



# Audit Subcommittee

Quarterly Meeting



December 16, 2024



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# 1. GREENER BUILDING SAFETY VIDEO



STATE OF TEXAS  
HIGHWAY  
BUILDING



December 16, 2024

# 2. CONSIDER APPROVAL OF MINUTES

September 25, 2024, Audit Subcommittee Meeting



December 16, 2024

# 3. INDEPENDENT AUDITOR'S REPORT

Kevin Smith, Partner, Crowe LLP

# Deliverables

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On December 13, 2024, we issued the following:

- Report of Independent Auditors on:
  - Texas Department of Transportation
  - Texas Mobility Fund
  - Central Texas Turnpike System
  - Grand Parkway Transportation Corporation
- Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*
- SAS 114 Letter “Communication to Those Charged with Governance”

# Report of Independent Auditors

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**Opinion Units** – Concept unique to governments, we plan, perform, and evaluate the results of auditor procedures on a governments financial statements based on opinion units. Technically conducting one audit but providing multiple opinions.

## **Four types of Audit Opinions:**

1. Qualified
2. Adverse
3. Disclaimer
4. **Unmodified**

**Emphasis of Matters** – a section of the auditor's report for additional communications when the auditor considers it necessary to a. draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements (emphasis-of-matter paragraph), however, these matters do not impact our opinion.

# Internal Control Related Comments

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- **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

A **deficiency** in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A **material weakness** is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

A **significant deficiency** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



# Required Communication with Those Charged with Governance

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- Auditor Responsibility
- Planned Scope and Timing of the Audit
- Independence Communications
- Significant or Unusual Transactions
- Significant Accounting Policies in Controversial or Emerging Areas
- Accounting Estimates
- Auditor Judgments about Qualitative Aspects of Significant Accounting Practices
- Corrected and Uncorrected Misstatements
- Other Communications



Smart decisions. Lasting value.™

# Thank you

**Kevin Smith**

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December 16, 2024

# 4. INTERNAL AUDIT

Craig Otto, Division Director

## 4.a. Management Action Plan (MAP) Follow-Up Status

### Past Due **Priority 2** MAPs (12) <sup>7</sup>

<u>MAP Owner</u>	<u>Status</u>
Aviation Division (3)	<ul style="list-style-type: none"> <li>Grant Management – Aviation: Software procurement related to Buy America, grant management, and material testing policies/procedures.</li> </ul>
Support Services Division (1)	<ul style="list-style-type: none"> <li>Management and Oversight of Utility Accounts and Payments: Implementation of quarterly reviews of vendor performance.</li> </ul>
District Operations (1)	<ul style="list-style-type: none"> <li><b>Construction Project Management – Recordkeeper Development: Implementation of required project checklist event dates.</b></li> </ul>
Information Technology Division (3)	<ul style="list-style-type: none"> <li><b>User Access – Non-Active Directory Access: <i>Restricted Distribution</i></b></li> </ul>
Maintenance Division (2)	<ul style="list-style-type: none"> <li><b>Oversize/Overweight Permit Revenue: Establishment of methodologies to determine permit fee recommendations and utilization of oversize/overweight revenue.</b></li> </ul>
Construction Division (2)	<ul style="list-style-type: none"> <li><b>Construction Project Management – Prequalification: <i>Restricted Distribution</i></b></li> </ul>

### Key Takeaways:

- No Past Due Priority 1 MAPs
- Construction Project Management – Recordkeeper Development: Testing of MAP performed in FY24 Q4; districts still working to implement required construction project checklist event dates within the construction and maintenance contracts management system; MAP to be retested in FY25 Q2.
- Oversize/Overweight Permit Revenue: Testing of MAP currently being performed to determine if methodologies were established.

## 4.b.1. Internal Audit Report: Construction Project Development – Engineer’s Estimate

<b>Audit Scope:</b>	To evaluate the effectiveness of estimated project bid item quantities and unit price for construction projects.	<b>Audit Type and Overall Rating</b>	
<b>Value to TxDOT:</b>	Provide assurance that bid item quantity and price estimates created by the districts and consultants are consistent and provide the best value for funding and letting decisions.		
<b>Risk Theme:</b>	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;"><u>External Risk:</u> Resource/Supply Chain</td> <td style="width: 50%;"><u>Internal Risks:</u> Reliance on Contractors/Third Parties, Quality Control and Assurance</td> </tr> </table>		<u>External Risk:</u> Resource/Supply Chain
<u>External Risk:</u> Resource/Supply Chain	<u>Internal Risks:</u> Reliance on Contractors/Third Parties, Quality Control and Assurance		
		Enterprise	
		Priority 3	

**Relevance:** *The engineer’s estimate is a determination of the total estimated construction costs which is necessary to ensure appropriate funding is available at project letting and quantity/unit price related change orders are limited during construction. Between September 2020 and April 2024, a total of 3,038 projects, classified as construction, were let with a total net variance of \$965.7M between the engineer’s estimate and the low bid amount.*

<b>Finding 1: Engineer’s Estimate Supporting Documentation</b> – Documentation was not retained to support bid item estimates to include: 1) unit price assumptions, 2) award justification for unit price variances, and 3) unit price review.	Priority 3
<ul style="list-style-type: none"> <li>24 of 24 (100%) projects had no documentation retained to support unit price assumptions for bid items that were outside the 3 and 12-month average price ranges (low and high).</li> <li>22 of 24 (92%) projects had no documentation to support the justification provided on the Letting Overrun/Underrun Justification Memorandum - Form 2195 (i.e., district determination of price variance in the material, labor, and/or mobilization costs).</li> <li>13 of 24 (54%) projects did not have documentation to support any review of the unit prices used in the final estimate.</li> </ul>	

## 4.b.2. Internal Audit Report: Procurement of Temporary Employment Services Contracts

<b>Audit Scope:</b>	To assess the process used to manage the purchase of services contracts to determine 1) the need for service, 2) the length of the contract, and 3) the monitoring of services being provided.		<b>Audit Type and Overall Rating</b>
<b>Value to TxDOT:</b>	Enhancing processes for contracting and managing purchase of service agreements.		Program
<b>Risk Theme:</b>	<u>External Risk:</u> Legislative Updates	<u>TxDOT Risk:</u> Reliance on Contractors/Third Parties	Priority 3

**Relevance:** *The purchase of services is used by the agency to complete short-term projects when employee resources are not available.*

**Finding 1: Monitoring Renewals** – Procurement reviews help ensure state compliance requirements are met; however, they do not consider operational metrics (i.e., the reasoning or cost of renewal(s) vs. a full-time employee) that may impact the decision to continuously procure temporary employment services/augmented services (TES/AS).

Priority 3

- A difference of approximately \$10.7M was identified between renewing TES/AS and the State Auditor’s Office median salary cost to bring on each position from CY21 to CY23.

**Finding 2: Validation of Purchases of Temporary Employment Services** – The inspection and evaluation of a TES are not consistently completed at the time of receipt for the service; thus, it creates a reliance on the subsequent inspections of services at the end of the contract and a delayed review of assurance that the TES is meeting the contracted time frame.

Priority 3

- 14 of 27 (52%) PO/BPOs Office of Primary Responsibility did not have support for inspection and evaluation completed at the actual time of receipt of the employment service.



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# 5. COMPLIANCE DIVISION

Cheryl Durkop, Division Director

# 5. Summary of Investigations – FY 2025, 1st Quarter

Investigation Totals		<u>Q3 / Previous Q</u>	
• Opened	40	↑	10%
• Closed	45	↑	28%
Closed Investigation Dispositions			
• Substantiated	29 (64%)	↑	27%
• Unsubstantiated	16	↑	29%
Closed Investigation Locations			
• Districts	33	↑	40%
• Divisions	4	↓	77%
• Third party	8	↑	91%

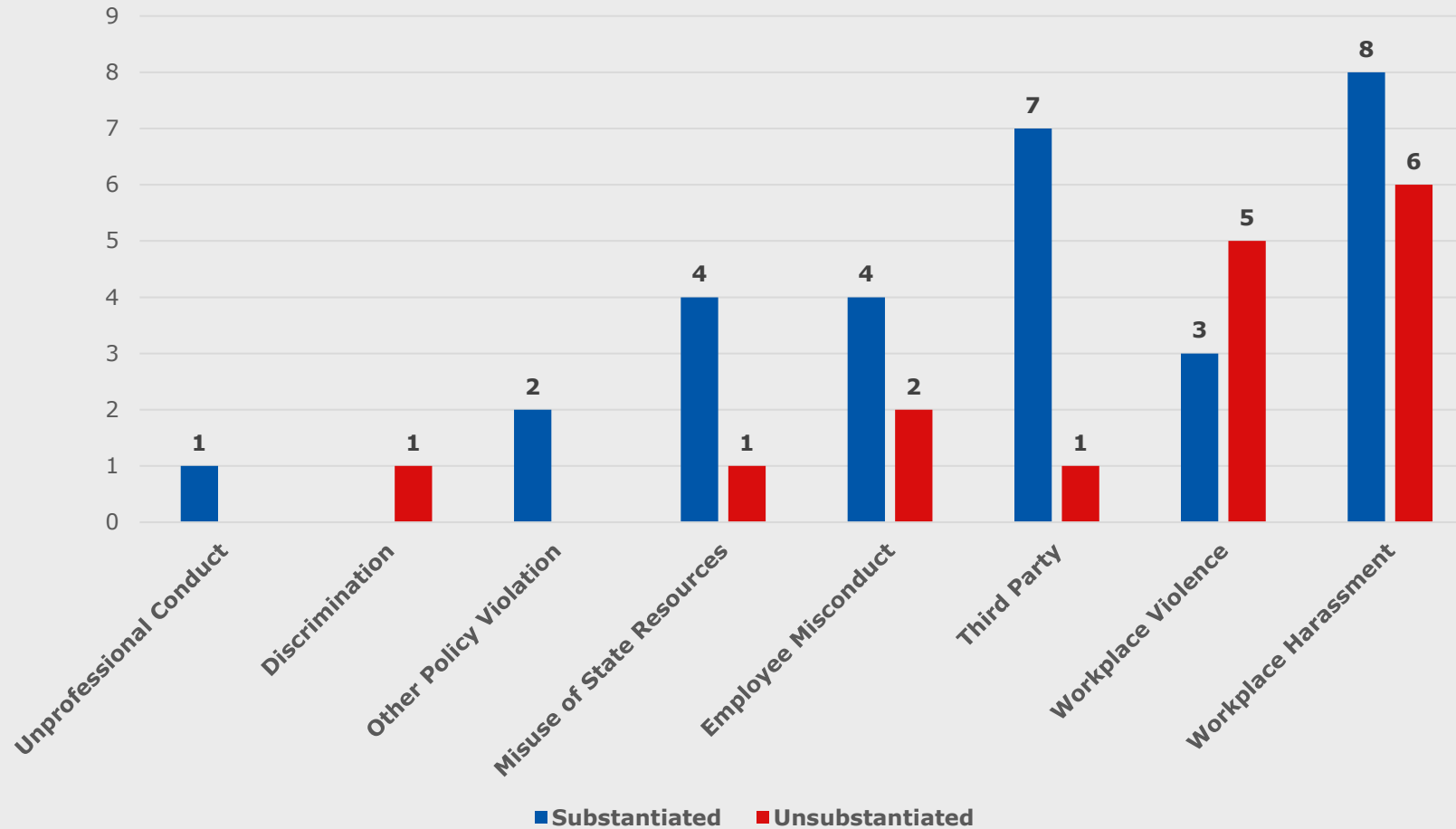
## HIGHLIGHTS

- Substantiated investigation rate remains steady at 64%.
- Increase in Workplace Harassment allegations and supported investigations
- Investigations of significance:
  - Multiple investigations of third-party failure to maintain required insurance.
  - Multiple investigations for misuse of TxDOT vehicle.



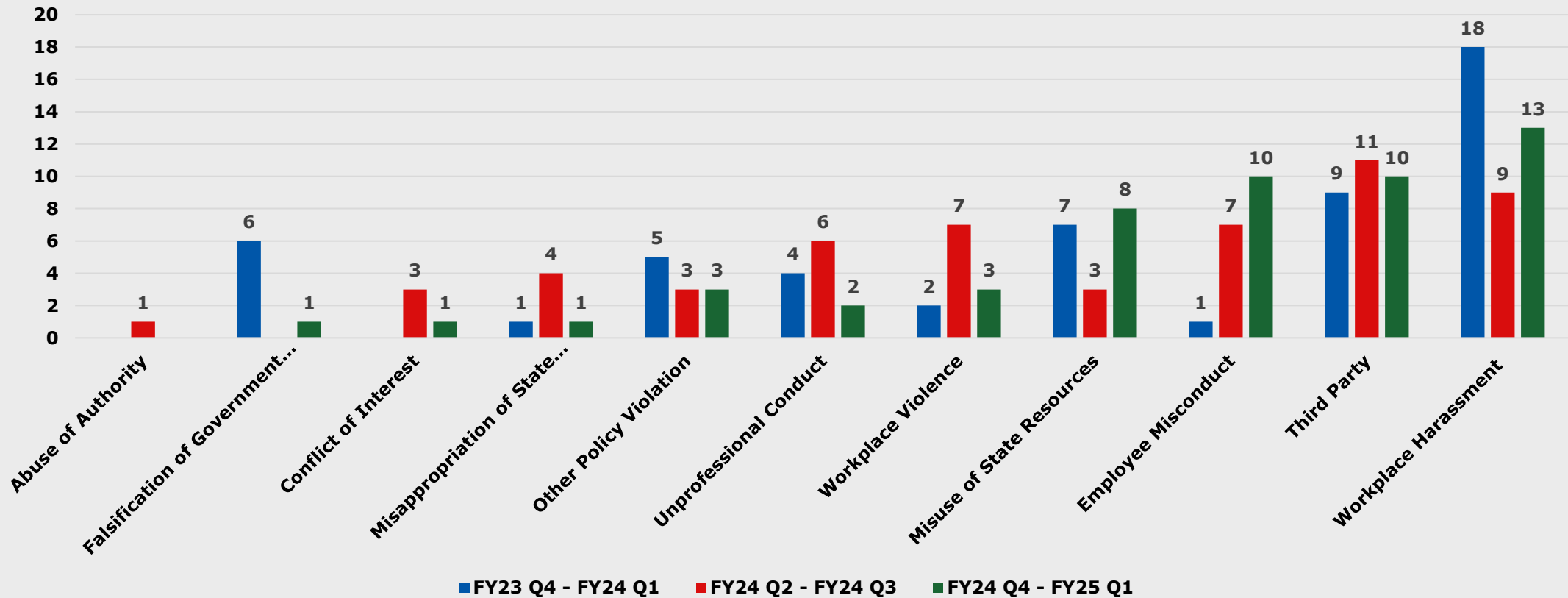
# 5. Summary of Investigations – FY 2025, 1st Quarter

Outcome By Allegation Category



# Summary of Investigations – 18 Month Summary

**Allegation by Category (Substantiated)  
Rolling Year**





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# 6. EXECUTIVE SESSION



December 16, 2024

# ADJOURN