Audit Subcommittee

Quarterly Meeting

Texas Department of Transportation

8/25/2026

8/25/2026

1. Greer Building Safety Video

8/25/2026

2. Approval of Minutes

May 20, 2026, Audit Subcommittee Meeting

8/25/2026

3. Financial Management Division

Amanda Landry Hutchins, Division Director

3. FY 2026 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 the 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) 2026 Key Controls Testing

CMP performed an advisory service engagement for FIN during fiscal year (FY) 2026.

Key control testing engagement:

- FIN selected 16 key controls for effectiveness testing performed by CMP.
- Testing was performed from May 2026 through August 2026, using data from September 2025 to May 2026.
- 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 2026.

3. Testing Results

All 16 controls (100%) were found to be appropriately designed and operating effectively covering:

- Debt Issuance Oversight – Includes multiple layers of review, approval, and external authorization.
- Financial System Access and IT General Controls – Role-based, management-approved, periodically reviewed, and limited to authorized employees supported through segregation of duties and annual disaster recovery testing.
- Automated Financial Controls – Provide automated checks for duplicate invoices, threshold exceptions, and data accuracy.
- Payment Review and Approval – Project costs and invoices require multiple levels of review, matching, and approval before payment processing.
- Federal Billing Reconciliation – Activity is reconciled across FHWA submissions, deposit records, and Comptroller confirmations.

3. FY 2027 Engagement Plan

Spirit of SOX FY 2027 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 FY 2027 with additional input from CMP.
- CMP will perform control effectiveness testing after the first three quarters of FY 2027 (September 1, 2026, through May 31, 2027).
- FIN will continue to work with CMP during fiscal year 2027 to identify opportunities to enhance key controls over financial reporting.

8/25/2026

4. Audit and Compliance Performance Metrics Minute Order

Parsons Townsend, Chief Audit and Compliance Officer

8/25/2026

5. Compliance Division

Cheryl Durkop, Division Director

5.a. Summary of Investigations: FY 2026, 4th Quarter – Part 1

- 29 open investigations; 19% decrease from Q3
- 33 closed investigations; 13% increase from Q3
  - 18 substantiated investigations
  - 15 unsubstantiated investigations

CLOSED INVESTIGATIONS LOCATION

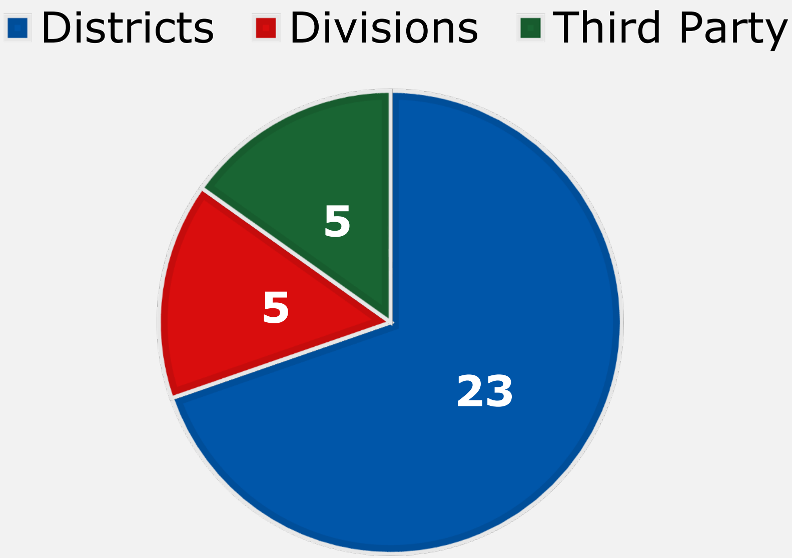

Figure 1 - closed investigations locations

5.a. Summary of Investigations: FY 2026, 4th Quarter – Part 2

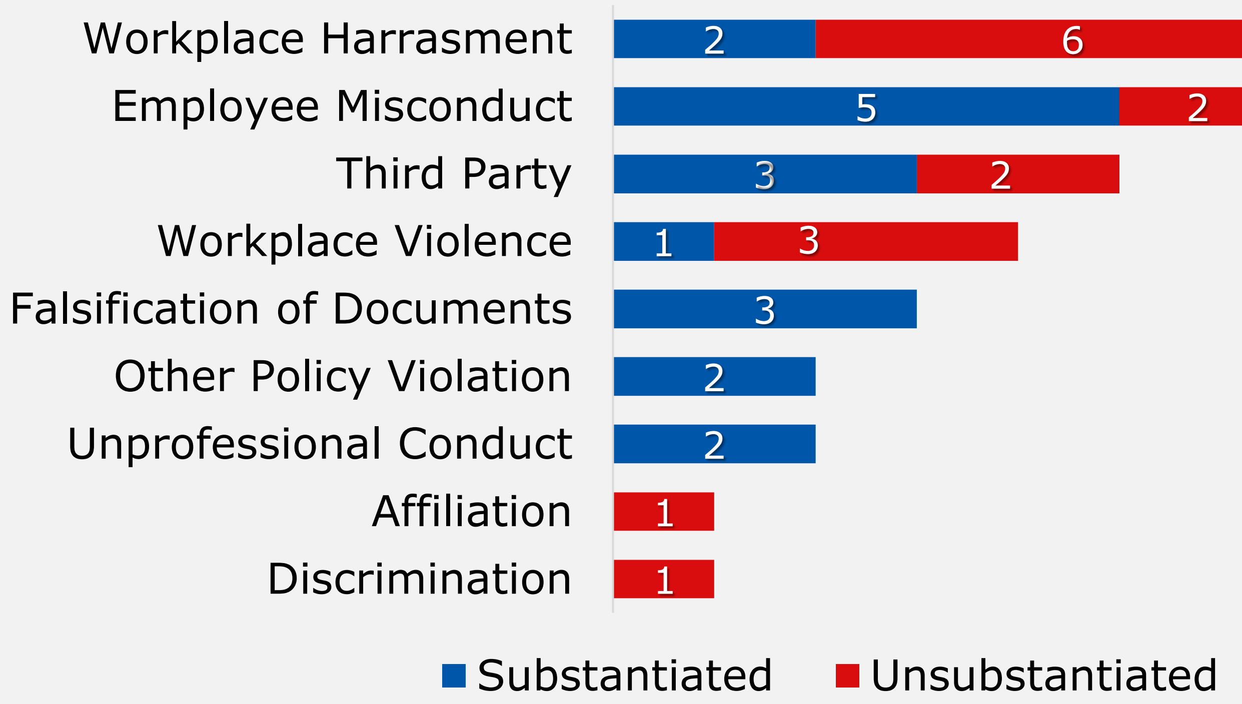

Figure 2 – outcome by allegation category

5.a. Summary of Investigations: 12-Month Summary

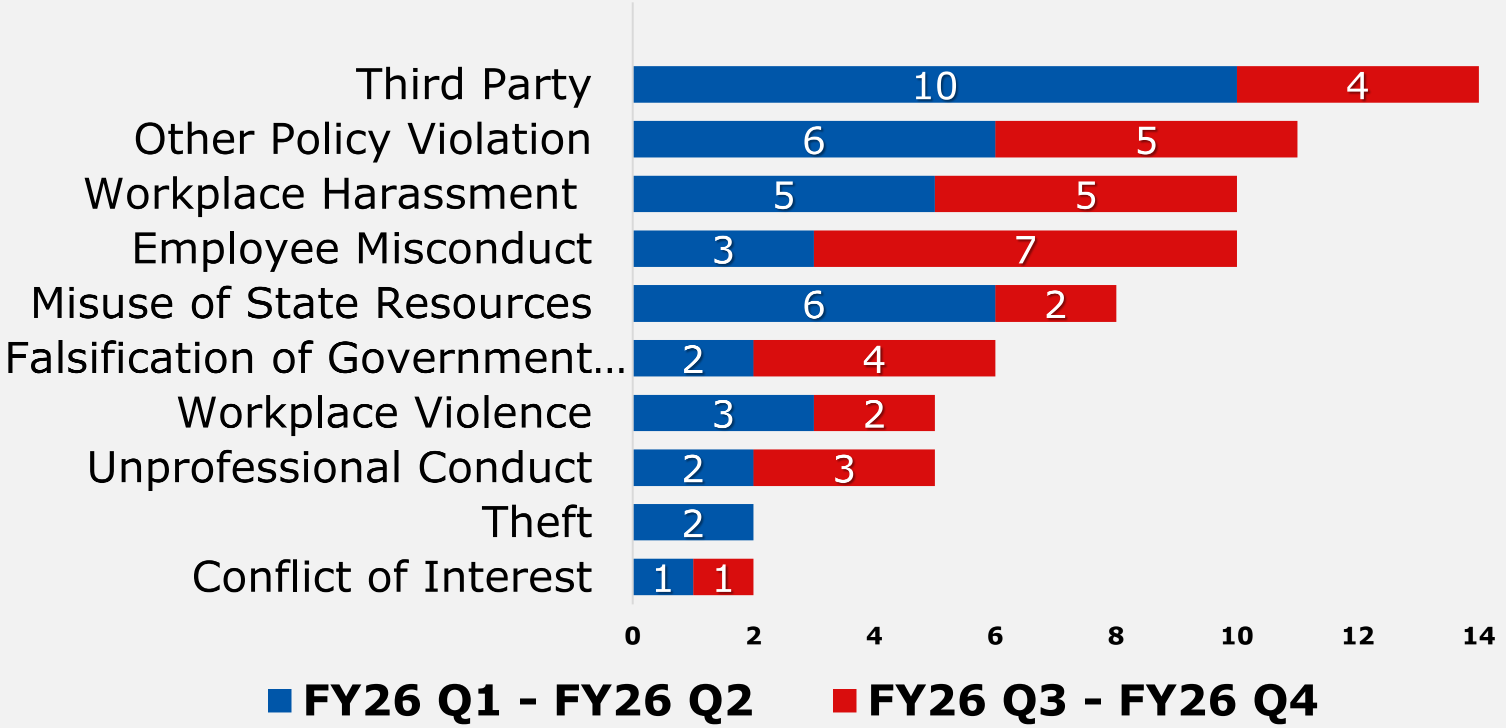

Figure 3 – 12-month summary of substantiated allegations by category

5.b. FY 2027 Compliance Work Plan

Risk Assessment: Based on the Committee of Sponsoring Organizations of the Treadway Commission and Association of Certified Fraud Examiners fraud risk management guide

- Focused on fraud, compliance, and third-party risks
- Considering the Texas Department of Transportation's (TxDOT) stewardship responsibilities under federal and state requirements, incorporated:
  - Input from commission & administration and divisions/districts
  - Objective risk factors
  - Department, industry, investigation, and internal audit trends

Top Risks: Third-party risk management, subrecipient grant management, conflict of interest, and falsification of documentation

5.b. FY 2027 Compliance Work Plan – Part 2

External Audits: Local Government Letting, Traffic Safety Grant Subrecipient and Airport Improvement Program Subrecipient

Advisory Services and Grant Compliance Reviews: TRANSTAR Contract, Conference Reconciliation Reviews, TxDOT Grant Programs Tracking, Federal and State Statute Tracking, and Grant Compliance Training

Annual Engagements: BNSF Railroad 2025 Additive Rates, SOX Key Control Testing, Traffic Safety Grant Pre-Award Review, Federal & State Single Audit Reviews, and MAP Follow-Up Audit(s)

5.b. FY 2027 Compliance Work Plan – Part 3

Compliance Engagements:

- Senate Bill 312 Sunset reviews
- Legislature Action Plans reviews
- Lease Agreements – Right of Way
- TxDOT Conference Policy Development
- Payment Integrity reviews
- Control Self-Assessment (flight services, environmental affairs division)
- Continuous Monitoring Detection program (fuel card activities, materials and test division duplicated testing, purchase card transactions, and fuel misuse)

5.b. FY 2027 Compliance Work Plan – Part 4

Investigative and Outreach Activities:

- Conduct 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

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6. Internal Audit Division

Craig Otto, Division Director

6.a. Local Government Project (LGP) Oversight Audit – Priority 3

Overview: TxDOT districts are responsible for LGP oversight, including onsite observations, Buy America compliance validation, reimbursement processing and tracking, and safeguarding sensitive information.

Impact: Without oversight of LGPs, TxDOT could overpay the local government for unallowable costs.

Mitigation: Expand the transportation programs division’s oversight of district monitoring and reimbursement, define and strengthen reimbursement reviews, and implement more efficient tracking tools.

6.a. Local Government Project (LGP) Oversight Details

Monitoring of validations to be conducted:

- 68% of LGPs did not always demonstrate on-site validation of Buy America compliance by the districts.
- 61% of LGPs did not have all documentation for on-site observations.

Reimbursement reviews:

- 78% of line-items did not have a change order to support project changes.
- 44% of line-items did not provide reimbursement documentation.
- 27% of reimbursements did not have verification of the LG contractor payment.

6.b. FY 2027 Internal Audit Plan Overview

The Texas Internal Auditing Act, Texas 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.

20 risk-based audit engagements based on top 33% of risks

5 carryover audits

Image 4 – Risk and carryover information

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 capacity

Image 5 – Organizational independence statement

6.b. FY 2027 Audit Plan – Risk Areas

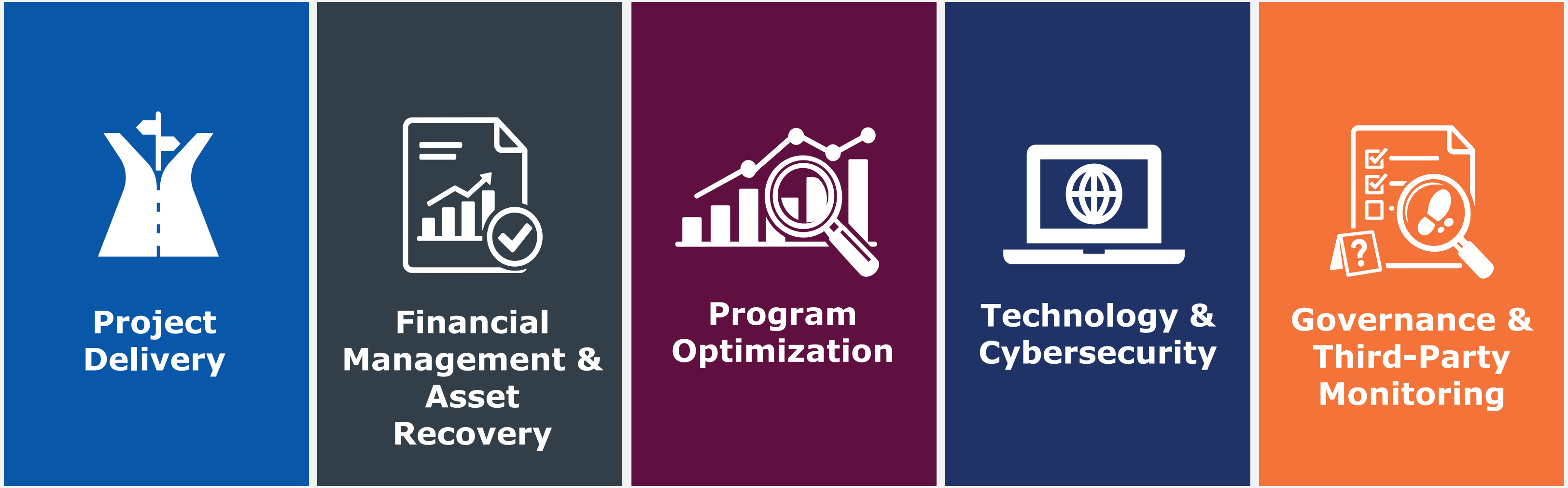

Image 6 – Risk areas in the FY 2027 audit plan

The audit plan is designed to provide independent assurance that the department is effectively managing the risks that could most significantly impact project delivery, public trust, operational performance, and stewardship of taxpayer resources.

6.b. FY 2027 Audit Plan – Activity Examples

Figures 7-11 – Risk areas

Project Delivery	Evaluation of construction project scheduling governance and oversight practices and operational status of physical security system statewide.
Financial Management & Asset Recovery	Validation of services provided for $92.7M in research project invoicing since FY 2023.
Program Optimization	Assessment of APCM (SiteManager) enhancements for TxDOT project payments.
Technology & Cybersecurity	Assessment of management and control processes to support the safeguarding and access of data processed by artificial intelligence and information systems.
Governance & Third Party Monitoring	Evaluation of operational controls and organizational changes within TxDOT (i.e., flight services, ferry, and fleet operations).

8/25/2026

7. Executive Session

8/25/2026

Adjourn


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