



FY 2020 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.

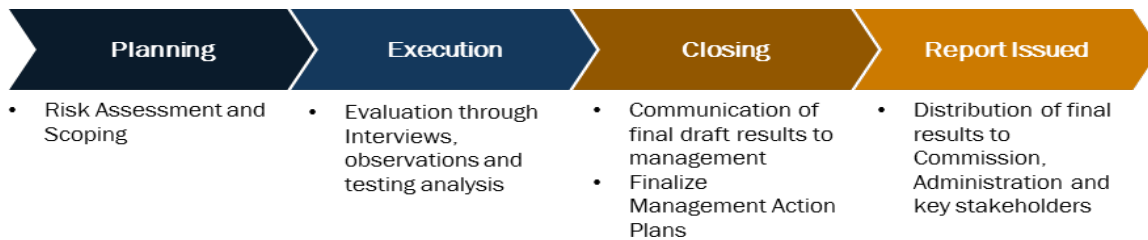
The requirements are met by posting the approved documents at the following link:

<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) 2020 Annual Audit Report.

II. Internal Audit Plan for Fiscal Year 2020

PHASES OF THE AUDIT/CONSULTING SERVICES CYCLE



Reports Issued

Report Number	Report Date	Report Name	Audit Service
LS2002	5/2020	Americans with Disabilities Act (ADA) Goal Setting & Reporting	Internal Audit
LS2003	4/2020	Independent Financial and Information Security Assessment Reports	Internal Audit
SP2001	8/2020	Information Technology (IT) Operations Assessment	Internal Audit
LS2001	2/2020	Professional Engineering Procurement Services (PEPS) Prime Provider Performance Monitoring	Internal Audit
LS2008	5/2020	Performance Measures	Internal Audit
FS2001	8/2020	Physical Security	Internal Audit
LS2005	12/2019	Post Implementation – Travel and Expense Module	Internal Audit
LS2009	5/2020	Project Prioritization Portfolio Analysis Tool	Internal Audit
LS2004	12/2019	Public Funds Investment Act	Internal Audit
LS2006	12/2019	Third-Party Website Administration	Internal Audit
LS2013	8/2020	Toll Facilities - Federal Reporting	Internal Audit
MP2017	8/2020	Bridge Inspections	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
MP2018	8/2020	Disadvantaged Business Enterprise (DBE) and Historically Underutilized Business (HUB) Management and Reporting	MAP Follow-Up

MP2011	5/2020	Fleet Utilization	MAP Follow-Up
MP2004	5/2020	Grants – Traffic Safety Monitoring	MAP Follow-Up
MP2007	8/2020	Interagency Contract Process	MAP Follow-Up
MP2024	8/2020	Local Government Project Agreements	MAP Follow-Up
MP2012	5/2020	Materials Quality Assurance – Utility Projects	MAP Follow-Up
MP2006	5/2020	Materials Quality Monitoring/Quality Assurance	MAP Follow-Up
MP2019	8/2020	PEPS Consultant Procurement Process	MAP Follow-Up
MP2015	8/2020	Physical and Cycle Count Inventory Procedures	MAP Follow-Up
MP2001	5/2020	Preventive Maintenance – Equipment & Fleet	MAP Follow-Up
MP2014	8/2020	Printing Program	MAP Follow-Up
MP2003	5/2020	Statement of Cost Issuance and Collection	MAP Follow-Up
MP2013	5/2020	Surplus Property Management	MAP Follow-Up
MP2023	8/2020	Third-Party Website Administration	MAP Follow-Up
MP2020	8/2020	Unified Transportation Program Category Funding	MAP Follow-Up
MP2005	5/2020	Work Zone Safety – State-Let Construction Contracts	MAP Follow-Up

Detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the FY20 Audit Plan or Annual Audit Report are as follows:

- 11 internal audits were completed and issued during FY 2020.
 - 17 findings were identified that included 34 control design and/or operating effectiveness deficiencies as noted below:
 - 17 control design
 - 17 operating effectiveness
- 22 management action plan (MAP) follow-up engagements were also completed during FY 2020. The results of those engagements to determine whether previously communicated risks have been mitigated are as follows:
 - 100 closed MAPs – corrective actions have been completed
 - 40 open MAPs – corrective actions require completion to address identified risk from the original audit

Deviations from FY 2020 Planned Audits

Continuous evaluation of the audit plan, based on risks identified, resulted in the modification of the FY 2020 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
LS2018	Campus Consolidation	Audit Added
SP2001	Information Technology (IT) Operations Assessment	Audit Added
Not Assigned	Data Classification	Audit reassessed as part of risk assessment for FY 2021
Not Assigned	Data Management	Audit reassessed as part of risk assessment for FY 2021
LS2010	Facilities and Asset Management System (FAMIS) Efficiency	Audit reassessed as part of risk assessment for FY 2021
FS2002	IMD Contract Management – FY 2020 Contracts Implementation	Audit reassessed as part of risk assessment for FY 2021
Not Assigned	Post Implementation - Modernize Portfolio and Project Management	Audit reassessed as part of risk assessment for FY 2021
LS2016	TxDOT Business Impact Analysis	Audit reassessed as part of risk assessment for FY 2021
LS2002	Title VI & Americans with Disabilities Act (ADA) Goal Setting and Reporting Process	Name changed to "Americans with Disabilities Act (ADA) Goal Setting and Reporting"
LS2003	Service Organization Control (SOC) 1 & 2 Compliance	Name changed to "Independent Financial and Information Security Assessment Reports"
LS2017	Lease Accounting Implementation	Name changed to "Lease Accounting Inventory Assessment"
LS2007	Advertising Effectiveness	Name changed to "Media Campaign Management"
LS2001	Professional Engineering Procurement Services (PEPS) Contractor Performance Monitoring	Name changed to "PEPS Prime Provider Performance Monitoring"
LS2006	Construction Project Website Administration	Name changed to "Third-Party Website Administration"

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 2016 – FY 2020.

Report Number	Report Date	Report Name	Audit Service
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
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	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

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 2021

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
- 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 37 risk-based audit engagements. The audit engagements are divided into eight areas of focus and coverage, as follows:

- Program and Third-Party Monitoring – Activities designed to ensure quality and promote accountability.
- Governance and Program Management – Oversight and validation of frameworks designed to ensure standardization.
- Project Development – Processes that contribute to planning and setting expectations for quality.
- Recurring – Programs, processes, and/or activities that are evaluated on a routine basis.
- Program Optimization – Programs designed to improve operations, while focusing on efficient and disciplined resource management.
- Carryovers in Closing Phase – Engagements not completed in FY 2020.
- Management Action Plan (MAP) Follow-Up – Evaluation to determine mitigation of risks previously communicated.
- Contingency – Potential areas of coverage to consider based on resource efficiencies.

Audit Plan FY 2021

Internal Audit Division

Program and Third-Party Monitoring (4)	Budgeted Hours
Materials Testing – Soils and Aggregate	3,400
Material Maintenance Contracts	1,460
Maintenance Project Payment Review and Approval	1,460
Campus Consolidation Phase II: Construction Payments and Transitional Preparedness	1,460

Governance and Program Management (5)	Budgeted Hours
User Access Management	1,460
Security Categorization	1,460
Title VI Goal Setting and Reporting	1,460
Lease Accounting Implementation	1,460
Facilities and Asset Management System (FAMIS)	1,460

Project Development (2)	Budgeted Hours
Local Government Project Pre-award	1,460
Plan Review & Bid Estimation Effectiveness	1,460

Recurring (6)	Budgeted Hours
Ferry Operations and Maintenance	1,460
Toll Facilities – Federal Reporting	1,460
Public Funds Investment Act	1,460
Accounts Receivable – Damage Claims	1,460
Information Security Program (TAC 202)	1,460
Policy Governance	1,460

Program Optimization (4)	Budgeted Hours
Post Implementation – Toll Operations Back Office System	3,400
Facility Management – Improvement Assessment, Selection, and Oversight	1,460
TxDOT Business Impact Analysis	1,460
Professional Engineering Procurement Services: Consultant Performance	1,460

Carryover Audit (6)	Budgeted Hours
Campus Consolidation Phase I: Invoice and Vendor Management	72
Lease Accounting Inventory Assessment	72
Media Campaign Management	71
Non-Contracted Bridge Inspections	71
Reporting Integrity: Maintenance Management System	71
Tuition Assistance Program	71

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)	9,178

Contingency (10)
Construction Project Payment Review and Approval
Grant Reimbursement – Public Transportation (Section 5311)
Disaster Recovery
Incident Response
Human Resources Operations: Performance Assessments
Peer Review Program Effectiveness
Performance Measures: Construction Projects
Rail Safety Inspection Program
Accounts Payable: Operations
PCard Support Evaluation

Summary – Internal Audit	Budgeted Hours
Program and Third-Party Monitoring	7,780
Governance and Program Management	7,300
Project Development	2,920
Recurring	8,760
Program Optimization	7,780
Carryover Audit	428
Management Action Plan (MAP) Follow-Up	9,178
Total Hours:	44,146

VI. External Audit Services Procured in Fiscal Year 2020

- No External Audit Services were procured by the Internal Audit Division during Fiscal Year 2020.

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