



Audit Subcommittee

Quarterly Meeting



September 25, 2024



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1. GREENER BUILDING SAFETY VIDEO



STATE OF MICHIGAN
STATE OF MICHIGAN
HIGHWAY
BUILDING



September 25, 2024

2. CONSIDER APPROVAL OF MINUTES

July 29, 2024, Audit Subcommittee Meeting



September 25, 2024

3. FINANCIAL MANAGEMENT

Megan Lowary, Accounting Section Director, Financial Management Division

3.a. Spirit of SOX Engagement Purpose

An advisory service engagement is conducted by the Compliance Division's (CMP) External Audit & Advisory Services Section per the Financial Management Division's (FIN) direction. Testing is pursuant to revised "Spirit of SOX" methodology approved by the Texas Transportation Commission 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.a. Spirit of SOX FY 2024 Engagement

The advisory service engagement testing was performed to determine the effectiveness of key controls over financial reporting for fiscal year 2024.

Key control testing engagement

- FIN selected 17 key controls for effectiveness testing.
- Testing was performed from May 2024 through August 2024, using data from September 2023 to May 2024.
- CMP communicated the operating effectiveness of each control to FIN at the conclusion of the engagement.
- CMP internally distributed the final report on the engagement in August 2024.

3.a. FY 2024 Testing Results

Conclusion

- **16 out of 17 controls (94%)** were found to be appropriately designed and operating effectively:
 - The one identified failure during testing has no significant impact on TxDOT financial reporting.
 - Follow up testing resulted in **100%** accuracy of the one failed control.
- **All** general IT controls passed the control testing.

3.a. FY 2024 Detailed Results and Observations

TxDOT Prequalification (PP-C5): Vendors must be prequalified by a prequalification examiner in the construction division before they can bid on contracts. The prequalification process includes a review of vendor financial statements audited by a licensed CPA. The prequalification examiner will also verify that the vendor has the capacity and working capital necessary to perform the work.

- Testing sample included **20% of vendors** awarded contracts during September 1, 2023 to May 31, 2024. All contractors tested were pre-approved prior to bidding.
 - One contractor's bid capacity was overstated due to an incorrect amount of current assets entered in the system. The bid capacity calculation error overstated the bid capacity by less than 1%. The amount awarded to that vendor did not include the overstated amount. The accuracy rate of total vendors tested was 99%.
- The **seven key** Information Technology (IT) general controls tested include: password configuration, disaster recovery, program changes, system access, user access reviews, and automated system checks.
 - No issues were identified during IT general controls testing and all controls were designed appropriately and operating effectively.

3.a. FY 2025 Spirit of SOX Engagement Plan

Spirit of SOX FY 2025 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 fiscal year 2025 with additional input from CMP.
- CMP will perform control effectiveness testing after the first three quarters of fiscal year 2025 (September 1, 2024, through May 31, 2025).
- FIN will continue to work with CMP during fiscal year 2025 to identify opportunities to enhance key controls over financial reporting.



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4. COMPLIANCE

Cheryl Durkop, Division Director

4.a.1. Summary of Investigations – FY 2024, 4th Quarter

Investigation Totals		<u>Q4 / Previous Q</u>	
•Opened	36	↓	32%
•Closed	34	↓	21%

Closed Investigation Dispositions		<u>Q4 / Previous Q</u>	
•Substantiated	22 (65%)	↓	20%
•Unsubstantiated	12	↓	22%

Closed Investigation Locations		<u>Q4 / Previous Q</u>	
•Districts	22	↓	13%
•Divisions	9	↑	40%
•Third party	3	↓	73%

HIGHLIGHTS

- Increase in allegations and substantiated cases of employee misconduct.
- Investigations of significance:
 - Misappropriation and resale of maintainer tires by a maintenance supervisor.
 - Transportation engineer failed to disclose outside employment which created the appearance of a conflict of interest by conducting business with an entity they work with in their TxDOT capacity.

4.a.2. Summary of Investigations – FY 2024, Overall

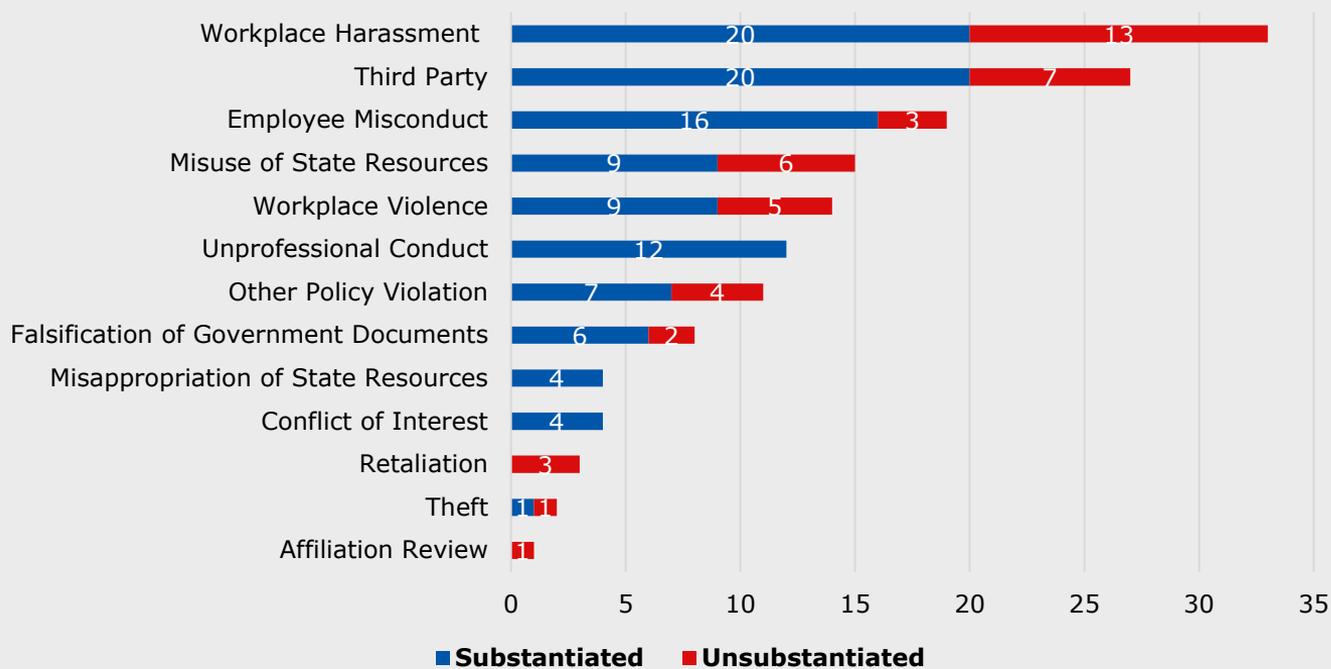
Allegations	FY24	FY23		
•Received	750	801	↓	7%
•Investigated	157	153	↑	3%
Closed Investigation Outcomes				
•Substantiated	108	80	↑	30%
•Unsubstantiated	45	78	↓	54%
Closed Investigation Locations				
•Districts	103	95	↑	8%
•Divisions	30	22	↑	31%
•Third party (CMP)	20	41	↓	69%
Sanctions by Category				
•Written reprimand	4	8		
•Debarment	6	5		
•Reduction in bid. cap.	0	0		

HIGHLIGHTS

- Substantiation rate is 71% for the fiscal year.
- Significant decrease in third party investigations; 13 entities referred to sanctions.
- Fewer supervisor/lead worker investigations – substantiation rate is 55%.

4.a.2. Summary of Investigations – FY 2024, Overall

OUTCOMES BY ALLEGATION CATEGORY



4.b. Action Plan Follow-up: Findings Issued by TxDOT

Audit Report	Total Recommendations	Fully Implemented	Incomplete	Comments
AU2404 - Permian Basin MPO	16	4	12	Report issued 5/16/24
AU2402 - Lubbock MPO	11	3	8	Report issued 3/27/24
AU2401 - Killeen-Temple MPO	7	2	5	Report issued 1/24/24
AU2312 - Port Authority Oversize and Overweight Operations - HCRMA	2	2	0	Report issued 10/19/23
AU2312 - Port Authority Oversize and Overweight Operations - Freeport	2	1	1	Report issued 10/23/23
AU2311 - Port Authority Oversize and Overweight Operations - Harlingen	3	3	0	Report issued 9/15/23
AU2311 - Port Authority Oversize and Overweight Operations - Brownsville	3	3	0	Report issued 9/15/23
AU2307 - Houston-Galveston Area Council MPO	9	6	3	Report issued 8/22/23
AU2303 - Rio Grande Valley MPO	11	3	8	Report issued 3/14/23
AU2204 - Laredo MPO	11	5	6	Report issued 5/4/22
AU2105 - NTT Data	2	2	0	Report issued 8/31/21
AU2002 - Regional Toll Revenue (City of Dallas)	8	7	1	Report issued 7/31/20
TOTAL	85	41	44	

4.c. FY 2025 Compliance Work Plan

Risk Assessment

- Based on the COSO and ACFE Fraud Risk Management Guide
 - Focused on fraud, compliance, and third-party risks
 - Considering TxDOT's stewardship responsibilities under federal and state requirements
- Incorporated:
 - Commission & Administration input
 - Division/District input
 - Objective risk factors
 - Department, industry, investigation, and internal audit trends

Top Risks

- Department third-party risk management, subrecipient grant management, conflicts of interest, collusion, product substitution

4.c. FY 2025 Compliance Work Plan

External Audits

- Hidalgo County Regional Mobility Authority
- Transit districts (multiple)
- BNSF railroad 2023 additive rates
- Cameron County Regional Mobility Authority
- MAP follow-up audits

Advisory Engagements

- SOX 2025 key control testing
- City of South Padre Island indirect cost rate review
- Traffic safety grant pre-award review
- TxDOT conference review
- Right of way utilities

Compliance Engagements

- FHWA Stewardship Agreement monitoring
- Third-party risk management program maturity reviews
- SB 312 Sunset reviews
- 89th Legislature action plans reviews
- Materials and testing lab safety review
- Hurricane Beryl after action review
- Allowable payment review (consultant supplemental agreements , IIJA)
- Fleet Operations division, employee engagement
- Detection activities (vehicle GPS removal, split purchase order, fuel card, change orders, purchase cards, and senior leader travel)

Investigative & Outreach Activities

- Conduct fraud, waste, and abuse and other serious employment misconduct investigations
- District (coffee with the crew) & division outreach presentations
- Supervisor meetings, engineering operations meeting and area engineer meetings
- Third party outreach and training during TxDOT and industry conferences



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5. INTERNAL AUDIT

Craig Otto, Division Director

5.a. Internal Audit Report: Fleet Preventative Maintenance

Audit Scope:	Evaluate the effectiveness and efficiency of fleet vehicle preventative maintenance (PM) practices.	Audit Type and Overall Rating
Value to TxDOT:	Minimize amount of fleet vehicle downtime for repairs and determine cost saving opportunities for Fleet Operations Division (FOD) purchases.	
Risk Theme:	<u>External Risks:</u> Resource/Supply Chain <u>Internal Risks:</u> Fulfilling Quality Control and Assurance	
		Program
		Priority 2

Relevance: TxDOT's equipment and vehicle PM program is managed by FOD for approximately 13,822 assets across the state. During fiscal years (FY) 2020 – 2023, TxDOT spent \$38.7M for preventative maintenance inspections and repairs.

Finding 1: Pre-Trip inspection review, vehicle defect repair timeliness, and form retention – TxDOT's vehicle pre-trip inspection process did not always have a supervisory review performed or pre-trip inspection forms retained.	<ul style="list-style-type: none"> 16 of 23 (70%) pre-trip inspection forms with noted defects did not have evidence of supervisory review. 36 of 105 (34%) pre-trip inspection forms requested from the districts could not be provided. 	Priority 2
Finding 2: TxDOT fleet vehicle warranty framework – FOD did not develop a framework to utilize and track vehicle and part warranties.		<ul style="list-style-type: none"> FOD was unable to report the number of vehicles under warranty. Between FYs 2021 - 2023, TxDOT purchased 1,499 new vehicles and spent \$3.2M on non-PM related services.
Finding 3: Fleet preventative maintenance system data – FOD did not have a process to assess PM job completion timeliness and costs to help drive PM efficiencies.		

5.b. Highlights - 2024 AASHTO Int./Ext. Audit Meeting

- August 18 – 21, 2024 in Fort Worth, TX.
- Annual gathering to network and share DOT internal and external auditing concepts, programs, and training (continuing professional education).
- Attendance records for meeting: Over 300 attendees from 42 states

Speakers

- Commissioner Meade (TxDOT)
- Carlos Braceras (Exec. Dir. Utah DOT)
- Jim Tymon (Exec. Dir. AASHTO)
- Rhonda Shaffer (Dep. CFO/Budget FHWA)

Federal Partners

- U.S. DOT OIG and Office of the Secretary
- Administration (6): Railroad, Transit, Highway Traffic Safety, Motor Carrier Safety, Highway, and Aviation

Topics Included

- Ethics
- Critical thinking
- IT auditing
- Fraud risk and investigations
- Federal grant programs
- Collaborative roundtable discussions

5.c. FY 2025 Internal Audit Plan Overview

- The Texas Internal Auditing Act, 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.
- The fiscal year (FY) 2025 Internal Audit Plan consists of **23 risk-based audit engagements** aimed toward providing assurance, or where applicable recommendations regarding the **top 20% of risks** identified as a part of the annual risk assessment. The plan also includes **7 carryover audits** not completed in FY 2024.
- 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 activity.

5.c. FY 2025 Risk Overview

Financial Management & Asset Recovery

Programming and oversight designed to maintain fiscal accountability and stewardship.

- Ship channel improvement revolving fund (\$400M)
- FY 2025 Highway Safety Plan (~\$103M)

Program Optimization

Programs and processes designed to support strategic goals, ensure productivity and cost-effectiveness.

- Long-term planning for the continuity of flight services (SB 312)
- Off-year bridge inspection effectiveness (35K on-system)

Information Technology & Cyber Security

Processes and activities designed to support effective, innovative business practices and protect information systems and data contained within.

- Information system applications increased 15% from FY 2023
- Artificial intelligence programs accelerating

Project Delivery

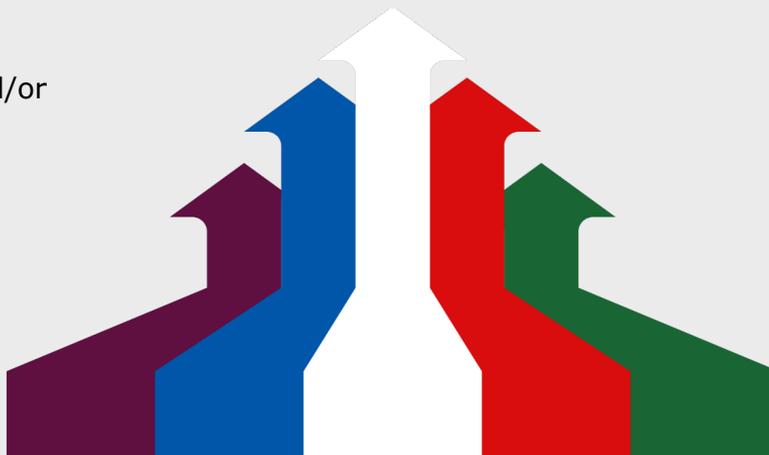
Processes that develop, fund, and/or execute transportation or vertical structure projects.

- Legislative update increased district local letting threshold from \$300K to \$1M for maintenance and construction projects

Governance & Third-Party Monitoring

Oversight and validation frameworks and activities designed to ensure quality and promote accountability.

- Reliance on third-parties require effective monitoring and evaluation processes



5.c. FY 2025 Internal Audit Plan (Grouped by Risk Theme)

Project Delivery (2)

- District Local Letting
- Rail Project Management

Financial Management and Asset Recovery (2)

- Ship Channel Improvement Revolving Fund (SCIRF)
- Grant Management – Traffic Safety

Program Optimization (4)

- Emergency Management
- Non-Contracted Bridge Inspections
- Aviation – Flight Services
- Timeliness and Proficiency of the Procurement Process

Information Technology and Cyber Security (3)

- Readiness and Resilience – Ransomware
- Vendor Management – Data Protection and AI Risk Mitigation
- Shadow IT

Governance and Third-Party Monitoring (5)

- Design Build Project Payments
- Multiple Use Agreements
- District Audit I
- District Audit II
- Prime Provider Evaluations

Recurring (2)

- Public Funds Investment Act
- Toll Facilities – Federal Reporting

Management Action Plan (MAP) Follow-Ups

- Evaluation of Priority 1 or 2 activities to determine risk mitigation

Carryovers (7)

- Grant Management – Electric Vehicle
- Letting Process Continuity
- Management of Fund Allocation for Port Improvements
- TxRAMP – Cloud Service Compliance Program
- Procurement of Temporary Employment Services Contracts
- Real Estate Acquisitions
- TAC 202 – Key Controls

Contingency (5)

- Program Optimization
 - TxDOT Business Continuity
 - PEPS Consultant Selection and Utilization
- Governance and Third-party Monitoring
 - Maintenance Contractor Performance Evaluations
 - Toll Operations – Back Office
- Information Technology and Cyber Security
 - IT Inventory Management



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6. EXECUTIVE SESSION



September 25, 2024

ADJOURN