

EXHIBIT 2.b.

TEXAS TRANSPORTATION COMMISSION

ALL Counties

MINUTE ORDER

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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.

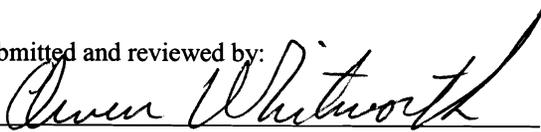
The Audit Office developed an Audit Plan for Fiscal Year (FY) 2012, which is set forth in Exhibit A. This audit plan was prepared by completing a risk assessment of the department's functions; obtaining input from the district engineers, division directors, office directors and regional support center 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 2012. The Audit Office considers its resources for FY 2012 to be adequate to address the risks that warrant audit coverage.

The Audit Plan for FY 2012 is being presented to the Texas Transportation Commission (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 2012, as shown in Exhibit A, is hereby approved.

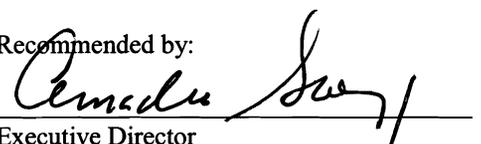
FURTHER, the commission finds that adequate resources have been dedicated to the internal audit program in order to ensure that the risks identified in the annual risk assessment are covered within a reasonable time frame.

Submitted and reviewed by:



Audit Director

Recommended by:



Executive Director

**112787 AUG 25 11**

Minute  
Number

Date  
Passed

## **Exhibit A**

### **Audit Plan for Fiscal Year 2012**

#### **TxDOT – Audit Office**

#### **Introduction**

This is the Audit Plan for FY 2012. It was developed under guidance from the Audit Director. This plan includes planned routine internal audits and projected external audits to be performed by headquarters staff, and the planned routine internal audit coverage for the districts/divisions/regions (D/D/Rs). The plan also includes the audit resources for FY 2012. The intent is to distribute this plan department-wide after it is approved. Audits can be added to the plan upon request. Changes to the plan are communicated to the audit sub-committee on a monthly basis.

#### **Headquarters Internal Audit**

Headquarters staff uses an interactive planning process to develop the annual internal audit plan. 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 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 sub-committee and the commission

The routine statewide internal audits planned for FY 2012 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 as well as presenting the results of completed audits at the quarterly audit sub-committee meetings.

We will continue to follow up on audit findings and recommendations using the process that was initiated in 2010. 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 and the audit sub-committee on a monthly basis.

Internal auditors also provide management support services, including: department task force participation (reported to the audit sub-committee on monthly basis); 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 statewide internal audit plan is provided on the following page.

## Exhibit A

### Audits Carried Over from FY 2011

FIN	District Letting and Programming (1101-6)
Regions	Regionalization (1501-1)
ADM	Implementation of CDAs (1107-4)

### Routine Audits/Consulting Engagements Planned for FY 2012

1107	CDA – SH 130 Segments 5&6
1107	CDA - Consulting assignment for the development of future CDAs
1301	Multiple Use Agreements – Income generated for parking in right-of-way
1302	Purchase of Services
1305	Facilities Management
1403	Permit Operations – Transfer of program and management of remaining program
1501	Communication of policies and guidance
1501	Compliance of Executives and Division and Office Directors
1502	Toll Equity Oversight

In addition, TxDOT internal auditors will continue to support TxDMV with audit services until the TxDMV auditor position can be filled. These services will include routine inventory audits of titles, tags, etc., located statewide at TxDMV offices and special requests made by the TxDMV Executive Director to the TxDOT Executive Director. The initiation of such an audit will be reported to the administration and the audit sub-committee on a monthly basis. The result of audits will be communicated directly to the TxDMV Executive and the completion of the assignment will be reported to the administration and the audit sub-committee.

### **Headquarters External Audit**

The number of audits projected for FY 2012 is not expected to deviate significantly from the number performed in FY 2011. The audit exception percentage agreement with the BNSF Railway 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. We have a number of short-line railroad projects requiring a final audit which we will attempt to close out using our desk audit procedures.

In FY 2012, 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 site audit coverage to these consultant engineering contracts. We also plan to continue our site visits to the offices of the CPA firms to perform the in-depth review of the audit work performed by CPAs as the starting point in our audit visit. The adequacy of the work that was performed by these CPAs will determine the extent of the work that will be required when we visit the consultant's office.

The audit coverage for FY 2012 is expected to include about 529 contracts totaling in excess of \$325 million in billed costs and generating approximately \$950,000 in audit exceptions. We estimate that 40 consultant engineering firms will submit CPA overhead audit reports which we will evaluate for administrative qualification requirements. Additionally, we will receive approximately

## Exhibit A

300 CPA Single Audit Reports on local governments and non-profit organizations 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 decrease somewhat from the prior fiscal year due to the number of Aviation entities not being required to submit a Single Audit Report. Each year we complete a compliance desk review on one third of all Single Audits. We also monitor the submission of audited financial reports from the Regional Mobility Authorities. The contracts for which we expect to provide audit coverage are detailed as follows:

Consultant Engineers Contracts/Subcontracts (10 Prime Consultants)	10
Metropolitan Planning Organizations	8
Research and Miscellaneous	4
Railroads (Site and Desk Audits)	70
Railroads (BNSF Projects Utilizing Existing Exception Error Ratio)	30
Railroads (UP Projects Utilizing an Anticipated Exception Error Ratio)	180
Traffic Safety	6
Transportation Projects	4
Utilities	140
Pre-Negotiation Reports	30
Cost Evaluations	5
Administrative Qualifications	40
Overheads	<u>2</u>
Total	529

### District, Division, and Region Internal Audit Plans

The planned coverage for the D/D/R internal auditors is based on our summaries of their individual audit plans. The headquarters auditors coordinate with the D/D/R internal auditors to ensure that coverage is as complete as possible without duplication of effort and the Audit Director approves these audit plans. D/D/R internal audit plans provide the flexibility for audit coverage that is unique to the local area. The audits of the D/D/Rs are submitted to the Audit Director and summaries are reported quarterly, along with internal audit activities, to the commission. Agency wide planned internal audit coverage is provided on the following page.

### Exhibit A

# of Auditors available	Districts																	Divisions						Regions				HQ									
	1	1	1	1	1		1	1	1	2	1	2	2	1	1	1	1		1	2	1	1	1	1	1	1	1	1	1	1	1	1	14				
Functional Area	A	A	A	A	B	B	B	C	C	D	E	F	H	L	L	O	P	P	S	S	T	W	W	Y	C	F	G	M	R	T	T	T	N	S	E	W	A
	B	M	T	U	M	W	R	H	R	A	L	T	O	R	B	F	D	A	H	J	A	Y	A	F	K	S	I	S	N	R	S	R	P	R	R	R	R
	L	A	L	S	T	D	Y	S	P	L	P	W	U	D	B	K	A	R	R	T	T	L	C	S	M	T	N	D	T	D	D	F	P	C	C	C	C
101 Transp Planng & Programm																																					
102 Preliminary Engineering																																					
103 Project Design																																					
104 Right of Way																																					
105 Environmental Affairs Mgmt																																					
106 Research																																					
107 Comprehensive Dev Agrmts																																					
201 Construction																																					
202 Aviation																																					
301 Maintenance Operations																																					
302 Purchasing and Contracting																																					
303 Equipment Management																																					
304 Traffic Operations																																					
305 Facilities Management																																					
306 Intracoastal Waterways																																					
401 TxDMV inventory**																																					
403 Permit Operations																																					
404 Motor Carrier Operations																																					
405 Travel and Info Services																																					
406 Traffic Safety Program																																					
407 Multimodal Trans & Toll Auth																																					
408 Rail																																					
501 Governance Compliance																																					
502 Financial Management																																					
503 Human Resource Mgmt																																					
504 IT usage compliance																																					

Note: The coverage shown above for districts, divisions and regions (D/D/R) was compiled from D/D/R individual audit plans approved by the Audit Director

 Auditor position vacant or auditor on military leave. Districts with auditor on military leave will coordinate assignments through the Region Auditor

 Some coverage is planned in this functional area - scopes of individual audits vary widely.

\* CST, MNT & TRF share one auditor; RRD & TPP share one auditor; GSD & TSD share one auditor

\*\* TxDOT D/D/R Audit Staff will continue to support TxDMV by performing annual inventory verification of titles, tags etc. at local TxDMV offices.

## Exhibit A

### Audit Resources for FY 2012

There are 62 FTEs allocated for FY 2012. The expected budget for the audit function is \$4.1 million. The FTEs will be allocated as follows:

Internal Audit	16
External Audit	8
D/D/R Internal Audit	37
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.

The Texas Internal Auditing 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 planned 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 manage 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.