



FY 2024 Annual Audit Report

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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Website

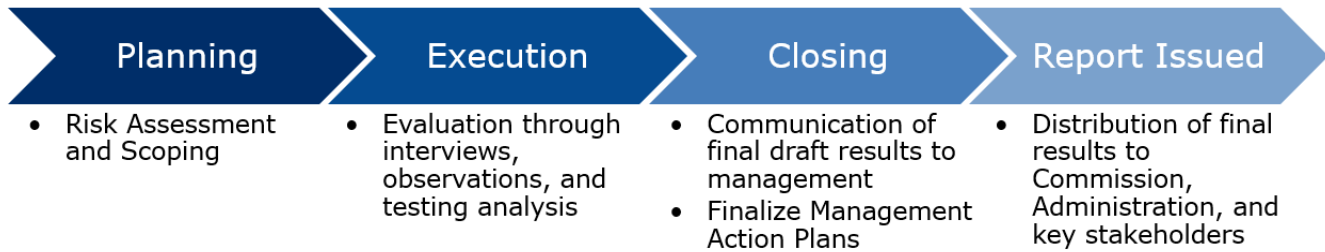
House Bill 16 (83rd Legislature, Regular Session) signed by Governor Perry on June 14, 2013, amended the Internal Auditing Act to require state agencies and institutions of higher education, as defined in the bill, to post internal audit plans, internal audit annual reports, and any weaknesses or concerns 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:
<https://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 in the fiscal year (FY) 2024 Annual Audit Report.

II. Internal Audit Plan for Fiscal Year (FY) 2024

PHASES OF THE AUDIT/CONSULTING SERVICES CYCLE



Reports Issued

| Report Number | Report Date | Report Name | Audit Service |
|---------------|-------------|--|----------------|
| AG2306 | 3/2024 | Campus Consolidation IV – Surplus Property | Internal Audit |
| AG2307 | 12/2023 | Construction Contractor Performance Monitoring | Internal Audit |
| FS2301 | 8/2024 | Construction Engineering and Inspection (CEI) Expenditure Assessment | Internal Audit |
| LS2410 | 8/2024 | Construction Project Development – Engineer’s Estimate | Internal Audit |
| FS2401 | 8/2024 | Construction Project Management – Inspector Development (Restricted) | Internal Audit |
| LS2404 | 7/2024 | Construction Project Management – Prequalification (Restricted) | Internal Audit |
| AG2402 | 8/2024 | Data Management and Security Controls (Restricted) | Internal Audit |
| LS2408 | 7/2024 | Facilities Construction Project Management | Internal Audit |
| LS2409 | 7/2024 | Federal Grant Management – Notification and Tracking | Internal Audit |
| LS2401 | 8/2024 | Fleet Preventative Maintenance | Internal Audit |
| LS2303 | 9/2024 | Management and Oversight of Utility Accounts and Payments | Internal Audit |
| LS2405 | 4/2024 | Material Maintenance Contracts – Item 10 | Internal Audit |
| LS2309 | 12/2023 | PCard Support Evaluation | Internal Audit |
| LS2307 | 3/2024 | Procurement of IT Infrastructure Applications (Restricted) | Internal Audit |
| LS2402 | 12/2023 | Public Funds Investment Act | Internal Audit |
| LS2406 | 8/2024 | Regional Distribution Center – Inventory Management (Restricted) | Internal Audit |
| LS2206 | 5/2024 | Title VI Goal Setting and Reporting Process | Internal Audit |
| LS2407 | 6/2024 | Toll Facilities – Federal Reporting | Internal Audit |
| LS2403 | 6/2024 | TxDOT Hiring Process | Internal Audit |
| AG2401 | 6/2024 | User Access – Non-Active Directory Access (Restricted) | Internal Audit |
| LS2310 | 12/2023 | Website Development and Management | Internal Audit |
| LS2414 | 8/2024 | Work Zone Safety – Contracted Traffic Control (Restricted) | Internal Audit |

Closing Phase – Carryover to FY 2025 Audit Plan

| Report Number | Report Name | Audit Service |
|---------------|--|----------------|
| LS2415 | Grant Management – Electric Vehicle | Internal Audit |
| LS2416 | Letting Process Continuity | Internal Audit |
| LS2417 | Management of Fund Allocation for Port Improvements | Internal Audit |
| LS2413 | Procurement of Temporary Employment Services Contracts | Internal Audit |
| LS2411 | Real Estate Acquisitions | Internal Audit |
| LS2412 | TAC 202 – Key Controls (Restricted) | Internal Audit |
| AG2403 | TxRAMP – Cloud Service Compliance | Internal Audit |

Detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the FY 2024 Audit Plan or Annual Audit Report are as follows:

- 22 internal audits were completed and issued during FY 2024.
 - 44 findings were identified that included 74 control design and/or operating effectiveness deficiencies as noted below:
 - 31 control design
 - 43 operating effectiveness
- 28 management action plan (MAP) follow-up engagements were completed during FY 2024. The results of those engagements were to determine whether previously communicated priority 1 or 2 risks have been mitigated and are as follows:
 - 31 closed MAPs – corrective actions have been completed.
 - 30 open MAPs – corrective actions require completion to address identified risk from the original audit.
- 43 lower risk management action plans were self-reported by the business owner as completed in FY 2024.

Deviations from FY 2024 Planned Audits

Continuous evaluation of the audit plan, based on risks identified, resulted in the modification of the FY 2024 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 |
|---------------|-----------------------------------|--|
| LS2413 | Third-Party Consultant Management | Name Changed to "Procurement of Temporary Employment Services Contracts" |

Compliance with Texas Government Code, Section 2102.005(b)

Senate Bill 65 (86th Legislature, Regular Session) signed by Governor Abbott on June 14, 2019 amended the Internal Auditing Act to require state agencies to conduct the internal auditing program under Section 2102.005 subsection (a), a state agency shall consider methods for ensuring compliance with contract processes and controls and for monitoring agency contracts.

The below is a listing of engagements completed in the last five years related to agency contracts and contracting processes and controls. Engagements arranged by Report Number for FY 2020 – FY 2024.

| Report Number | Report Date | Report Name | Audit Service |
|---------------|-------------|---|----------------|
| MP2002 | 5/2020 | Contract Risk Assessment and Management | MAP Follow-Up |
| MP2009 | 5/2020 | Contractor Performance Monitoring | MAP Follow-Up |
| MP2008 | 5/2020 | Design-Build Stipend Payments | MAP Follow-Up |
| LS2003 | 4/2020 | Independent Financial and Information Security Assessment Reports | Internal Audit |
| SP2001 | 8/2020 | Information Technology (IT) Operations Assessment (Restricted) | Internal Audit |
| MP2007 | 8/2020 | Interagency Contract Process | MAP Follow-Up |
| MP2024 | 8/2020 | Local Government Project Agreements | MAP Follow-Up |
| MP2019 | 8/2020 | Professional Engineering Procurement Services (PEPS) Consultant Procurement Process | MAP Follow-Up |
| LS2001 | 2/2020 | PEPS Prime Provider Performance Monitoring | Internal Audit |
| LS2006 | 12/2019 | Third-Party Website Administration | Internal Audit |
| MP2023 | 8/2020 | Third-Party Website Administration | MAP Follow-Up |
| MP2005 | 5/2020 | Work Zone Safety – State-Let Construction Contracts (Restricted) | MAP Follow-Up |
| LS2018 | 9/2020 | Campus Consolidation Phase I: Invoice and Vendor Management | Internal Audit |
| LS2114 | 8/2021 | Campus Consolidation Phase II: Construction Payments and Transitional Preparedness | Internal Audit |
| LS2102 | 12/2020 | Local Government Projects Pre-award | Internal Audit |
| LS2101 | 2/2021 | Maintenance Project Payment Review and Approval | Internal Audit |
| LS2112 | 8/2021 | Professional Engineering Procurement Services (PEPS): Consultant Performance | Internal Audit |
| FS2201 | 6/2022 | Construction Project Payments Review and Approval | Internal Audit |
| LS2208 | 7/2022 | Grant Management – Aviation | Internal Audit |
| LS2201 | 3/2022 | Maintenance Contract Change Order Scope and Classification | Internal Audit |
| LS2304 | 8/2023 | IT Contracted Support Services Management (Restricted) | Internal Audit |
| LS2216 | 5/2023 | IT Hardware Management (Restricted) | Internal Audit |
| LS2215 | 2/2023 | Material Maintenance Contracts | Internal Audit |
| LS2212 | 3/2023 | PEPS Rate Negotiations | Internal Audit |

| Report Number | Report Date | Report Name | Audit Service |
|---------------|-------------|--|----------------|
| AG2307 | 12/2023 | Construction Contractor Performance Monitoring | Internal Audit |
| FS2301 | 8/2024 | Construction Engineering and Inspection (CEI) Expenditure Assessment | Internal Audit |
| LS2404 | 7/2024 | Construction Project Management – Prequalification (Restricted) | Internal Audit |
| LS2303 | 9/2023 | Management and Oversight of Utility Accounts and Payments | Internal Audit |
| LS2405 | 4/2024 | Material Maintenance Contracts – Item 10 | Internal Audit |
| LS2307 | 3/2024 | Procurement of IT Infrastructure and Applications (Restricted) | Internal Audit |
| LS2414 | 8/2024 | Work Zone Safety – Contracted Traffic Control (Restricted) | Internal Audit |

III. Consulting Services and Non-Audit Services Completed

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 Procured in Fiscal Year 2024

No External Audit Services were procured by the Internal Audit Division during Fiscal Year 2024.

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 threat 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 2025

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 2025 Internal Audit Plan consists of 23 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 Cyber Security – 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 seven carryover audits that were not completed in FY 2024. This internal audit plan is aimed toward providing assurance and/or recommendations regarding the top twenty percent of risks identified as a part of the annual risk assessment.

Audit Plan FY 2025

Internal Audit Division

| Project Delivery (2) | Budgeted Hours |
|-----------------------------|-----------------------|
| District Local Letting | 1,600 |
| Rail Project Management | 1,600 |

| Financial Management and Asset Recovery (2) | Budgeted Hours |
|--|-----------------------|
| Grant Management – Traffic Safety | 1,600 |
| Ship Channel Improvement Revolving Fund (SCIRF) | 1,600 |

| Program Optimization (4) | Budgeted Hours |
|---|-----------------------|
| Aviation - Flight Services | 1,600 |
| Emergency Management | 1,600 |
| Non-Contracted Bridge Inspections | 1,600 |
| Timeliness and Proficiency of the Procurement Process | 3,200 |

| Information Technology and Cyber Security (3) | Budgeted Hours |
|--|-----------------------|
| Readiness and Resilience - Ransomware | 1,600 |
| Vendor Management – Data Protection and AI Risk Mitigation | 3,200 |
| Shadow IT | 1,600 |

| Governance and Third-Party Monitoring (5) | Budgeted Hours |
|--|-----------------------|
| Design Build Project Payments | 1,600 |
| Multiple Use Agreements | 1,600 |
| Districts Audits I | 3,200 |
| Districts Audits II | 3,200 |
| Prime Provider Evaluations | 1,600 |

| Recurring (2) | Budgeted Hours |
|-----------------------------|-----------------------|
| Public Funds Investment Act | 450 |
| Toll Federal Reporting | 450 |

| Management Action Plan (MAP) Follow-Up | Budgeted Hours |
|--|----------------|
| Engagements to determine mitigation of risks previously communicated (increase will occur as new findings and MAPs identified) | 4,358 |

| Carryover (7) | Budgeted Hours |
|--|----------------|
| Grant Management - Electric Vehicle | 120 |
| Letting Process Continuity | 80 |
| Management of Fund Allocation for Port Improvements | 120 |
| Procurement of Temporary Employment Services Contracts | 40 |
| TxRAMP – Cloud Service Compliance Program | 40 |
| Real Estate Acquisitions | 160 |
| TAC 202 - Key Controls | 40 |

| Contingency (5) |
|--|
| TxDOT Business Continuity |
| PEPS Consultant Selection and Utilization |
| Maintenance Contractor Performance Evaluations |
| Toll Operations – Back Office |
| IT Inventory Management |

| Summary – Internal Audit | Budgeted Hours |
|---|----------------|
| Project Delivery | 3,200 |
| Financial Management and Asset Recovery | 3,200 |
| Program Optimization | 8,000 |
| Information Technology and Cyber Security | 6,400 |
| Governance and Third-Party Monitoring | 11,200 |
| Recurring | 900 |
| Management Action Plan (MAP) Follow-Up | 4,358 |
| Carryover | 600 |
| Total Hours: | 37,858 |

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.