



# Audit Subcommittee

Quarterly Meeting



July 29, 2024



July 29, 2024

# 1. GREENER BUILDING SAFETY VIDEO



STATE OF  
MICHIGAN  
HIGHWAY  
BUILDING





July 29, 2024

# 2. CONSIDER APPROVAL OF MINUTES

April 24, 2024, Audit Subcommittee Meeting



July 29, 2024

# 3. INTERNAL AUDIT

Craig Otto, Division Director

## 3.a. Management Action Plan (MAP) Follow-Up: Past Due Status

### Priority 1 MAPs (1) ↓

<p><b>MAP Owner</b> Support Services Division (1)</p>	<p><b>Status</b></p> <ul style="list-style-type: none"> <li>Management and Oversight of Utility Accounts and Payments: Creation of a statewide utility framework for the establishment, disconnection, and monitoring of utility account activity.</li> </ul>
---	---

### Priority 2 MAPs (5) ↓

<p><b>MAP Owner</b> Aviation Division (3)</p>	<p><b>Status</b></p> <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>
<p>Support Services Division (2)</p>	<ul style="list-style-type: none"> <li>Management and Oversight of Utility Accounts and Payments: Implementation of a new web portal to track open/closed utility accounts and quarterly review of vendor performance.</li> </ul>

### Key Takeaways:

- Management and Oversight of Utility Accounts and Payments: A new tracking portal for the monitoring of utilities and the third-party vendor is being developed; MAPs estimated to be completed by FY 25 Q2.
- Grant Management – Aviation: Retesting of MAPs performed in FY 24 Q3; AVN still working to procure a grant management software, however, has begun implementing some interim monitoring procedures for grant management, Buy America, and material testing.

### 3.b.1. Internal Audit Report: Facilities Construction Project Management

<b>Audit Scope:</b>	To evaluate the effectiveness of the facilities construction project management process and validate that projects are completed in accordance with contractual requirements.		<b>Audit Type and Overall Rating</b>
<b>Value to TxDOT:</b>	Improving the project management process to be effective in completing construction of district buildings in a timely manner.		
<b>Risk Theme:</b>	<u>External Risks:</u> Legislative Updates	<u>Internal Risks:</u> Talent Retention and Management	
			Program
			Priority 3

**Relevance:** TxDOT's facilities construction management process includes the design and execution of division/district capital and facility enhancement type projects. Between September 1, 2020 and December 31, 2023, 651 change orders (\$31M) were executed for 158 facilities construction projects (\$290M).

<b>Finding 1: Facility Construction Project Change Order Root Cause –</b> Lessons learned through project change order root causing were not communicated or used in the design of on-going or future facility projects.	Priority 3
<ul style="list-style-type: none"> <li>▪ 35 of 36 (97%) change orders were not communicated through the lessons learned meetings in order to be used in the design of on-going or future facility projects.</li> </ul>	
<b>Finding 2: Inconsistent Application and Documentation of the Facilities Construction Process –</b> Construction Project Managers (CPMs) were not consistently applying facility construction process procedures (i.e., timely completion, approval, payment accuracy, and document retention).	Priority 3
<ul style="list-style-type: none"> <li>▪ 176 of 305 (58%) project documents were not retained and could not be utilized to validate timely completion of deliverables per the contract requirements.</li> <li>▪ 105 of 267 (39%) project documents were not retained and could not be utilized to validate required approvals were obtained.</li> </ul>	

### 3.b.2. Internal Audit Report: Federal Grant Management - Notification and Tracking

<b>Audit Scope:</b>	To evaluate TxDOT’s preparedness for the increase in volume for federal discretionary grant opportunities and monitoring for the status of these grants through completion.	<b>Audit Type and Overall Rating</b>	
<b>Value to TxDOT:</b>	To ensure TxDOT is pursuing federal discretionary grant opportunities to help support critical transportation projects across the state.		
<b>Risk Theme:</b>	<table border="1" style="width: 100%;"> <tr> <td style="width: 50%;"><u>External Risks:</u> IIJA Funding, Rapid Urbanization</td> <td style="width: 50%;"><u>TxDOT Risks:</u> Reliance on Contractors/Third Parties, Funding Expectations/Funding On-Hand</td> </tr> </table>		<u>External Risks:</u> IIJA Funding, Rapid Urbanization
<u>External Risks:</u> IIJA Funding, Rapid Urbanization	<u>TxDOT Risks:</u> Reliance on Contractors/Third Parties, Funding Expectations/Funding On-Hand		
		Program	
		Priority 4	

**Relevance:** *The goal of TxDOT’s federal grant program is to bring federal dollars to Texas to support critical transportation projects throughout the state. As of January 31, 2024, a total of eight IIJA authorized federal discretionary grants totaling \$87M have been awarded to TxDOT.*

<p><b>Finding 1: Federal Grant Program Opportunities</b> – Variation within operational procedures exists for 1) how the districts and divisions (D/Ds) determine which grant opportunities to pursue/not pursue, 2) documentation retained for business decisions, and 3) follow-up performed with the grant federal agency to determine the reason a grant was not awarded to TxDOT.</p> <ul style="list-style-type: none"> <li>▪ Five grant Notice of Funding Opportunities applicable to TxDOT did not have documented rationale retained to support the business decision not to pursue the grant opportunity.</li> <li>▪ Six grant applications did not have documentation retained to support Deputy Executive Director – Planning &amp; Administration approval prior to application submission.</li> <li>▪ Three grant applications that were not awarded to TxDOT did not demonstrate any follow-up performed with the granting federal agency to better understand the decision to help with future submissions.</li> </ul>	Priority 4
--	------------





July 29, 2024

# 4. COMPLIANCE

Cheryl Durkop, Division Director

# 4.a. Summary of Investigations – FY2024, 3<sup>rd</sup> Quarter

Investigation Totals		<u>Q3 / Previous Q</u>	
▪Opened	50	↑	35%
▪Closed	42	↑	7%

Closed Investigation Dispositions			
▪Substantiated	27 (64.3%)	▬	0%
▪Unsubstantiated	15	↑	22%

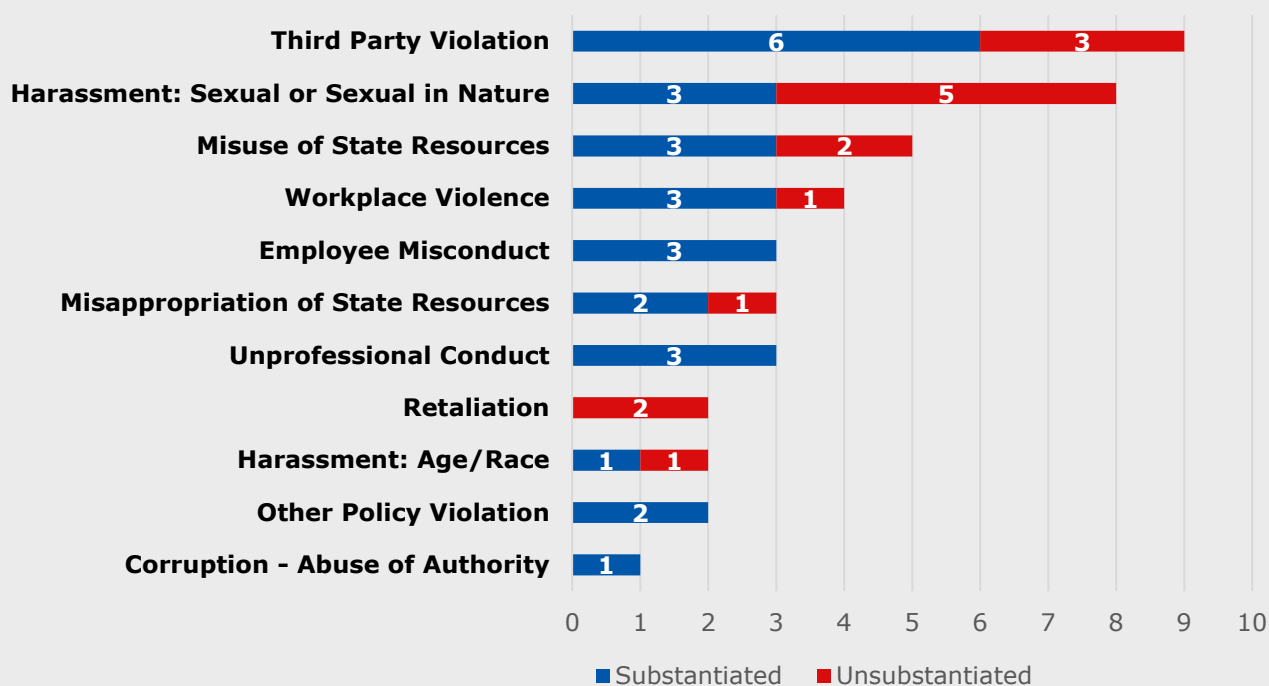
Closed Investigation Locations			
▪Districts	25	↓	18%
▪Divisions	6	↑	100%
▪Third party	11	↑	44%

## HIGHLIGHTS

- Decrease in substantiated investigations (69.2% to 64.3%)
- Supervisors/lead workers accounted for 23.3% of substantiated non-third-party investigations.
- Investigations of significance:
  - Falsification of timesheets, falsification of inspection reports, and vehicle misuse by a Rail Division employee.
  - Misappropriation of state resources involving the return of \$2,996 in TxDOT property.

## 4.a. Summary of Investigations – Fiscal Year 2024, 3<sup>rd</sup> Quarter

### OUTCOMES BY ALLEGATION CATEGORY



## 4.b. External Audit Report: Permian Basin MPO

**Objective and Scope Summary:** Evaluate PBMPO's financial controls for proper TxDOT grant fund management and payment compliance for fiscal years 2022 and 2023 (October 2021 - September 2023).

### **Background:**

- PBMPO covers the cities of Midland and Odessa, including parts of Ector, Midland, and Martin counties.
- The City of Odessa acts as the PBMPO's fiscal agent, assisting with financial, procurement, and HR functions.
- PBMPO received federal planning funds through the Transportation Planning and Programming Division (TPP) for transportation projects within its jurisdiction totaling \$716,559 and \$618,314 in grant reimbursements for fiscal years 2022 and 2023 respectively.

### **Conclusion:**

- Unallowable costs of \$5,705 were identified due to incorrect and unsupported payments.
- Non-compliance with federal requirements to analyze the cost of procurements, check vendor status and maintain adequate documentation.
- Identified control weaknesses related to approving expenses and procurements, inconsistently performing bank reconciliations and financial audits, as well as outdated policies and procedures.
- Provided thirteen recommendations to improve operations and control environment.

*Implementing recommendations will improve financial oversight and accountability within PBMPO's operations.*

## 4.c. SB312 Sunset Implementation Review

The Compliance Division will report on monitoring reviews of Sunset bills and Management Actions:

- **SB 312 (codified in Texas law):** TxDOT's compliance to legal requirements will be reported as "compliant", "non-compliant", or "under review."
- **Management Actions (adopted or modified by TxDOT):** TxDOT's implementation status based on management's 2018 action plan and subsequent actions will be reported as "implemented", "substantially implemented", or "deviated from initial response."
- CMP will perform monitoring reviews **each fiscal year through 2029**. Each quarter, approximately 25% of SB 312 sections and management actions are planned for review.

### Results (as of July 19th, 2024)

	SB 312 Sections	Management Actions
<b>Compliant/Implemented</b>	<b>20 (74%)</b>	<b>10 (40%)</b>
<b>Compliant/Implemented -issues noted</b>	<b>3 (11%)</b>	<b>2 (8%)</b>
<b>Non-compliant/Deviated from Initial Plan</b>	<b>2 (7%)</b>	<b>10 (40%)</b>
<b>Under review/Substantially Implemented</b>	<b>2 (7%)</b>	<b>3 (4%)</b>
<b>Total</b>	<b>27</b>	<b>25</b>





July 29, 2024

# 5. EXECUTIVE SESSION



July 29, 2024

# ADJOURN