

TEXAS TRANSPORTATION COMMISSION

MINUTE ORDER

ALL Counties

ALL Districts

The Texas Internal Auditing Act, Government Code, Chapter 2102, requires the internal auditor to create an annual audit plan that is prepared using risk assessment techniques and that identifies the individual audits to be conducted during the year. The audit plan must be approved by the state agency’s governing board. In addition, the governing board must periodically review the resources dedicated to the internal audit program and determine if adequate resources exist to ensure that risks identified in the annual risk assessment are adequately covered within a reasonable time frame.

The Audit Office developed an Audit Plan for Fiscal Year (FY) 2011, which is set forth in Exhibit A. This audit plan was prepared by completing a risk assessment of the department’s functions; obtaining input from the district engineers, division directors, office directors and regional support center directors; discussing potential audit areas with members of the department’s administration; and seeking input from the Audit Subcommittee. This audit plan identifies the audits to be conducted and the resources available to the Audit Office for FY 2011. The Audit Office considers its resources for FY 2011 to be adequate to address the risks that warrant audit coverage. The Audit Subcommittee of the Texas Transportation Commission (commission) reviewed the audit plan, and on August 25, 2010 voted to recommend approval of the plan to the full commission.

The Audit Plan for FY 2011 is being presented to the commission for approval and a determination that adequate resources exist to ensure that the risks identified are adequately covered.

IT IS THEREFORE ORDERED by the commission that the Audit Plan for FY 2011, as shown in Exhibit A, is hereby approved.

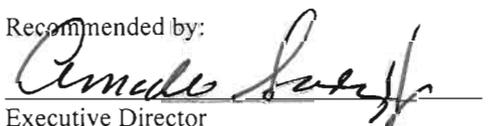
FURTHER, the commission finds that adequate resources have been dedicated to the internal audit program in order to ensure that the risks identified in the annual risk assessment are covered within a reasonable time frame.

Submitted and reviewed by:



Audit Director

Recommended by:



Executive Director

112390 AUG 26 10

Minute
Number

Date
Passed

Exhibit A

Audit Plan for Fiscal Year 2011

TxDOT – Audit Office

Introduction

This is the Audit Plan for FY 2011. It was developed by the Audit Office. This plan includes the planned routine internal audits, projected external audits and the Audit Office resources for FY 2011. The intent is to distribute this plan statewide after it is approved. Of course, audits can be conducted upon request at any time. This plan also includes the planned coverage by the district, division and region internal auditors for FY 2011.

Internal Audit

Internal Audit uses an interactive planning process to develop the annual internal audit plan. This process is part of our compliance with the intent of the Appropriation Rider for Internal Audit. The intent of the Rider was to ensure that district, division and region internal auditors have the independence to audit significant issues in their districts, divisions and regions, and that the audit results are reported to the commission.

The planning process is used to identify high risk areas (those where an audit will provide maximum benefit to the department) and includes:

- Completing a risk assessment of all department functions,
- Obtaining input from the district engineers, division directors, office directors and regional support center directors,
- Discussing potential audit areas with members of the administration and seeking input from the Audit Subcommittee and the commission.

The routine internal audits planned for FY 2011 are not presented in priority order. We initiate new audits based on staff availability and experience. Special audits and management directed reviews (MDRs) will be performed as approved by the executive director or a commissioner. We will continue to provide quarterly status reports on internal audit activities to the commission.

Internal auditors also provide management support services, including: participation on information system development projects and other special projects, review of draft policies and procedures, and coordination of audits conducted by the State Auditor's Office and others.

The routine internal audit plan is provided below.

Audits Carried Over from FY 2010

TPP	Funding Allocation Formulas and Data (1101)
CST	Materials and Testing (1201) (<i>this audit was suspended in FY 2010 and will be restarted in FY 2011</i>)

Exhibit A

Routine Audits Planned for FY 2011

1101	Districts – Letting and Programming
1105	ENV – Environmental Program
1107	Implementation of CDAs in DAL/FTW
1303	GSD – After Hours Use of Vehicles
1407	PTN – Centralization of Public Transportation Function
1501	RSC – Regionalization

Note, when these audits are initiated, input is solicited from the Administration, General Counsel and the Audit Subcommittee to help establish the scope and objective.

Status of Audit Recommendations

The Audit Office will continue to follow up on audit findings and recommendations using the process that was initiated last year. We will request information from the auditee on the corrective actions taken to address the findings and recommendations at the time those actions are scheduled to be implemented. If the appropriate corrective actions have not been taken or a response is not provided, this information will be reported to the administration. We will also report this to the commission on an annual basis.

External Audit

The number of audits projected for FY 2011 is not expected to deviate significantly from the number performed in FY 2010. The audit exception percentage agreement with the BNSF Railway Company is still in effect, allowing us to go forward for future use of their error ratio to close their projects as the final bills are received by the department for payment. We plan on auditing another sample of projects for both the BNSF Railway Company and the Union Pacific Railroad Company in the coming year with the intent to establish new audit exception percentages for use in closing out future projects with these railroads.

In FY 2011, we plan to continue with our present allocation of resources to the audit of consultant engineering contracts. We will continue with our single audit approach in providing audit coverage to these consultant engineering contracts. We also plan to continue to perform the in-depth review of the audit work performed by CPAs of the consultants' indirect cost rates. We will continue with this practice as is currently being accomplished. This involves performing the audit work paper review as soon as possible after receipt of the CPA's audit report in our office rather than delaying the review until we are ready to perform the contract audit at the consultant's office. This will help to resolve issues that may arise since the audit work that was performed by the CPA will still be fresh on the mind of the CPA.

In FY 2010, we devoted a sizeable amount of audit coverage to the regional mobility authorities (RMAs). Additional review work in this area will probably not be performed in FY 2011 unless a further need arises.

Exhibit A

The audit coverage for FY 2011 is expected to include about 352 contracts totaling in excess of \$300 million in billed costs and generating approximately \$950,000 in audit exceptions. We estimate that 25 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 (OMB Circular A-133) that will give audit coverage to approximately \$250 million in grant expenditures. The number of Single Audit Reports that we will need to obtain will increase considerably over the prior fiscal year due to several factors. One of these factors is the reclassification of the aviation contractors from being considered as vendors to the classification of subrecipients. Also, the enhancements are now being considered as a pass through to subrecipients instead of a vendor relationship. Also, the closing of certain railroad/highway crossings has resulted in additional pass through funding requiring single audit coverage in some cases. Each year we complete a compliance review on one third of these single audits.

The contracts for which we expect to provide audit coverage are detailed as follows:

Consultant Engineers Contracts/Subcontracts (12 Prime Consultants)	12
MPOs	5
Research and Miscellaneous	4
Railroads (Site and Desk Audits)	80
Railroads (Utilizing an Exception Error Ratio)	30
Traffic Safety	10
Transportation Projects	4
Utilities	140
Pre-Negotiation Reports	30
Cost Evaluations	5
Administrative Qualifications	30
Overheads	<u>2</u>
Total	352

Audit Office Resources for FY 2011

The Audit Office is allocated 25 FTEs for FY 2011. There will be two vacancies at the beginning of the fiscal year but it is anticipated that these two vacancies will be filled during the year. The budget for the Audit Office is expected to be about \$1.6 million. The FTEs will be arranged within the Audit Office as follows:

External Audit	8
Internal Audit	16
Director	1

The Audit Office spends over 80% of available time on audits, MDRs and special assignments. The remaining time in both sections is used for administrative tasks and training.

Exhibit A

According to the Texas Internal Auditing Act, it is the governing board's responsibility to conclude whether resources are adequate to address the identified risks. Specifically, the Act requires the governing board of a state agency to periodically review the resources dedicated to the internal audit program and determine if adequate resources exist to ensure that risks identified in the annual risk assessment are adequately covered within a reasonable time frame.

Our resources (FTEs and operating budget) are adequate to address the high risk areas that warrant audit coverage. Ultimately, we cannot address every risk area. It is important for the commission and executive management to understand the limitations of the audit coverage and the attendant risks for areas not audited. We believe the proposed projects listed in this plan allocate audit resources to the most important priorities and risks of the agency while allowing flexibility to address other risk areas that may become known during the year.

District, Division and Region Audit Plans

The planned coverage for the district, division and region internal auditors is based on our summaries of their individual audit plans. The Audit Office coordinates with the district, division and region internal auditors to ensure that coverage is as complete as possible without duplication of effort and the Audit Director approves these audit plans. District, division and region audit plans provide the flexibility for audit coverage that is unique to the local area. The audits of the districts, divisions and regions are submitted to the Audit Office and summaries are reported quarterly, along with internal audit activities, to the commission.

The planned coverage for the districts, divisions and regions and the Audit Office is provided on the following page.

