FY 2025
Annual Audit Report

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I. Compliance with Posting Requirements

Section 2102.015 of the Texas Government Code requires state agencies and institutions of higher education to post the Internal Audit Plan, Internal Audit Annual Report, and any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report, and a summary of the action taken by the agency to address 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:
www.txdot.gov/about/leadership/texas-transportation-commission/audit-subcommittee.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 Section II of the fiscal year (FY) 2025 Annual Audit Report.

II. Internal Audit Plan for Fiscal Year (FY) 2025

PHASES OF THE AUDIT/CONSULTING SERVICES CYCLE

Planning	Execution	Closing	Report Issued
• Risk Assessment and Scoping	• Evaluation through interviews, observations, and testing analysis	• Communication of final draft results to management • Finalize Management Action Plans	• Distribution of final results to Commission, Administration, and key stakeholders

Reports Issued

Report Number	Report Date	Report Name	Audit Service
LS2510	05/2025	Aviation – Flight Services	Internal Audit
FS2503	08/2025	Data Protection – Sensitive Personal Information (SPI) (Restricted)	Internal Audit
LS2501	08/19/25	District Audit I (Restricted)	Internal Audit
FS2501	08/2025	District Audit II (Restricted)	Internal Audit
LS2508	03/2025	District Local Letting	Internal Audit
LS2415	11/2024	Grant Management – Electric Vehicle	Internal Audit
LS2503	04/2025	Grant Management – Traffic Safety (Restricted)	Internal Audit
LS2416	03/2025	Letting Process Continuity (Restricted)	Internal Audit
LS2417	11/2024	Management of Fund Allocation for Port Improvements	Internal Audit
LS2504	08/2025	Prime Provider Evaluations	Internal Audit
LS2413	09/2024	Procurement of Temporary Employment Services Contracts	Internal Audit
LS2505	12/2024	Public Funds Investment Act	Internal Audit
LS2509	05/2025	Rail Project Management (Restricted)	Internal Audit
LS2511	08/2025	Readiness and Resilience – Ransomware (Restricted)	Internal Audit
LS2411	10/2024	Real Estate Acquisitions	Internal Audit
LS2506	05/2025	Shadow IT (Restricted)	Internal Audit
LS2507	04/2025	Ship Channel Improvement Revolving Fund (SCIRF)	Internal Audit
LS2412	09/2024	TAC 202 – Key Controls (Restricted)	Internal Audit
FS2502	08/2025	Timeliness and Proficiency of the Procurement Process	Internal Audit
LS2512	03/2025	Toll Facilities – Federal Reporting	Internal Audit
AG2403	11/2024	TX-RAMP Cloud Service Compliance Program (Restricted)	Internal Audit

Carryover to FY 2026 Audit Plan

Report Number	Report Name	Audit Service
LS2513	Design-Build Project Payments	Internal Audit
LS2502	Emergency Management	Internal Audit
LS2514	Multiple Use Agreements	Internal Audit
LS2515	Non-Contracted Bridge Inspections (Restricted)	Internal Audit

Detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the FY 2025 Audit Plan or Annual Audit Report are as follows:

- 21 internal audits were completed and issued during FY 2025.
  - 47 findings were identified that included 80 control design and/or operating effectiveness deficiencies as noted below:
    - 34 control design
    - 46 operating effectiveness
- 19 management action plan (MAP) follow-up engagements were completed during FY 2025. The results of those engagements were to determine whether previously communicated priority 1 or 2 risks have been mitigated and are as follows:
  - 25 closed MAPs – corrective actions have been completed.
  - 12 open MAPs – corrective actions require completion to address identified risk from the original audit.
- 85 lower risk management action plans (priorities 3 and 4) were self-reported by the business owner as completed in FY 2025.

Deviations from FY 2025 Planned Audits

Continuous evaluation of the audit plan, based on risks identified, resulted in the modification of the FY 2025 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
FS2503	Vendor Management – Data Protection and AI Risk Mitigation	Name Changed to "Data Protection - Sensitive Personal Information (SPI)"

III. Consulting Services and Other Activities

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 Audit Services

No External Audit Services were procured by the Internal Audit Division during Fiscal Year 2025.

V. External Quality Assurance Review (Peer Review)

October 13, 2023

Benito Ybarra
Chief Audit and Compliance Officer
Texas Department of Transportation
125 E. 11th Street
Austin, Texas 78701

Objective

The primary objective was to perform a peer review of the quality control system in effect for the Texas Department of Transportation, Audit and Compliance Division for 2023. Our review was conducted in conformity with the Peer Review Bylaws and other guidelines of the American Association of State Highway and Transportation Officials Standing Committee on Finance and Administration, Administrative Subcommittee on Internal and External Audit, along with those set forth under the U. S. Government Accountability Office's Government Auditing Standards (2018 Revision) and the IIA International Standards for the Professional Practice of Internal Auditing.

Scope

The scope of the review included:

- Questionnaires completed by various individuals in the Texas Department of Transportation
- Solicitation of comments from management of the areas audited, reviewed, or examined during the period under review concerning the scope, nature, and quality of services received.
- Interviews, as necessary, held with members of the senior management and auditing staff of the Texas Department of Transportation.
- A review of the Audit and Compliance Division's internal control system and the quality control policies, procedures, practices, and information used for managing the audit group.
- An examination of a sample of audits, reviews, or examination files completed during the review period sufficient to provide a reasonable basis to render an opinion with reasonable assurance of conforming with professional standards in the conduct of its work.
- Fieldwork conducted at the Texas Department of Transportation from June 26, 2023 through June 29, 2023.

Opinion

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Based on our review, it is the opinion of the Peer Review Team that the Texas Department of Transportation Audit and Compliance Division receives a Rating of Pass based upon the Peer Review Bylaws and other guidelines of the American Association of State Highway and Transportation Officials Standing Committee on Administration, Administrative Subcommittee on Internal and External Audit and those of the U.S. Government Accountability Office's Government Auditing Standards (2018 Revision).

Based on our review, it is the opinion of the Peer Review Team that the Texas Department of Transportation Audit and Compliance Division receives a Rating Generally Conforms based upon the Peer Review Bylaws and other guidelines of the American Association of State Highway and Transportation Officials Standing Committee on Administration, Administrative Subcommittee on Internal and External Audit and those set forth under International Professional Practices Framework issued by the Institute of Internal Auditors.

The expressed opinion implies that the organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.

As is customary in a peer review, we have issued a letter under this date that sets forth a comment that was not considered to be of sufficient significance to affect the opinion expressed in this report.

Vickie Murphy, Team Leader

Shane Young, for the Peer Review Panel

Texas Department of Transportation
Audit and Compliance Division
AASHTO Peer Review
Summary of Findings and Recommendations

Reportable Findings:

NONE

Letter of Comments:

NONE

Other Items for Consideration:

Item #1 – Advisory Services

GAGAS 3.64 states "Before auditors agree to provide a nonaudit service to an audited entity, they should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS engagement they conduct. In addition, GAGAS 3.74 states "Auditors should document consideration of management's ability to effectively oversee nonaudit services to be provided."

Audit and Compliance Division has two distinct groups; Internal Audit Division and Compliance Division. The Compliance Division provides advisory services to TxDOT. The Compliance Division audit focus is on external parties; therefore, they do not audit TxDOT. By having the Compliance Division provide the advisory services, they have mitigated any threats to independence. Although the treat is mitigated, they have not documented the consideration of the threat and the ability of management to oversee the advisory services.

We recommend:
Internal Audit Services ensure consulting engagements clearly document client expectations as well as the understanding of objectives, scope and respective responsibilities.

Management Response:

We appreciate the focus on ensuring risks of impairment are identified and mitigated. In this case, we believe the risks identified are not applicable.

- These engagements are performed by Compliance Division's External Audit section; not internal audit.
- Compliance Division's External Audit scope and focus is on external entities' operations; not internal/TXDOT operations.

With this in mind, the risk associated with internal audit's impairment of objectivity/independence is not applicable.

VI. Internal Audit Plan for Fiscal Year 2026

Risk Assessment

The Chief Audit and Compliance Officer performs 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 FY 2026 Internal Audit Plan consists of 24 risk-based audit engagements. The audit engagements are divided into eight areas of focus and coverage, as follows:

- Project Delivery – Processes that develop, fund, and/or execute transportation or vertical structure projects.
- Financial Management and Asset Recovery – Oversight designed to maintain fiscal accountability and stewardship.
- Program Optimization – Programs and processes designed to support strategic goals and ensure cost-effectiveness.
- Information Technology and Cybersecurity – Processes and activities designed to protect information systems and data contained within.
- Governance and Third-Party Monitoring – Oversight and validation frameworks and activities designed to ensure quality and promote accountability.
- Recurring – Programs, processes, and/or activities that are evaluated on a routine basis.
- Management Action Plan Follow-Up Evaluations – Priority 1 or 2 activities that are evaluated to determine mitigation of risks identified during a previously issued audit.
- Contingency – Potential areas of coverage to consider based on resource efficiencies.

In addition, resources will be spent closing out four carryover audits that were not completed in FY 2025. This internal audit plan is aimed toward providing assurance and/or recommendations regarding the top 37% of risks identified as a part of the annual risk assessment.

Audit Plan FY 2026

Internal Audit Division

Project Delivery (1)	Budgeted Hours
Local Government Project Oversight	1,626

Financial Management and Asset Recovery (2)	Budgeted Hours
Grant Management – Public Transportation	3,384
IT Asset Management	1,626

Program Optimization (3)	Budgeted Hours
Emergency Operations Center Readiness	1,626
Contract Administration: Review, Execution, Reporting	3,384
TxDOT Business Continuity	1,626

Information Technology and Cybersecurity (3)	Budgeted Hours
Data Validation Review – Tableau Reporting	3,384
AI Governance and Training	1,626
ISP and Cybersecurity (TAC 202)	1,626

Governance and Third-Party Monitoring (8)	Budgeted Hours
Construction and Maintenance Contractor Evaluations	1,626
Construction Change Order Price Justification	1,626
District Audit III	1,626
District Audit IV	1,626
District Audit V	1,626
District Audit VI	1,626
State Safety Oversight Program	1,626
Work Zone Safety – Contracted Traffic Control	1,626

Recurring (2)	Budgeted Hours
Public Funds Investment Act	510
Toll Facilities – Federal Reporting	510

Management Action Plan (MAP) Follow-Up Evaluations	Budgeted Hours
Engagements to determine mitigation of risks previously communicated (increase will occur as new findings and MAPs identified)	3,842

Management Action Plan (MAP) Follow-Up Assessments	Budgeted Hours
Assessments of previously closed MAPs to determine if risk is reoccurring	1,921

Carryover (4)	Budgeted Hours
Multiple Use Agreements	56
Design-Build Project Payments	55
Emergency Management	55
Non-Contracted Bridge Inspections	56

Contingency (5)
Toll Operations – Back Office
Construction Engineering & Inspection (CEI) Utilization
Routine Maintenance Project Inspection
Construction Material Deficiency Management and Oversight
Access Control

Summary – Internal Audit	Budgeted Hours
Project Delivery	1,626
Financial Management and Asset Recovery	5,010
Program Optimization	6,636
Information Technology and Cybersecurity	6,636
Governance and Third-Party Monitoring	13,008
Recurring	1,020
Management Action Plan (MAP) Follow-Up Engagements	3,842
Management Action Plan (MAP) Follow-Up Assessments	1,921
Carryover	222
Total Hours:	**39,921**

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/about/contact-us/report-fraud.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.texas.gov.
  - 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.