



Audit Subcommittee

Quarterly Meeting



March 26, 2025



March 26, 2025

1. GREENER BUILDING SAFETY VIDEO



STATE OF TEXAS
HIGHWAY
BUILDING





March 26, 2025

2. CONSIDER APPROVAL OF MINUTES

December 16, 2024, Audit Subcommittee Meeting



March 26, 2025

3. NEW GLOBAL INTERNAL AUDIT STANDARDS

Parsons Townsend, Chief Audit and Compliance Officer

3. Global Internal Audit Standards Purpose (GIAS)



The GIAS set forth principles, requirements, considerations, and examples for the professional practice of internal auditing globally and ***are required to be followed by state agency Internal Audit function*** as required by Texas Government Code 2102, the Texas Internal Auditing Act.

3. What is the New Global Internal Audit Standards?

The new Global Internal Audit Standards (GIAS) contain:



5 Domains



15 Principles



52 Standards



**Topical
Requirements**



**Essential
Conditions**

3. GAP Analysis: Strategic Actions

Analysis identified 44 action items to address gaps identified for 25 standards to ensure conformance with the Global Internal Audit Standards:

- 20 • actions require changes to Internal Audit Division **Standard Operating Procedures**
- 12 • actions require actions to be carried out by **the CACO**
- 4 • actions require changes to Internal Audit **working paper templates**
- 3 • actions require changes to the **Audit and Compliance Charter**
- 3 • actions require **changes to minute orders** regarding the Annual Audit Plan Approval and Audit Subcommittee Charter
- 1 • action require changes to the **quarterly CACO Report**
- 1 • action require changes to **Internal Auditor Performance Plans**

3. Domain III: Governing the Internal Audit Function

The Texas Internal Auditing Act (Texas Government Code 2102) establishes the purpose, mandate, authority, role, and responsibilities of each state agency's internal auditor and internal audit function.

PRINCIPLE

6

*Authorized by
the Board*

The Texas Transportation Commission establishes, approves and supports the mandate of the internal audit function.

PRINCIPLE

7

*Positioned
Independently*

The Texas Transportation Commission establishes and protects the internal audit function's independence and qualifications.

PRINCIPLE

8

*Overseen by
the Board*

The Texas Transportation Commission oversees the internal audit function to ensure the function's effectiveness.

3. Principle 6 - Authorized by the Board: Essential Conditions

- **Determine the appropriate authority, role, and responsibilities** of the internal audit function (internal audit mandate).
- **Approve the charter, plan, budget, and resource** plan.
- **Ensure** the Chief Audit and Compliance Officer **reports to a level that allows** internal audit to fulfill its mandate.
- **Specify** that internal audit should have **unrestricted access** to data, records, information, personnel, and physical properties.
- **Inquire** whether any **restrictions exist that limit** the internal audit function's ability to carry out its responsibilities.
- **Meet periodically** with the Chief Audit and Compliance Officer **in private**.

Principle 7 – Positioned Independently: Essential Conditions

- **A direct reporting relationship** with the Chief Audit and Compliance Officer and the internal audit function.
- **Authorize the appointment and removal** of the Chief Audit and Compliance Officer.
- **Engage with the Executive Director to appoint** a qualified, competent Chief Audit and Compliance Officer to manage the internal audit function.
- **Provide input to support** the Chief Audit and Compliance Officer's performance evaluation and remuneration.
- **Approve** the Chief Audit and Compliance Officer's **roles or responsibilities** beyond the scope of internal auditing.
- **Establish appropriate safeguard** if the Chief Audit and Compliance Officer roles and responsibilities impair the internal audit function's independence.

Principle 8 – Overseen by the Board: Essential Conditions

- **Share** the Texas Transportation Commission's **perspective** on organizational strategies, objectives, and risks to assist the Chief Audit and Compliance Officer with determining internal audit priorities.
- **Set expectations** with the Chief Audit and Compliance Officer for:
 - The frequency with which the board wants to receive communications from the Chief Audit and Compliance Officer.
 - The criteria for determining which issues should be escalated to the Texas Transportation Commission.
 - The process for escalating matters of importance to the Texas Transportation Commission.
 - Discuss any disagreements with the Executive Director or other stakeholders.
 - Collaborate with the Executive Director to ensure internal audit has sufficient resources. Consider the impact of insufficient resources on the internal audit mandate and plan. Engage with the Executive Director and the Chief Audit and Compliance Officer on a solution if resources are determined to be insufficient.

3. Principle 8 – Overseen by the Board: Essential Conditions

- **Approve** internal audit's **performance objectives** at least **annually**. Assess the **effectiveness and efficiency** of the internal audit function.
- **Discuss the QAIP** with the Chief Audit and Compliance Officer.

External Quality Assessment (EQA):

- Discuss an EQA of the internal audit function conducted by an **independent, qualified assessor or assessment team**.
- Collaborate with the Chief Audit and Compliance Officer to determine the scope and frequency of the EQA. **Review and approve** the Chief Audit and Compliance Officer's plan for an EQA.
- Receive the EQA results and **approve** the Chief Audit and Compliance Officer's **remediation plans** and timeline to monitor progress.

3. Summary



The purpose of internal auditing to the new standards:

- Communicates the Internal Audit **Mandate** established in **Texas Government Code 2102**.
- Communicates **specific periods** when the CACO is required **to report** both to the Audit Subcommittee and Executive Director.
- Clarifying the Role and Responsibilities of the CACO in **promoting an ethics-based culture** and for both Divisions to report behavior inconsistent with expectations.
- Modifies the **external quality assessment reporting period**; 3 to 5 years - Internal Audit, 3 years - External Audit.
- **Formalizes a quality assurance program** for the compliance function and to report on the status to the Audit Subcommittee and Executive Director



The commitment to adhering to professional standards for both internal audit and compliance:

- **Authority to audit** and access to data, people, locations, and to the Executive Director and Texas Transportation Commission.
- Outlining the **scope and responsibilities** of the Internal Audit and Compliance Divisions.
- Requirements for an **annual risk assessment** and audit and compliance **work plan development** with oversight and approval by the Audit Subcommittee and Texas Transportation Commission.
- Required **reporting of audit and compliance reports**, and periodic assessments of processes and the charters.



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4. COMPLIANCE DIVISION

Cheryl Durkop, Division Director

4.a. Summary of Investigations – FY25, 2nd Quarter

Investigation Totals		<u>Q2 / Previous Q</u>	
• Opened	41	↕	2.5%
• Closed	36		22%
Closed Investigation Dispositions			
• Substantiated	29 (81%)	↓	0%
• Unsubstantiated	7		78%
Closed Investigation Locations			
• Districts	31	↓	6%
• Divisions	2		67%
• Third party	3		91%

HIGHLIGHTS

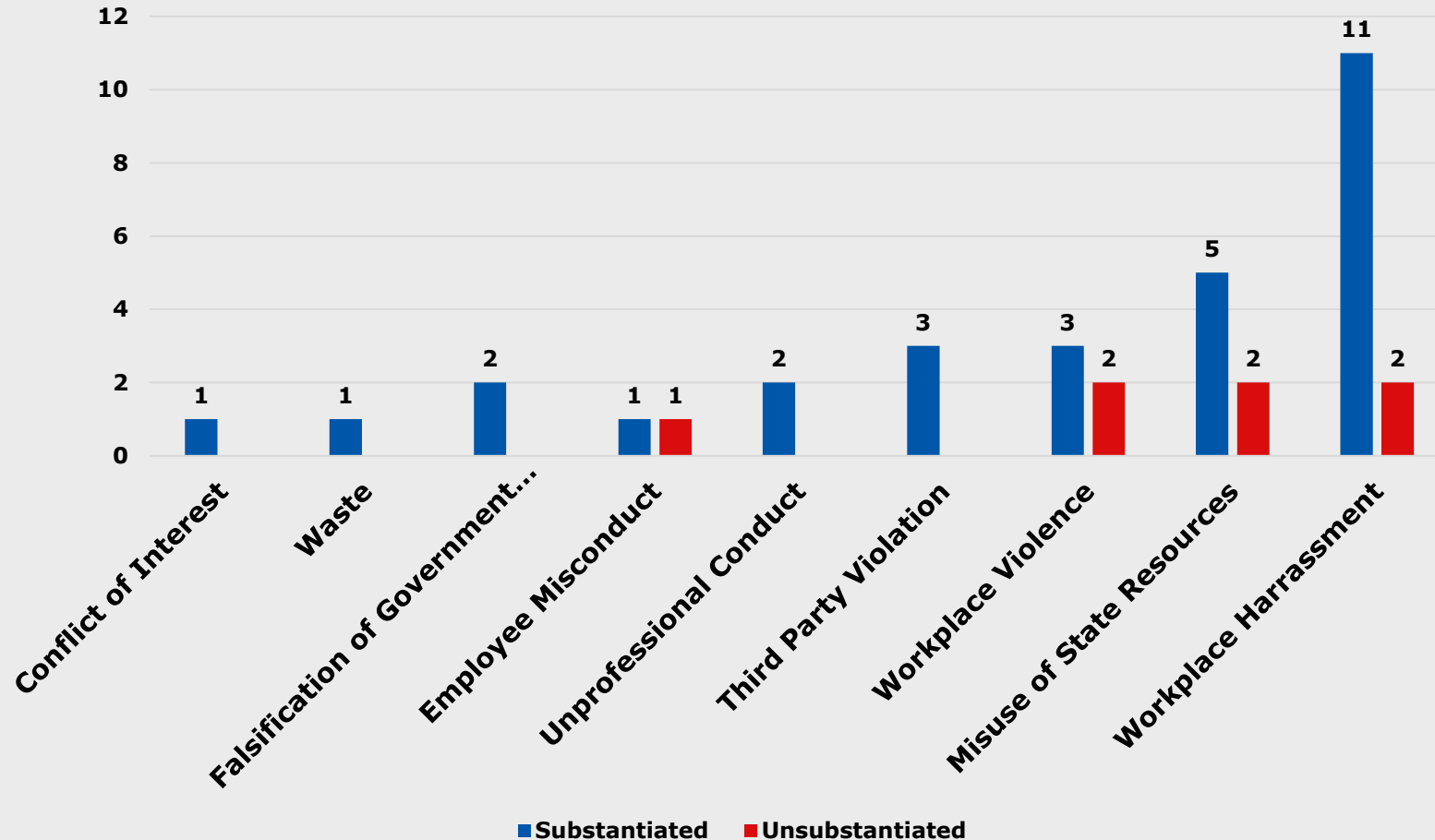
- Substantiated investigation rate increased to 81%:

Vehicle misuse is driving current substantiation rate.

- Investigations of significance:
 - Illegal dumping investigation within the Fort Worth District.
 - Multiple investigations for falsification of medical provider documentation.

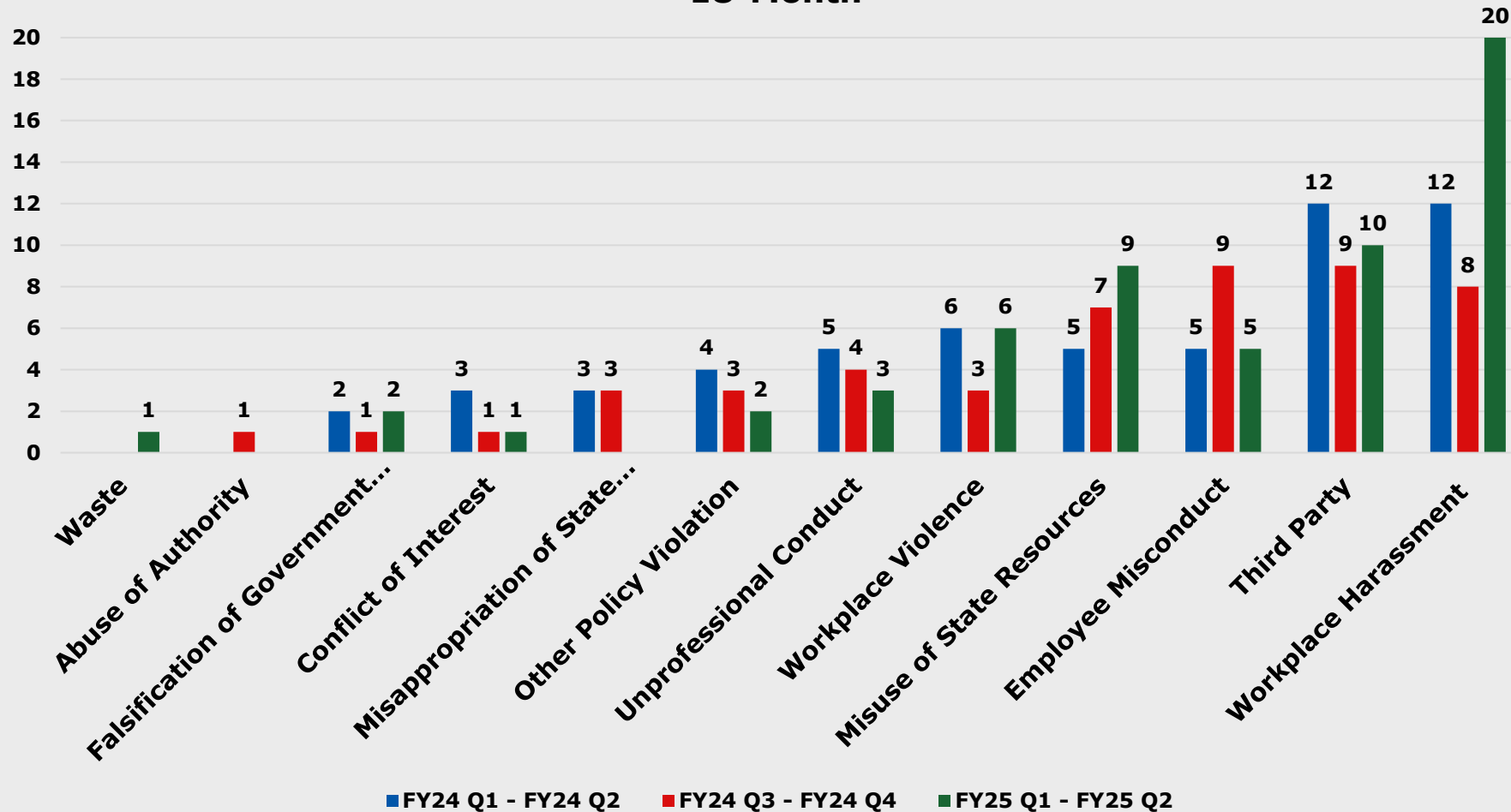
4.a. Summary of Investigations – FY25, 2nd Quarter

Outcome by Allegation Category



Summary of Investigations – 18 Month Summary

Allegation by Category (Substantiated)
18-Month



4.b. Advisory Services Report: ROW Utilities Audit Process Review

Objective and Scope: Identify potential efficiencies in the Right of Way (ROW) Utilities audit process through a review of program procedures, policies, and templates and an analysis of the ROW Audit Tracking log.

Conclusion: Overall, the ROW Utilities audit review process is conducted in an *effective and compliant manner*. As of September 2024, *\$25.6 million in retainage* has yet been paid by TxDOT.

Recommended Opportunities:

Process: Reduce duplicated efforts in the review process, designate ROW subject matter experts to review overhead rates annually for larger utility companies, ensure all reviewers have access to applicable procedures and templates.

Data: Ensure the audit data log contains consistent, clear, accurate, and complete data.

Financial: Based on ROW management's acceptable level of risk, ROW should consider implementing a threshold for determining if a final audit must be conducted before retainage is paid. ROW should ensure the determination process and threshold are documented in policy.

Communication: Create template communication to send to utility companies, create a community of practice through regular meetings with District, ROW personnel, and utility companies to discuss recurring compliance issues, training needs, and process improvements.

ROW Implementation Plan: *Evaluate and streamline processes* through updated policies, templates, data analytics, and workflows, *implement a management approved threshold*, and *partner with external organizations* to assess the educational needs of utility companies and consultants.





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5. INTERNAL AUDIT

Craig Otto, Division Director

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

Past Due Priority 1 MAPs (1) 	
<p>MAP Owner SSD (1)</p>	<p>Status</p> <ul style="list-style-type: none"> • Management and Oversight of Utility Accounts and Payments: identification/location of all TxDOT meters using global positioning system.
Past Due Priority 2 MAPs (9) 	
<p>MAP Owner Aviation Division (3)</p>	<p>Status</p> <ul style="list-style-type: none"> • Grant Management – Aviation: Software procurement related to Buy America, grant management, and material testing policies/procedures. • Management and Oversight of Utility Accounts and Payments: Implementation of quarterly reviews of vendor performance. • Construction Project Management – Recordkeeper Development: Implementation of required project checklist event dates. • Oversize/Overweight Permit Revenue: Establishment of methodologies for the utilization of oversize/overweight permit revenue. • Construction Project Management – Prequalification: <i>Restricted Distribution</i>
Support Services Division (2)	
District Operations (1)	
Maintenance Division (1)	
Construction Division (2)	

Key Takeaways:

Management and Oversight of Utility Accounts and Payments: **Tested three pilot districts** in FY25 Q1; all three pilot districts and remaining 22 districts **are still working to identify and locate all TxDOT meters.**

- Further MAP testing will be performed in phases based on district implementation status.

5.b. Internal Audit Report: District Local Letting

Audit Scope:	To evaluate the effectiveness of the district local letting process.	Audit Type and Overall Rating	
Value to TxDOT:	To provide assurance districts are conducting local lettings in accordance with policy.		
Goals:	<table border="1" style="width: 100%;"> <tr> <td style="width: 50%;"><u>TxDOT Goals:</u> Deliver the Right Projects, Foster Stewardship, Focus on the Customer</td> <td style="width: 50%;"><u>ED Priorities:</u> Delivery, Stewardship</td> </tr> </table>		<u>TxDOT Goals:</u> Deliver the Right Projects, Foster Stewardship, Focus on the Customer
<u>TxDOT Goals:</u> Deliver the Right Projects, Foster Stewardship, Focus on the Customer	<u>ED Priorities:</u> Delivery, Stewardship		
		Program	
		Priority 2	

Relevance: Letting is the official receipt and opening of bids on a specified date/time and determination of the apparent low bidder. In fiscal years 2023 and 2024, a total of 971 and 973 projects, respectively, were locally let across TxDOT’s 25 districts. With the implementation of the \$1M threshold in August 2024, an additional 169 projects were locally let through November 2024.

Finding 1: Execution of District Local Letting Procedures – District personnel observed did not always perform all letting procedures required to ensure a uniform and consistent statewide letting process. Priority 2

Pre-Letting

- 14 of 17 (82%) districts did not have a secure drop box for contractors to submit paper bid proposals when an electronic bid was not submitted.
- 11 of 17 (65%) districts did not check all designated drop off locations for paper bid proposals.
- 2 of 17 (12%) districts did not have at least two personnel conducting the letting.

Bid Opening

- 13 of 17 (76%) districts did not read all required information at the bid opening meeting.
- 6 of 17 (35%) districts opened the bid proposals prior to the public meeting instead of during the meeting, as required.

Post-Letting

- 8 of 17 (47%) districts performed some, but not all, post-letting verifications of the apparent low bidder.
- 2 of 17 (12%) districts stored contractor personally identifiable information (PII) in unlocked filing cabinets at the district HQ office.



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6. EXECUTIVE SESSION



March 26, 2025

7. COMPENSATION APPROVAL



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ADJOURN