
Multiple Use Agreements	245
Purchase of Service	445
Office of Civil Rights	545
Communication of Policies and Guidance	445
Disaster Recovery - IT	345
Local Government Project Monitoring	445
Safety Program	545

FY 2013 Audits Carried Over (4)	Budgeted Hours
Bond Covenants	220
Receivables Management - Statement of Cost	15
Advance Funding Agreements	100
Toll Operations	200

Summary - Internal Audit Section	Budgeted Hours
Full Scope Audits	26605
Limited Scope Audits	21300
Management Action Plan (MAP) Follow-Up	5340
FY 2013 Audits Carried Over	535
Total Hours:	53780

External Audit Section

External audit coverage is expected to include 906 contracts generating approximately \$1.6 million in audit exceptions. We estimate that 211 consultant engineering firms will submit CPA overhead audit reports which we will evaluate for administrative qualification requirements. Additionally, we will receive approximately 350 CPA Single Audit Reports on local governments and non-profit organizations that will provide for audit coverage to approximately \$300 million in grant expenditures.

Quantity	Description	Budgeted Hours
906	Contracts	9785
211	CPA Overhead for Consultant Engineering Firms	1000
350	CPA Single Audit Reports on local governments and non-profit organizations	1000
Total Hours:		11785

External Audit will provide Advisory Service coverage to fulfil requests by management to assist in improving risk management and operations (value-added, non-audit services/consulting). Additionally, coverage in support of the department's Spirit of Sarbanes-Oxley program will be provided.

Advisory Service Engagements (7)		Budgeted Hours
Environmental NEPA		500
Traffic Safety Grant		500
Sarbanes-Oxley (SOX) Disclosure		600
SOX Key Controls Testing		600
Purchase Card Enhancements		200
Traffic Safety Pre-Award Audits		100
Project Health Management Information System (PHMIS with focus on Primavera 6)		500
Total Hours:		3000

High Risks not included on FY 2014 Plan

Five high-risk engagements were included in a contingency list in the FY 2014 Audit Plan. This provides for additional coverage if the above engagements are completed prior to the conclusion of the fiscal year.

Contingency List Audits (5)
Payment Processing Efficiency
Enterprise Resource Planning (ERP) Implementation
Cash Forecasting Funds Management
Training Effectiveness
HRD Hiring Process

VI. External Audit Services Procured in Fiscal Year 2013

Not applicable

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 SAO's Fraud Hotline was added to TxDOT's internet site under the TxDOT Watch Hotline and TxDOT's Recovery Act site. <http://www.txdot.gov/inside-txdot/office/compliance-ethics/reporting-fraud.html>
- Information was added to TxDOT's policies on how to report suspected fraud involving state funds to SAO. *Call the State Auditor's Office fraud hotline at 1-800-TX-AUDIT (892-8348) or report it online at <http://sao.fraud.state.tx.us>*

- **Coordination of Investigations**

Texas Government Code, Section 321.022

- Reasonable Cause to Believe report will be completed by the Office of Compliance and Ethics and sent to SAO by October 31, 2013.

SAO Hotline Complaint coordination with Nicole Guerrero, SAO Audit Manager from TxDOT's Office of Compliance and Ethics

- Information was sent on 10/18/2012, 11/14/2012, 12/5/2012, 01/02/2013, 02/13/2013, 02/25/2013, 05/14/2013, 07/08/2013, 08/16/2013, and 08/22/2013 specifying the report number, category, conclusion, closing memo or report, and additional information supporting conclusion.