Audit Subcommittee

Quarterly Meeting

Texas Department of Transportation

September 24, 2025

1. GREER BUILDING SAFETY VIDEO

STATE
HIGHWAY
BUILDING

3. FINANCIAL MANAGEMENT

Megan Lowary, Accounting Section Director, Financial Management Division

3. FY 2025 Engagement Plan

An advisory service engagement was conducted by the Compliance Division's (CMP) External Audit & Advisory Services Section per the Financial Management Division's (FIN) direction. Testing was pursuant to revised "Spirit of SOX" methodology approved in March 2014 to provide better financial statement assurance at a reduced cost.

Objectives of SOX testing:

• Strengthen internal control over financial reporting.

• Communicate the effectiveness of internal controls over financial reporting.

• Provide assurance regarding the adequacy of internal controls over financial reporting.

• Meet *Spirit of SOX* requirements as directed by the commission.

3. Sarbanes-Oxley (SOX) 2025 Key Controls Testing

CMP performed an advisory service engagement for FIN during fiscal year 2025.

Key control testing engagement:

- FIN selected 11 key controls for effectiveness testing performed by CMP.

- Testing was performed from May 2025 through August 2025, using data from September 2024 to May 2025.

- CMP communicated the operating effectiveness of each control to FIN at the conclusion of the engagement.

- CMP internally distributed a final report on the engagement in August of 2025.

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3. Testing Results

Conclusion:

- **10 out of 11 controls (91%)** were found to be appropriately designed and operating effectively. This is consistent with fiscal year 2024.

- **Small portion of one financial control** was determined to have an ineffective design.

  - Project underway to enhance control during fiscal 2026.

  - The control does not affect the accuracy or reliability of TxDOT's financial statements.

- **All general IT controls** tested were designed and operating effectively. Areas tested include controls related to program changes, system back-ups, and physical access.

3. Controls Tested Results

Control ID	Control Name	Results	Control ID	Control Name	Results
FE-C1	Capital Asset Reconciliation	Pass	GCC-C7	Restricted Data Center Access	Pass
PP-C4	Verification of TTC Project Approval Prior to Setup	Pass	PTTP-C6	Pass Through Toll Voucher Approvals	Pass
PP-C5	Vendor Prequalification Reviews	Pass	C-C5	Monthly Cash Reconciliation	Pass
VP-C2	SiteManager Estimate Approvals	Pass	PSIT-C3	Segregation of Duties – Voucher Entry and Approval	Pass
GCC-C4	Change Requests are Authorized, Tested and Approved	Pass	RE-C10	Submodule Reconciliations to the General Ledger	Fail
GCC-C14	Regularly Schedule Backups	Pass			

3. FY 2026 Engagement Plan

Spirit of SOX FY 2026 Engagement:

• FIN will perform a risk assessment to determine high risk processes that impact financial reporting.

• FIN will determine which controls should be tested during fiscal year 2026 with additional input from CMP.

• CMP will perform control effectiveness testing after the first three quarters of fiscal year 2026 (September 1, 2025 through May 31, 2026).

• FIN will continue to work with CMP during fiscal year 2026 to identify opportunities to enhance key controls over financial reporting.

September 24, 2025

5. AUDIT AND COMPLIANCE STRATEGY

Parsons Townsend, Chief Audit and Compliance Officer

5.a. Audit and Compliance Strategy

<u>Vision:</u> *To be a trusted partner delivering impactful risk-focused assurance that strengthens trust and supports the department's achievement of goals.*

<u>Internal Audit Mission:</u> *Strengthen the department's ability to create, protect, and sustain value by providing the Texas Transportation Commission and management with independent risk-based and objective assurance, advice, insight, and foresight.*

<u>Compliance Mission:</u> *Assist TxDOT's management in accomplishing its mission and objectives by emphasizing a culture of ethical conduct, accountability, and organizational integrity and is designed to prevent, detect, and respond to serious breaches of fraud, waste, and abuse of public office.*

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5.a. Audit and Compliance Strategy

Prior Strategic Goals

- Enhance audit effectiveness and efficiency by establishing a dedicated data analytic team within Internal Audit.

- Strengthen fraud data analysis to improve early detection and prevention of fraud within Compliance.

- Establish a dedicated IT internal audit team with experience and skills associated with assessing cybersecurity, data governance, and IT controls.

- Perform targeted outreach efforts by Compliance to build a culture of awareness and accountability by educating employees on fraud risks and promoting ethical behavior.

New Strategic Goals

- Advance professional competence and capabilities through certification and reward systems.

- Mature data analytics program and improve risk insights and coordination.

- Improve stakeholder risk reporting and storytelling through actionable communications.

Metrics

- Frequency of compliance checkpoints with the business

- Turnover of key positions (data analytics, CIA, leads)

- The number of audits completed on time

- Participation in development program

- Percentage of audits with established KRIs at closeout

- Percentage of compliance projects kicked off based on real-time analysis from KRIs

- Frequency high exposure risks are identified in engagements

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5.b. Performance Measures and EQA Plan

Internal Audit & Compliance Performance Measures

External Quality Assessment (EQA) Plan

Purpose

Key Outcomes

Reporting

Purpose

Frequency & Scope

Assessor Qualifications

Reporting

These measures reflect a commitment to transparency, integrity, and performance in support of TxDOT's mission and stewardship responsibilities.

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6. COMPLIANCE

Cheryl Durkop, Division Director

Texas Department of Transportation

6.a. Summary of Investigations – FY 2025, 4th Quarter

Investigation Totals

Q4 / Previous Q

- Opened — 48 — ↑↓ 33%
- Closed — 40 — 7%

Closed Investigation Dispositions

- Substantiated — 21 (52%) — ↓ 30%
- Unsubstantiated — 19 — ↑ 46%

Closed Investigation Locations

- Districts — 36 — ↑ 16%
- Divisions — 2 — ↓ 75%
- Third party — 2 — ↓ 50%

HIGHLIGHTS

- Substantiated investigation rate at 52%.

- Investigations of significance:

  – Material/Process Inspector submitted falsified laboratory equipment calibration results.

  – Equipment Operator operating a private business building and maintaining gravel driveways and parking lots in TxDOT's Right of Way.
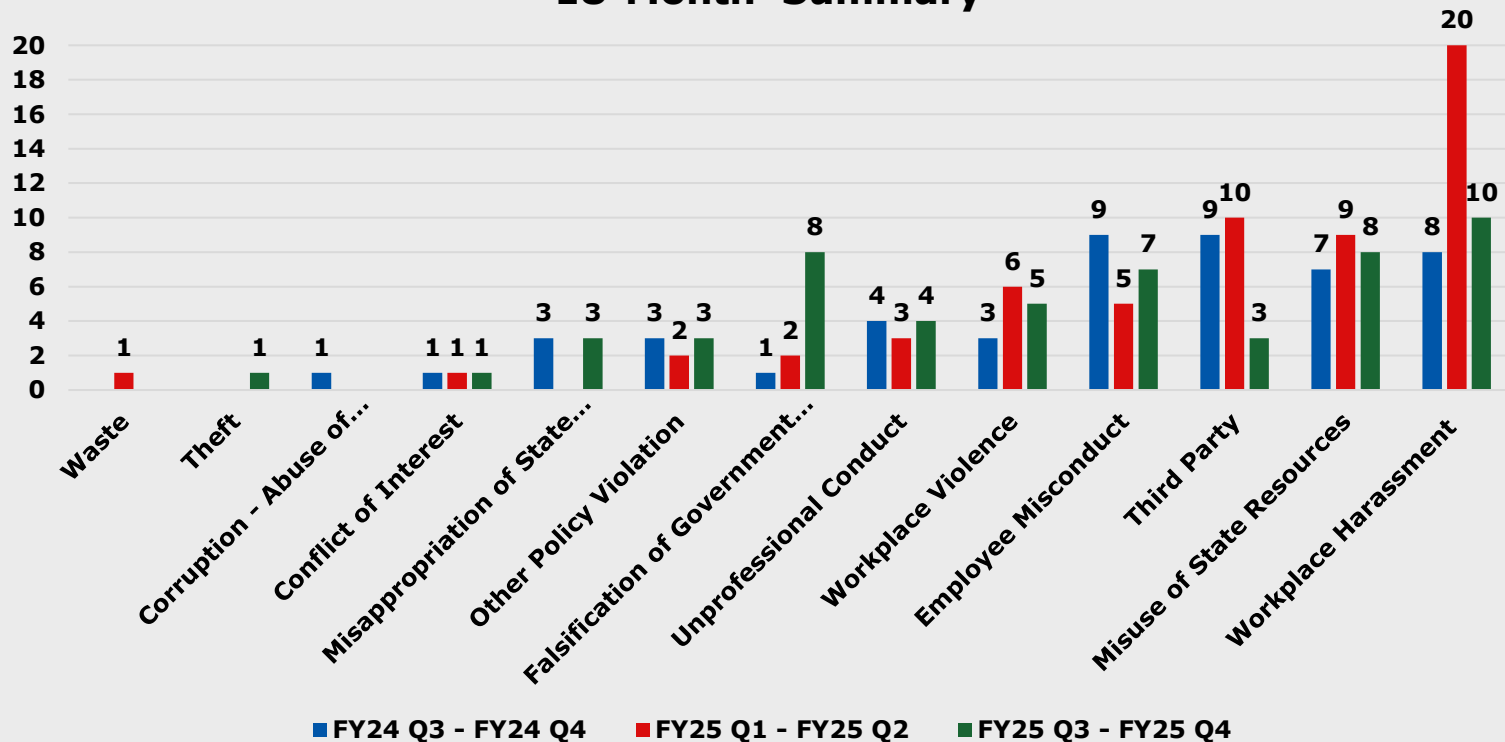
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6.a. Summary of Investigations – FY 2025, 4th Quarter

Outcome by Allegation Category

Legend: ■ Substantiated ■ Unsubstantiated
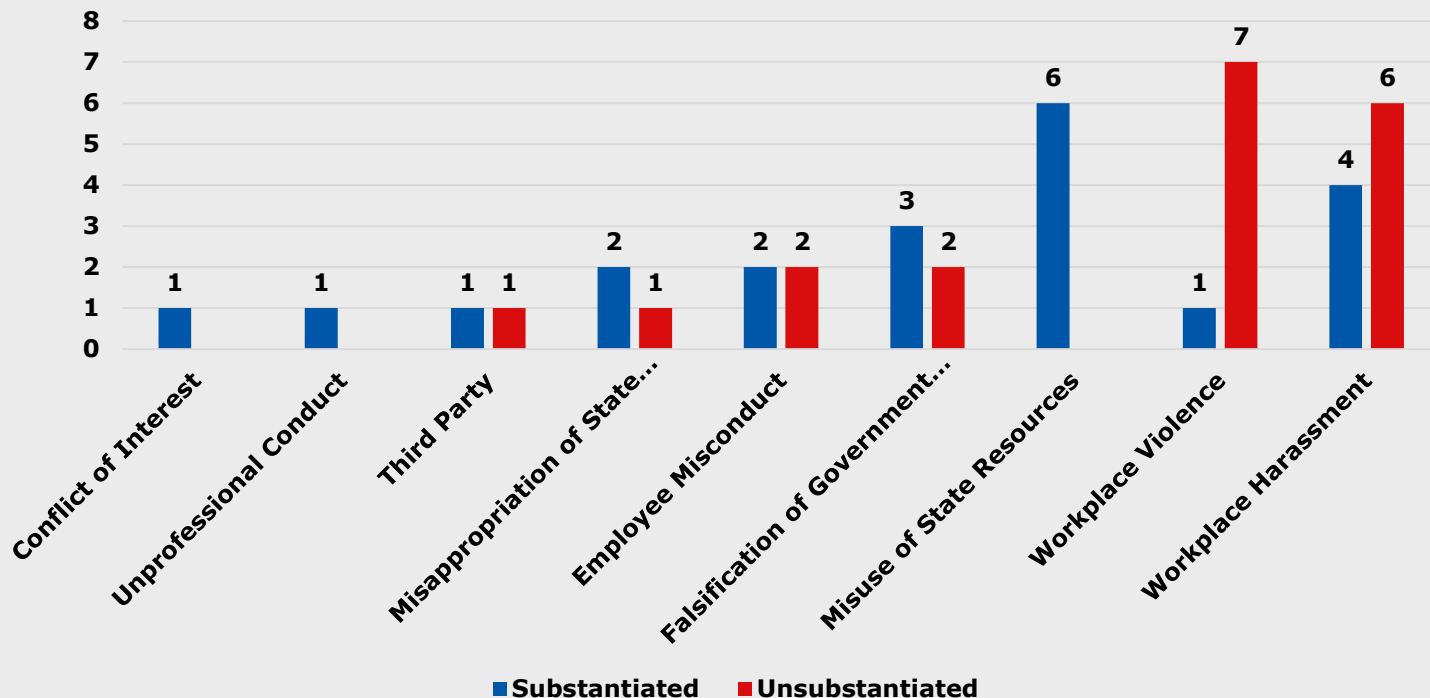
6.a. Summary of Investigations – 18-Month Summary

**Outcome by Allegation Category (Substantiated)
18-Month Summary**

Legend: ■ FY24 Q3 - FY24 Q4   ■ FY25 Q1 - FY25 Q2   ■ FY25 Q3 - FY25 Q4

Category	FY24 Q3 - FY24 Q4	FY25 Q1 - FY25 Q2	FY25 Q3 - FY25 Q4
Waste		1	
Theft			1
Corruption - Abuse of…	1		
Conflict of Interest	1	1	1
Misappropriation of State…	3		3
Other Policy Violation	3	2	3
Falsification of Government…	1	2	8
Unprofessional Conduct	4	3	4
Workplace Violence	3	6	5
Employee Misconduct	9	5	7
Third Party	9	10	3
Misuse of State Resources	7	9	8
Workplace Harassment	8	20	10

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6.b. FY 2026 Compliance Work Plan

Risk Assessment

- Based on the COSO and ACFE Fraud Risk Management Guide

  - Focused on fraud, compliance, and third-party risks
  - Considering TxDOT's stewardship responsibilities under federal and state requirements

- Incorporated:

  - Commission & Administration input

  - Division/District input

  - Objective risk factors

  - Department, industry, investigation, and internal audit trends

Top Risks

- Department third-party risk management, subrecipient grant management, conflict of interest, falsification of documentation.

6.b. FY 2026 Compliance Work Plan

External Audits

- Cameron County Regional Mobility Authority
- PTN Subrecipients – Public Transit Districts
- Union Pacific Railroad/Benesch
- Airport Improvement Program Subrecipient

Advisory Services/Grant Compliance Reviews

- Division Program Readiness– TPP/MPO Assistance
- Division Program Readiness – RRD - Railroad Grade Separation Program
- Non-Construction AFAs Managed by TPP
- LG Discretionary Grants on STIP

Annual Engagements

- BNSF Railroad 2024 Additive Rates
- SOX Key Control Testing
- Traffic Safety Grant Pre-Award Review
- Federal & State Single Audit Reviews
- MAP Follow Up Audit(s)

Compliance Engagements

- SB 312 Sunset Reviews
- 89th Legislature Action Plans Reviews
- Letting Maturity Reviews (AVN)
- Lab Equipment Inventory
- Inspector Certification Tracking
- Payment Integrity Review (IIJA Payments, Travel Payments)
- Control Self-Assessment (HRD)
- Continuous Monitoring Detection Program (Fuel Card Activities, MTD Duplicated Testing, P Card Transactions, Project Inspections)

Investigative & Outreach Activities

- Conducts fraud, waste, and abuse and other serious employment misconduct investigations
- Illegal Dumping program
- District (coffee with the crew) & Division outreach presentations
- Supervisor meetings, engineering operations meeting and area engineer meetings, TxDOT Conferences
- Third party outreach and training during TxDOT and industry conferences
- Quarterly District overtime/comp time reporting

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7.a. Internal Audit Report: District Audits

Audit Scope:	To evaluate common district operations that are performed or have impacts on many locations across each district.			Audit Type
Value to TxDOT:	Promotes continual awareness for mitigation of risks for everyday tasks.			Program Level

Fiscal Year	2025	2026	2027
# of Districts	8	12	5

Relevance: *TxDOT has 108 facilities and ~2K employees across Amarillo, Atlanta, Brownwood, Childress, Laredo, Lubbock, Pharr, and Wichita Falls.*

Approach: All facilities in each district had the below topics evaluated to assess if areas for improvement are needed and to convey to the District Engineer (DE) the status of these common daily district operations.

Topics

- Organization Tone - district employee morale, awareness, and level of engagement.
- Safety Procedures – meetings, hazardous materials awareness, fire prevention.
- Tagged Asset Inventory – monitoring of minor equipment.
- IT Bandwidth – assessing signal strength at each location.
- Cycle Counts – identifying physical inventory accuracy.
- Physical Security Walkthroughs – thoroughness for the assessment of each facility's conditions and security.
- Damage Claim Processing – evaluating for proper approvals, supporting documentation and rationale.
- Privacy Walkthroughs – identification of unsecured sensitive information and networking equipment.

Outcomes: *Direct conversations with DEs to help discuss prioritization for improvement opportunities for daily operations across the districts.*

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7.b. FY 2026 Internal Audit Plan Overview

- The Texas Internal Auditing Act, Government Code, Chapter 2102, requires the internal auditor to create an annual Internal Audit Plan **that is prepared using risk assessment techniques** and that identifies the individual audits to be conducted during the year.

- The fiscal year (FY) 2026 Internal Audit Plan consists of **24 risk-based audit engagements** aimed toward providing assurance, or where applicable recommendations regarding the **top 37% of risks** identified as a part of the annual risk assessment. The plan also includes **four carryover audits** not completed in FY 2025.

- The Chief Audit and Compliance Officer determined **adequate resources and budget exist** to ensure that risks identified in the annual risk assessment are adequately addressed within a reasonable time frame and **confirms to the board the organizational independence** of the internal audit activity.

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7.b. FY 2026 Risk Overview

Project Delivery

Processes that develop, fund, and/or execute transportation or vertical structure projects.

- Oversight of the on-system/off-system local government project agreements (1,562 active projects)

Financial Management & Asset Recovery

Programming and oversight designed to maintain fiscal accountability and stewardship.

- IT asset management of 14K active computers and 15K active mobile devices

Program Optimization

Programs and processes designed to support strategic goals, ensure productivity and cost-effectiveness.

- TxDOT responded to over 200 weather events between FY 2022 – 2024
- Assessing TxDOT knowledge of contracts

Information Technology & Cybersecurity

Processes and activities designed to support effective, innovative business practices and protect information systems and data contained within.

- Over 30 dashboards supporting the agency's key performance measures
- Artificial intelligence programs accelerating

Governance & Third-Party Monitoring

Oversight and validation frameworks and activities designed to ensure quality and promote accountability.

- Driving better efficiency and effectiveness for district operations
- Reliance on third-parties require effective monitoring and evaluation processes

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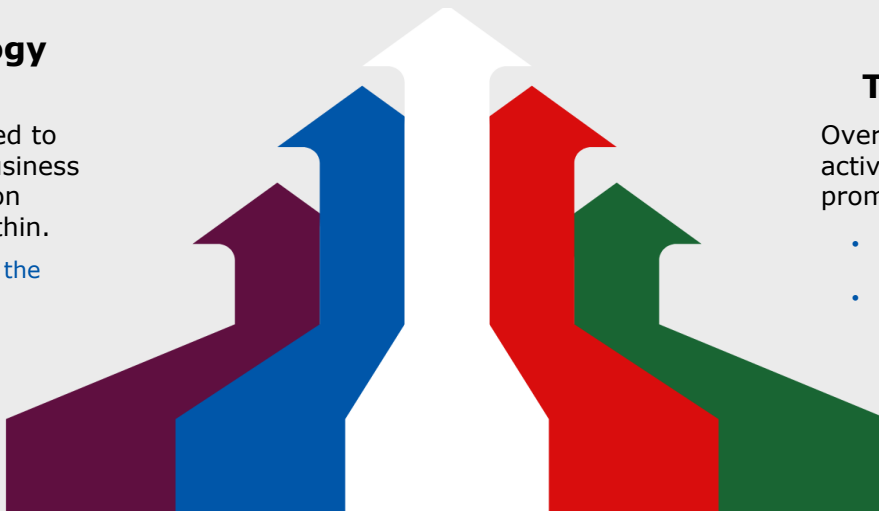
7.b. FY 2026 Internal Audit Plan (Grouped by Risk Theme)

Project Delivery (1)
- Local Government Project Oversight

Financial Management and Asset Recovery (2)
- Grant Management – Public Transportation
- IT Asset Management

Program Optimization (3)
- Emergency Operations Center Readiness
- Contract Administration: Review, Execution, Reporting
- TxDOT Business Continuity

Information Technology and Cybersecurity (3)
- Data Validation Review – Tableau Reporting
- AI Governance and Training
- ISP and Cybersecurity (TAC 202)

Governance and Third-Party Monitoring (8)
- Construction Change Order Price Justification
- District Audit III - VI
- State Safety Oversight Program
- Work Zone Safety – Contracted Traffic Control
- Construction and Maintenance Contractor Evaluations

Recurring (2)
- Toll Facilities – Federal Reporting
- Public Funds Investment Act

Carryover (4)
- Multiple Use Agreements
- Design-Build Project Payments
- Emergency Management
- Non-Contracted Bridge Inspections

Management Action Plan (MAP) Follow-Up Evaluations
- Evaluation of Priority 1 or 2 activities and sustained mitigation for closed MAPs

Contingency (5)
- Program Optimization
  - o Toll Operations – Back Office
  - o CEI Utilization
- Governance and Third-Party Monitoring
  - o Routine Maintenance Project Inspection
  - o Construction Material Deficiency Management and Oversight
- Information Technology and Cybersecurity
  - o Access Control

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