



FY 2021 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 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.

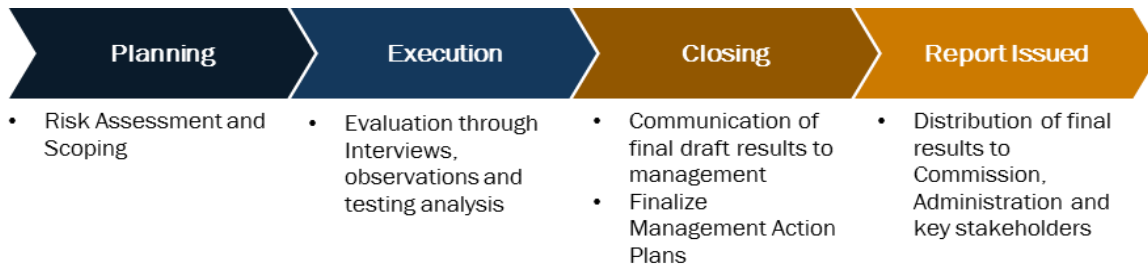
The requirements are met by posting the approved documents at the following link:

<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) 2021 Annual Audit Report.

II. Internal Audit Plan for Fiscal Year 2021

PHASES OF THE AUDIT/CONSULTING SERVICES CYCLE



Reports Issued

Report Number	Report Date	Report Name	Audit Service
LS2018	9/2020	Campus Consolidation Phase I: Invoice and Vendor Management	Internal Audit
LS2114	8/2021	Campus Consolidation Phase II: Construction Payments and Transitional Preparedness	Internal Audit
LS2105	2/2021	Facility Management – Improvement Assessment, Selection, and Oversight	Internal Audit
LS2106	5/2021	Ferry Operations and Maintenance	Internal Audit
LS2118	8/2021	Fleet Operations Division Grant Management	Internal Audit
LS2109	7/2021	Information Security Program (TAC 202)	Internal Audit
LS2113	5/2021	Information Technology (IT) Purchasing and Tracking	Internal Audit
LS2117	8/2021	Information Technology (IT) User Access Management	Internal Audit
LS2115	8/2021	Lease Accounting Implementation	Internal Audit
LS2017	9/2020	Lease Accounting Inventory Assessment	Internal Audit
LS2102	12/2020	Local Government Projects Pre-Award	Internal Audit
LS2101	12/2020	Maintenance Project Payment Review and Approval	Internal Audit
FS2101	8/2021	Materials Testing – Soils and Aggregate	Internal Audit

LS2007	9/2020	Media Campaign Management	Internal Audit
LS2012	9/2020	Non-Contracted Bridge Inspections	Internal Audit
LS2107	7/2021	Plan Review and Bid Estimation Effectiveness	Internal Audit
LS2112	2/2021	Professional Engineering Procurement Services (PEPS): Consultant Performance	Internal Audit
LS2104	12/2020	Public Funds Investment Act	Internal Audit
LS2011	9/2020	Reporting Integrity: Maintenance Management System (MMS)	Internal Audit
LS2103	2/2021	Security Categorization	Internal Audit
LS2108	5/2021	Toll Facilities - Federal Reporting	Internal Audit
LS2014	9/2020	Tuition Assistance Program (TAP)	Internal Audit
LS2110	5/2021	TxDOT Business Impact Analysis	Internal Audit

Detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the FY21 Audit Plan or Annual Audit Report are as follows:

- 23 internal audits were completed and issued during FY 2021.
 - 39 findings were identified that included 76 control design and/or operating effectiveness deficiencies as noted below:
 - 38 control design
 - 38 operating effectiveness
- 47 management action plan (MAP) follow-up engagements were also completed during FY 2021. The results of those engagements to determine whether previously communicated risks have been mitigated are as follows:
 - 119 closed MAPs – corrective actions have been completed
 - 42 open MAPs – corrective actions require completion to address identified risk from the original audit

Deviations from FY 2021 Planned Audits

Continuous evaluation of the audit plan, based on risks identified, resulted in the modification of the FY 2021 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
Not Assigned	Accounts Receivable – Damage Claims	Audit reassessed as part of risk assessment for FY 2022
Not Assigned	Facilities and Asset Management System (FAMIS)	Audit reassessed as part of risk assessment for FY 2022
LS2119	Fleet Operations Division Grant Management	Audit Added
LS2113	Information Technology (IT) Purchasing and Tracking	Audit Added
LS2117	User Access Management	Name changed to “Information Technology (IT) User Access Management”
Not Assigned	Material Maintenance Contracts	Audit reassessed as part of risk assessment for FY 2022
Not Assigned	Policy Governance	Audit reassessed as part of risk assessment for FY 2022
Not Assigned	Post Implementation – Toll Operations Back Office System	Audit reassessed as part of risk assessment for FY 2022
Not Assigned	Title VI Goal Setting and Reporting Process	Audit reassessed as part of risk assessment for FY 2022

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 2017 – FY 2021.

Report Number	Report Date	Report Name	Audit Service
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
MP2021	8/2020	Construction Engineering & Inspection (CEI) Invoicing	MAP Follow-Up
MP2002	5/2020	Contract Risk Assessment and Management	MAP Follow-Up
MP2009	5/2020	Contractor Performance Monitoring	MAP Follow-Up
MP2008	5/2020	Design-Build Stipend Payments	MAP Follow-Up
LS2003	4/2020	Independent Financial and Information Security Assessment Reports	Internal Audit

SP2001	8/2020	Information Technology (IT) Operations Assessment	Internal Audit
MP2007	8/2020	Interagency Contract Process	MAP Follow-Up
MP2024	8/2020	Local Government Project Agreements	MAP Follow-Up
MP2019	8/2020	Professional Engineering Procurement Services (PEPS) Consultant Procurement Process	MAP Follow-Up
LS2001	2/2020	PEPS Prime Provider Performance Monitoring	Internal Audit
LS2006	12/2019	Third-Party Website Administration	Internal Audit
MP2023	8/2020	Third-Party Website Administration	MAP Follow-Up
MP2005	5/2020	Work Zone Safety – State-Let Construction Contracts	MAP Follow-Up
LS2018	9/2020	Campus Consolidation Phase I: Invoice and Vendor Management	Internal Audit
LS2114	8/2021	Campus Consolidation Phase II: Construction Payments and Transitional Preparedness	Internal Audit
LS2102	12/2020	Local Government Projects Pre-award	Internal Audit
LS2101	2/2021	Maintenance Project Payment Review and Approval	Internal Audit
LS2112	8/2021	Professional Engineering Procurement Services (PEPS): Consultant Performance	Internal Audit

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)

Summary of results of the External Quality Assessment of the Internal Audit and Compliance Divisions

On June 17, 2020, the Texas Department of Transportation (“TxDOT”) Internal Audit and Compliance Divisions (“we” or “AUD and CMP”) engaged a Big Four public accounting firm (the “firm”) to perform an External Quality Assessment review (“peer review”) to assess AUD and CMP Divisions’ conformance with the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics (“the IIA Standards”), the United States Government Accountability Office *Government Auditing Standards* (“GAGAS”) and the Texas Internal Auditing Act, Texas Government Code, Chapter 2102 (the “Texas Internal Auditing Act”). The public accounting firm’s overall assessment is that AUD and CMP generally conform with the IIA Standards, receives a peer review report rating of pass in accordance with GAGAS requirement 5.72 and conforms with the Texas Internal Auditing Act.

The firm evaluated conformance with the IIA Standards, GAGAS and the Texas Internal Auditing Act through interviews conducted with members of Texas Transportation Commission Audit Subcommittee (“Audit Subcommittee”), TxDOT Administration, AUD and CMP, as well as through inspection of relevant documentation, such as AUD and CMP’s charters, policies and procedural manuals, risk assessment materials and a selection of AUD and CMP audit engagements completed during 2019 and 2020. The scope period of the peer review was December 1, 2017 through August 7, 2020.

The IIA assessment definition for Generally Conforms is that AUD and CMP have a charter, policies and processes that are in conformance with the IIA Standards. Some opportunities may be noted. The GAGAS definition for a peer review report rating of pass is that a system of quality control has been suitably designed and complied with to provide AUD and CMP with reasonable assurance of performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects.

The firm also provided TxDOT management and the Audit Subcommittee a report of findings and recommendations for improvements to AUD and CMP, which was presented to the Audit Subcommittee on September 23, 2020. AUD and CMP have prepared and are implementing action plans to address the continuous improvement opportunities identified in the firm’s report. Key themes from the firm’s assessment report are included in the table below.

AUD’s and CMP’s strengths identified	Improvement opportunities
<ul style="list-style-type: none"> ▪ AUD and CMP are viewed as independent, objective, professional and competent ▪ AUD and CMP Division Directors and the Chief Audit and Compliance Officer are well-respected and considered to be knowledgeable of TxDOT’s business ▪ Stakeholders appreciate AUD’s and CMP’s flexibility with annual audit plans ▪ AUD and CMP staff understand AUD’s and CMP’s strategies and how they align with TxDOT’s mission and objectives ▪ AUD and CMP staff believe that they receive effective training, communications, guidance and coaching from their leaders 	<ul style="list-style-type: none"> ▪ Consider increasing the number of IT audit activities ▪ Continue to invest in technology and analytics to drive efficiency, risk coverage and enhanced reporting and communications ▪ Promote coordination between risk management activities undertaken by various Divisions, including assessment of roles and responsibilities of the risk and compliance functions ▪ Increase visibility of succession planning and long-term career development within AUD and CMP ▪ Evaluate whether AUD should add advisory/consulting services to its mandate (currently only in CMP’s mandate)

The firm reported that the assessment ratings do not represent a conclusion on the adequacy or effectiveness of internal controls, nor do any of the ratings constitute legal opinion, advice or services.

V. Internal Audit Plan for Fiscal Year 2022

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:

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

- Governance and Third-Party Monitoring – Oversight and validation frameworks and activities designed to ensure quality and promote accountability.
- Program Optimization – Programs and processes designed to support strategic goals and ensure cost-effectiveness.
- Asset Management and Recovery – Oversight of agency assets designed to maintain fiscal accountability and stewardship.
- Information Technology and Cyber Security – Processes and activities designed to protect information systems and data contained within.
- Recurring – Programs, processes, and/or activities that are evaluated on a routine basis.
- Management Action Plan Follow-Up Evaluations – High-risk activities that are evaluated to determine mitigation of residual risks identified during a previously issued audit.
- Contingency – Potential areas of coverage to consider based on resource efficiencies.

Audit Plan FY 2022

Internal Audit Division

Governance and Third-Party Monitoring (6)	Budgeted Hours
Construction Project Payments Review and Approval	3,874
Title VI Goal Setting and Reporting Process	1,783
Toll Operations - Back Office Operations	1,783
Material Maintenance Contracts	1,783
Maintenance Contract Change Order Scope and Classification	1,783
Grant Management - Aviation	1,783

Program Optimization (3)	Budgeted Hours
Letting Management Effectiveness	1,783
Professional Engineering Budget Management	1,783
Policy Governance	1,119

Asset Management and Recovery (4)	Budgeted Hours
Equipment/Asset Make-Ready	1,783
Materials Testing - Shared Lab Equipment	1,119
Accounts Receivable - Damage Claims	1,783
Facilities Management System	1,783

Information Technology and Cyber Security (3)	Budgeted Hours
Data Management: Data Retention, Privacy, Disposal, and Management of Secure Data (PII)	1,783
Patch Management	1,119
IT Hardware Management	1,783

Recurring (4)	Budgeted Hours
PEPS Rate Negotiations	1,783
Inventory Management - Cycle Counts	1,783
Public Funds Investment Act	1,119
Toll Facilities - Federal Reporting	1,119

Management Action Plan (MAP) Follow-Up	Budgeted Hours
Engagements to determine mitigation of risks previously communicated (increase will occur as new findings and MAPs identified)	8,608

Contingency (5)
Contracted Bridge Inspections - Quality Assurance/Quality Control Reviews
Contract Administration - Closeout Phase
PCard Support Evaluation
Access Management - Servers and Databases
Right of Way Acquisition and Disposition

Summary – Internal Audit	Budgeted Hours
Governance and Program Management	12,789
Program Optimization	4,685
Asset Management and Recovery	6,468
Information Technology and Cyber Security	4,685
Recurring	5,804
Management Action Plan (MAP) Follow-Up	8,608
Total Hours:	43,039

VI. External Audit Services Procured in Fiscal Year 2021

No External Audit Services were procured by the Internal Audit Division during Fiscal Year 2021.

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)

- 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>
- 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 State Auditor’s Office, as needed