



Audit Subcommittee

Quarterly Meeting



December 16, 2025



December 16, 2025

1. GREER BUILDING SAFETY VIDEO



STATE
HIGHWAY
BUILDING



December 16, 2025

2. CONSIDER APPROVAL OF MINUTES

September 24, 2025, Audit Subcommittee Meeting



December 16, 2025

3. INDEPENDENT AUDITOR'S REPORT

Joel Perez, Principal, CLA



We'll get you there.

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Presentation to the Audit Subcommittee of the Texas Transportation Commission

Governance Communication for FYE August 31, 2025
December 16, 2025

Agenda

- Audit Engagement Team
- Audit Overview
- Audit Process
- Required Communications With Those Charged With Governance
- Audit Adjustments
- Developments
- Other Communications



Key Audit Engagement Team Leaders



Joel Perez, CPA
Principal

Kane Wells, CPA
Director

Roy Cobb, CPA
Director

Avery Stockstiel
Senior

Jim Kreiser, CRMA,
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AUDIT OPINIONS

Financial statements and deliverables:

TxDOT ACFR

Unmodified.

Texas Mobility Fund

Unmodified.

Central Texas Turnpike System

Unmodified.

Grand Parkway Transportation Corporation

Unmodified.

Agreed Upon Procedures

Completed.



AUDIT RESULTS

No Internal Control Findings

Our audit, conducted in accordance with Government Auditing Standards (Yellow Book), did not identify any internal control deficiencies that we consider to be significant deficiencies or material weaknesses.



Audit Process

RISK-BASED APPROACH

Planning the
Engagement

Understanding
Internal Controls

Gathering Evidence

Testing and Analysis

Develop Findings and
Conclusions

Reporting



Required Communications

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by TxDOT are described in Note 1 to the financial statements.

As described in Note 1, TxDOT changed accounting policies related to compensated absences and certain risk disclosures by adopting Statement of Governmental Accounting Standards Board (GASB Statement) No. 101, *Compensated Absences* and GASB Statement No. 102, *Certain Risk Disclosures*, during the year ended August 31, 2025.

We noted no transactions entered in by TxDOT during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.



Required Communications - continued

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the valuation of the Net Other Postemployment Benefits (OPEB) and the Net Pension Liabilities, which are based on the annual actuarial valuation. We evaluated the methods, assumptions, and data used to develop the Net OPEB and Net Pension Liabilities and related disclosures in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the Accounts Payable and Construction in Process Accruals at year end which are based on the prior three-year historical trends. We evaluated the methods, assumptions, and data used to develop the accounts payable and construction in process accruals at year end and related disclosures in determining that they are reasonable in relation to the financial statements taken as a whole.



Required Communications - continued

Significant Risks

In our scope of work letter date July 14, 2025, we communicated significant risk(s) of material misstatement that in our professional judgment, are significant and relevant to your oversight of the financial reporting process. As we completed our risk assessment procedures, the risks changed; following is a list of the final significant risk(s) of material misstatement that we identified:

- Management override of controls
- Revenue recognition related to business-type activities (i.e., toll revenue), including the transition of TxDOT's back-office toll road activities to the Harris County Toll Road Authority (HCTRA)
- Net OPEB and Net Pension Liabilities valuation and disclosure
- Completeness of construction-in-progress and accounts payable year end accruals



Required Communications - continued

Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosure(s) affecting the financial statements was (were):

- The disclosure of the Retirement Plan in Note 8 and Postemployment Benefits Other Than Pensions Plan in Note 10 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear



Required Communications - continued

Significant Unusual Transactions

We identified the following items as significant unusual transactions:

- In November of 2024 TxDOT entered into a Toll Services Agreement with the Harris County Toll Road Authority to assume collection, billing and customer service for TxTag customers. Under the agreement, TxDOT continued to own and maintain its toll roads in the Austin and Houston metro areas, and the Texas Transportation Commission retained responsibility for setting toll rates on TxDOT-owned roads.
- Change within reporting entity for the Texas Mobility Fund as both a debt service fund and capital projects fund



Required Communications - continued

Significant Unusual Transactions - continued

- TxDOT completed a \$1.7 billion buyout of the SH 288 comprehensive development agreement in October of 2024. The State Highway Fund loaned the Texas Transportation Finance Corporation (TTFC) the \$1.7 billion used to finance the buyout payment. Subsequent to year end, the loan was repaid in October of 2025 after the issuance of TTFC's toll revenue bonds.



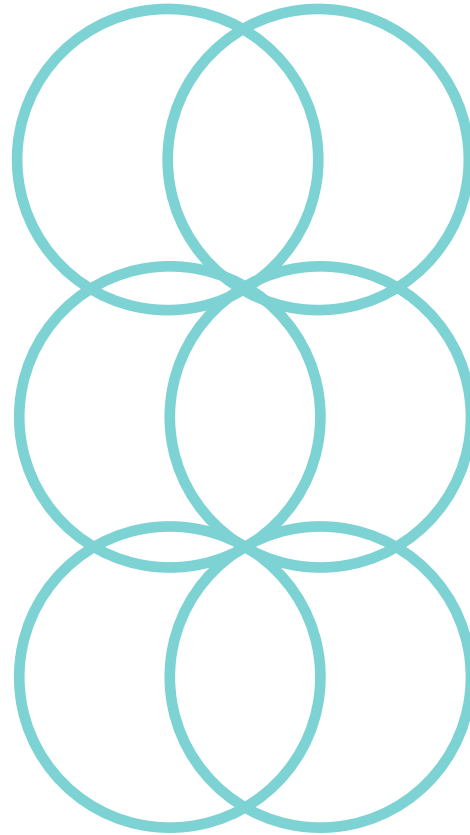
Other Required Governance Communications

Difficulties In Performance of the Audit - none

Disagreements with Management - none

Management Consultations with Other Independent Accountants - none

Significant issues discussed with management prior to engagement – all in ordinary course of business



Management Representation Letter – signed by management

Required Supplementary Information (RSI)

**Supplementary Information
Annual Report**

We have provided a separate communication to management, communicating other matters identified during the audit.



Audit Adjustments

Uncorrected misstatements

- None

Corrected misstatements

- None





Developments

Upcoming GASB Pronouncements

GASB 103 –
Financial
Reporting Model
Improvements

GASB 104 –
Disclosure of
Certain Capital
Assets

The background of the slide features a warm, low-angle photograph of several people. In the upper right, hands are clasped together in a supportive grip. Below, a man and a woman are smiling broadly, looking upwards, suggesting a moment of celebration or achievement. The lighting is soft and natural, creating a positive and collaborative atmosphere.

Questions and Feedback

We appreciate the opportunity to serve you and welcome candid feedback relative to our performance and to the engagement.





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December 16, 2025

4. INTERNAL AUDIT

Craig Otto, Division Director

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

Table 1 – Past Due MAPs

Priority Level	MAP Owner (Past Due MAPs)	Status
1	District Operations (1)	Management and Oversight of Utility Accounts and Payments: Identification/location of all TxDOT meters using global positioning system.
2	Aviation Division (3)	Grant Management – Aviation: Software procurement related to Buy America, grant management, and material testing policies/procedures.
2	District Operations (2)	Construction Engineering and Inspection (CEI) Expenditure Assessment: implementation of a new approach to validate CEI invoice hours. Fleet Preventative Maintenance: Development of standard operating procedure and implementation of monthly spot checks of pre-trip documents.
2	Rail Division (3)	Rail Project Management: Restricted Distribution
2	Traffic Safety Division (2)	Grant Management – Traffic Safety: Restricted Distribution

Key Takeaways:

- CEI Expenditure Assessment - CST, PEPS, and the districts continues to evaluate potential solutions for validation of CEI hours invoiced. A new pilot program will be presented to division leadership by the end of December 2025.

4.b.1. Internal Audit Report: Design-Build Project Payments

Audit Scope:	To evaluate the oversight for documenting, reviewing, and approving design-build (DB) project payments.	Audit Type and Overall Rating
Value to TxDOT:	Provide assurance DB project payments are validated prior to payment.	
Goals:	<u>TxDOT Goals:</u> Delivering the Right Projects, Foster Stewardship <u>ED Priorities:</u> Delivery, Stewardship	
		Program
		Priority 3

Relevance: Draw requests (DRs) are invoices submitted by the DB contractor to request payment for the material on hand (MOH) and specific work activities completed during the pay period. As of March 17, 2025, TxDOT had a total of eight active DB projects (executed between fiscal years 2016-2025): this engagement focused on three DB projects with a total amount paid to date of \$1.7B.

Finding 1: Documentation to Support Conformance – Not all material on hand (MOH) and specific work activity items in the DR had physical documentation (i.e., supplier invoices, material tests, inspection reports) to support DB requirements and specifications at the time of payment for three projects (December 2024 - April 2025).	Priority 3
<ul style="list-style-type: none"> • \$12.7M of \$15.6M (81%) MOH items requested for payment from one DB project did not have a unique identifier to match the MOH items to the related material supplier invoice within four DRs reviewed. Timeliness challenges can be created for the districts without these identifiers. • 33 of 63 (52%) MOH supplier invoices paid totaling \$1.4M from two DB projects did not have a corresponding material test report included in the DR package from the contractor at the time of payment. • 5 of 48 (10%) work activities paid (totaling \$1.6M) from two projects had no inspection report(s) to support conformance with contract requirements and specifications at the time of payment. • 4 of 43 (9%) work activities paid (totaling \$0.6M) had an issue identified by an inspector with no documentation of resolution noted prior to payment. 	
Finding 2: Accuracy of Draw Request Payment Reporting – Not all DR payment information was reported accurately within the DB project dashboards.	Priority 3
<ul style="list-style-type: none"> • 22 of 134 (16%) DR dashboard payment totals (\$1.75B) for three DB projects did not match the corresponding enterprise resource planning system payment totals (\$1.78B) as of April 29, 2025. 	

4.b.2. Internal Audit Report: Timeliness and Proficiency of the Procurement Process

Audit Scope:	To assess the efficiency and timeliness of the procurement process for goods and services.		Audit Type and Overall Rating
Value to TxDOT:	Assessing procurement efficiency and timeliness can identify opportunities to streamline operations, minimize delays, and enhance cost-effective acquisition of goods and services.		
Goals:	TxDOT Goals: Preserve our Assets, Deliver the Right Projects and Foster Stewardship	ED Priorities: Delivery and Stewardship	
			Enterprise
			Priority 3

Relevance: *Efficient and timely procurement is essential to support agency operations and ensure cost effective acquisition of goods and services.*

Finding 1: Procurement Administration – Procurement Division (PRO) does not consistently follow documented processes for communicating purchase order (PO) delays, meeting solicitation requirements, and verifying vendor eligibility.	Priority 3
<ul style="list-style-type: none">• 307 of 317 (97%) POs that were delayed in issuance did not have evidence of communication to the districts and divisions (D/Ds) of the delay.• 13 of 30 (43%) POs did not include evidence that the purchaser met the solicitation requirements (i.e., bids from 3 vendors, 2 HUB-certified vendors).• 7 of 20 (35%) POs did not have documentation supporting that a complete vendor verification was performed before issuance.	
Finding 2: Vendor Performance Reports – D/Ds have not consistently completed vendor performance reports (VPR) for vendors that did not meet promised delivery dates or that provided goods/services greater than \$25K.	Priority 3
<ul style="list-style-type: none">• Although a VPR is not required for POs less than \$25K, it was noted that 255 of 263 (97%) POs (with an average of 98 days over the promised date) did not use a VPR to convey the delinquency of delivery by the vendor.• 23 of 27 (85%) VPRs for POs greater than \$25K were not completed by the D/Ds.	
Finding 3: Procurement Due Dates – Buyers in PRO, who do not consistently enter accurate or complete due dates, limit the requisitioner’s ability to identify the delivery date for goods/services.	Priority 3
<ul style="list-style-type: none">• 38 of 100 (38%) requisitions did not include a due date.• 16 of 100 (16%) requisitions included due dates that were either same day or unrealistic based on the purchase method used.	



December 16, 2025

5. COMPLIANCE DIVISION

Cheryl Durkop, Division Director

5.a. Summary of Investigations – FY 2026, 1st Quarter

Table 1 – Investigation Totals

Investigations	Total	Increased/ Decreased	Percentage Increased/Decreased
Opened	32	Decreased	33%
Closed	39	Decreased	3%

Table 2 – Closed Investigation Dispositions

Closed Investigation Dispositions	Total	Increased/ Decreased	Percentage Increased/Decreased
Substantiated	27	Increased	25%
Unsubstantiated	12	Decreased	37%

Table 3 – Closed Investigation Location

Closed Investigation Location	Total	Increased/ Decreased	Percentage Increased/Decreased
Districts	23	Decreased	33%
Divisions	10	Increased	127%
Third Party	6	Increased	100%

HIGHLIGHTS

- Substantiated investigation rate at 69%.
- Increase in substantiated cases of misuse of State resources.
- Investigations of significance:
 - Theft of over \$10,000 in state resources from the Austin District Headquarters.
 - Fleet Operations Division employee used State PCard to pay utility bills.

5.a. Summary of Investigations – FY 2026, 1st Quarter

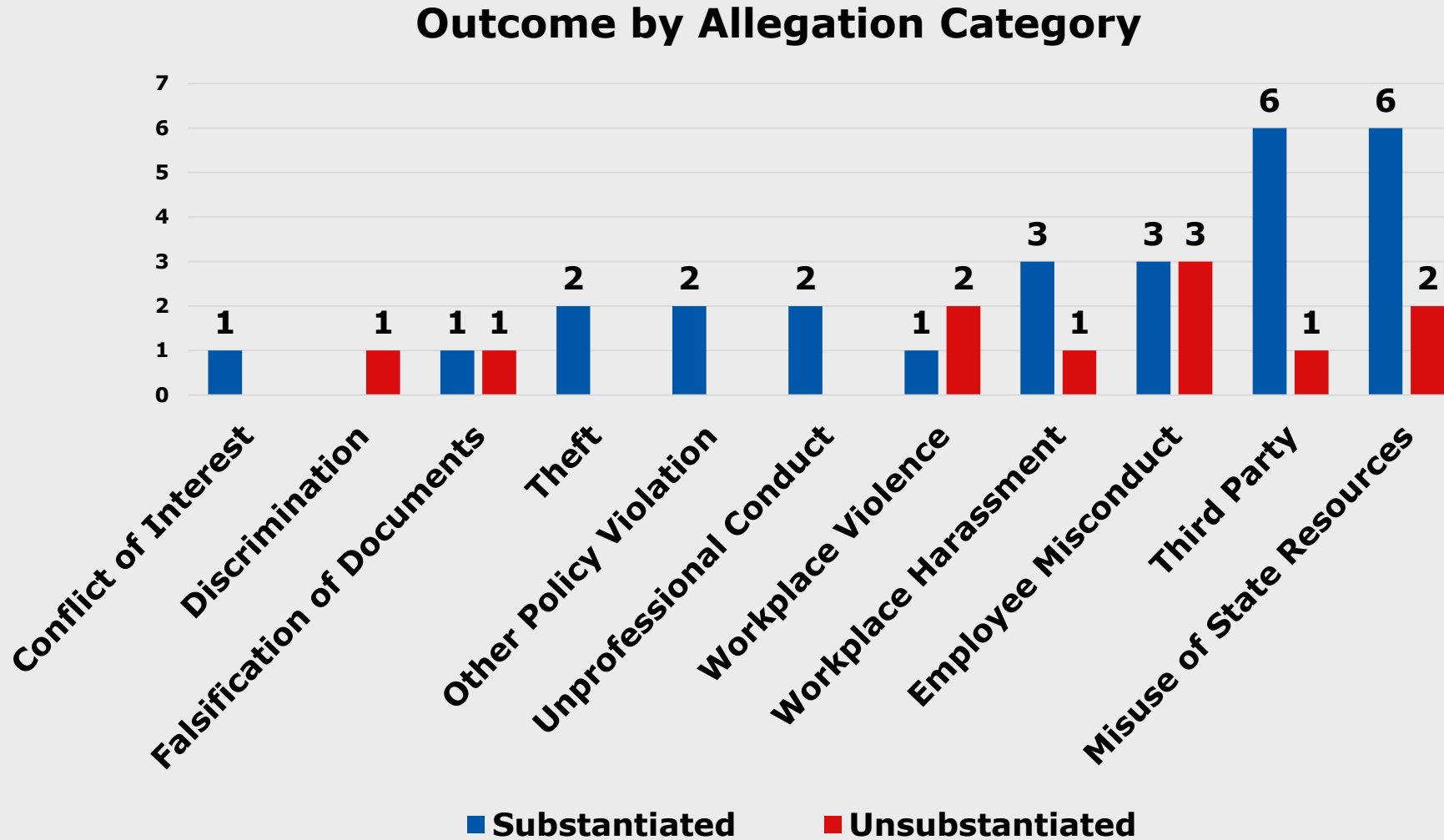


Chart 1 – Outcome by Allegation Category

5.a. Summary of Investigations – 18-Month Summary

Outcome by Allegation Category (Substantiated) 18-Month Summary

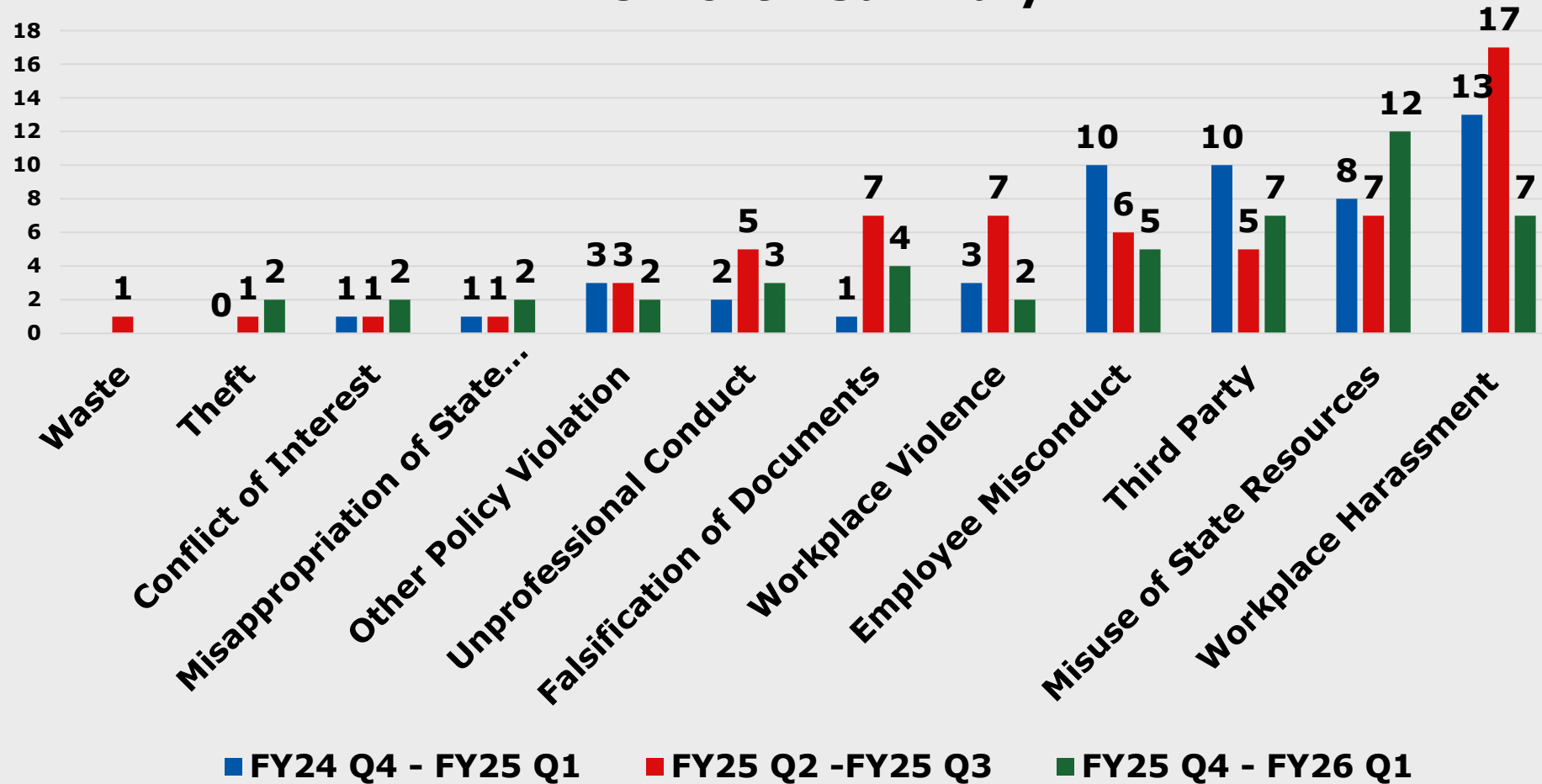


Chart 2 – 18-month Summary of Substantiated Allegations by Category

5.b. External Audit Reports Summary: Public Transportation Division (PTN)

Objective and Scope Summary: Determine whether PTN subrecipient's contracts with subcontractors comply with applicable grant agreements and payments were made timely for subcontractor payments during fiscal year 2024 and 2025.

Background:

- Audited Golden Crescent Regional Planning Commission (GCRPC) and South East Texas Regional Planning Commission (SETRPC).
- GCRPC and SETRPC provide rural transit services funded through two Federal Transit Administration (FTA) grant programs: Rural Public Transportation program (Section 5311) and the Enhanced Mobility of Seniors and Individuals with Disabilities program (Section 5310).
- GCRPC received \$3,137,036 in TxDOT funds and utilized 5 subcontractors.
- SETRPC received \$1,700,360 in TxDOT funds and utilized 3 subcontractors.

5.b. External Audit Reports Summary: Public Transportation Division (PTN)

Conclusion Summary: Golden Crescent Regional Planning Commission (GCRPC) and South East Texas Regional Planning Commission (SETRPC) implemented adequate controls to ensure contracts comply with grant agreements and subcontractor payments are made timely. Opportunities were identified to improve processes.

GCRPC Audit Results:

- Reimbursement requests contained unallowable costs resulting in questioned costs of \$1,971.21.
- Recommendation to develop and implement procedures for subcontractor monitoring activities.

SETRPC Audit Results:

- Reimbursement requests contained costs incurred outside of TxDOT project grant agreement resulting in questioned cost of \$12,011.90.
- Recommendations to include all applicable federal provisions in subcontracts, ensure timely execution of subcontracts, and develop and implement procedures for subcontractor monitoring activities.

PTN is improving internal and external training and review processes to ensure compliance with subrecipient monitoring requirements.

5.c. Action Plan Follow-up: Findings Issued by TxDOT

Table 1 – Action Plan Follow-up Status

Audit Report	Total Recommendations	Fully Implemented	Incomplete	Report Issued (Date)
AU2510 - South East Texas Regional Planning Commission (RPC)	6	2	4	11/21/25
AU2506 - Golden Crescent RPC	3	0	3	6/23/25
AU2501 - Hidalgo County Regional Mobility Authority	8	1	7	4/14/25
AU2404 - Permian Basin Metropolitan Planning Organization (MPO)	16	6	10	5/16/24
AU2402 - Lubbock MPO	11	8	3	3/27/24
AU2401 - Killeen-Temple MPO	7	3	4	1/24/24
AU2307 - Houston-Galveston Area Council MPO	9	7	2	8/22/23
AU2303 - Rio Grande Valley MPO	11	11	0	3/14/23
AU2204 - Laredo MPO	11	8	3	5/4/22
TOTAL	82	46	36	



December 16, 2025

6. EXECUTIVE SESSION



December 16, 2025

ADJOURN