



TXDOT AUDIT FRAMEWORK STANDARDS/COSO 2013 INTEGRATION

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Standards/COSO Considerations



Government Auditing Standards



International Professional Practices Framework



Federal Standards for Internal Control



COSO - Internal Control Integrated Framework

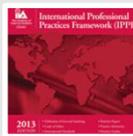
Focus on professional auditing standards and internal control framework equates to enhanced value proposition

Strengths of Each Element



Yellow Book

- Government audit focus
- Prescriptive
- Establishes competence and professionalism as auditor requirements
- Drives accountability
- Focus on safeguards to enhance independence



Red Book

- More universal adoption
- Performance and attribute standards
- More guidance on adding value through consulting
- More focus on organizational independence



Green Book

- Internal control focus
- Concepts geared toward accountability, flexibility, and sustainability
- Leverages COSO framework (principles and attributes)
- Outlines documentation requirements



COSO

- Based on primary *Operations, Reporting and Compliance* objectives
- Establishes internal control structure (5 components)
- Outlines 17 contributing principles
- Engages all organizational stakeholders

Adaptable and useful for all stakeholders

Keys to Success

- Knowledge of Standards and COSO
 - Credibility
 - Selling the platform
 - Getting resources
- Support at highest levels
- Communications plan to share knowledge and benefits of COSO with mid-level management
- Ability to identify staff with drive/initiative
- Early successes and talking points
- Courage to communicate candidly and engage in tough, results-focused conversations

Advancing the profession takes drive, patience and focus

Benefits of Framework

- Results focused on business objectives/outcomes (reporting, operational, compliance and strategic)
- Risks communicated in terms of impact to key objectives
- Helps engage in conversations regarding action plans that will help advance the organization (not just fixing symptoms)
- Ratings help focus resource investment on most critical items
- Helps management feel good about risk management, instead of compliance-only approaches
- Develops staff into risk-based and more strategic members of the organization

Improves overall risk management

Combining Standards and COSO Elements

Planning

- 2-4 weeks focused on interviews, documentation review and consideration of legal/regulatory landscape
- Output is scope presentation, which includes engagement summary, control design evaluation, risk footprint, scope coverage recommendations, engagement dashboard and capacity plan
- Entrance Conference at end of planning, after scope presentation meeting

Execution

- 4-6 weeks focused on completing audit work programs
- Weekly meetings with audit management, focused on driving conclusions and ensuring client engagement/responsiveness
- Weekly updates to client stakeholders
- Dashboard updated on ongoing basis
- Findings issued and management action plans requested

Closing

- 2-3 weeks focused on communication, alignment on risks/management action plans
 - Exit Conference, draft consolidated report issued
 - Meetings with Executive Management team to provide assurance, risks, findings and discuss management action plans/resource investment
 - Final report issued internally and externally, as required by *Texas Internal Auditing Act* (Sec. 2102.0091)
- REPORTS OF PERIODIC AUDITS.



Includes planning, management/client engagement, due diligence and appropriate reporting, based on risk

TxDOT Framework Outputs



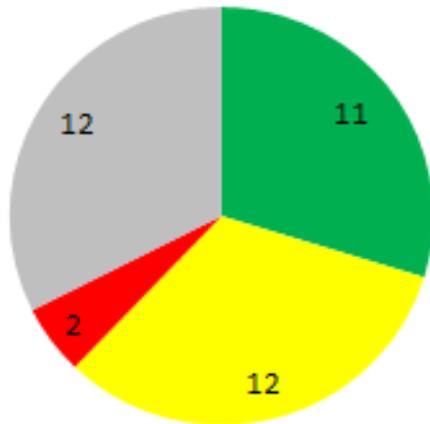
Highlights organizational focus and investments to drive reasonable risk management framework

Internal Audit Ratings

RATING	Reporting Reliability	Operations Effective/Efficient Use of Resources	Compliance with applicable laws and regulations	PROCESS VARIATION
Exemplary	No issues or minor observations / currently exceeding goals / high focus on internal control throughout organization / number of best practices and appetite for disciplined innovation			<p style="text-align: center;">Low</p> <hr style="width: 1px; margin: auto;"/> <p style="text-align: center;">High</p>
Satisfactory	Findings and/or observations / currently meeting goals / adequate focus on internal controls			
Needs Improvement	Findings and observations / not meeting some goals or pose TxDOT risk / focus on internal controls can be strengthened			
Unsatisfactory	Findings and observations / not meeting key goals and posing organizational risk / focus on internal controls needed			

Enterprise Metrics – Audit and Advisory Service Reports Issued

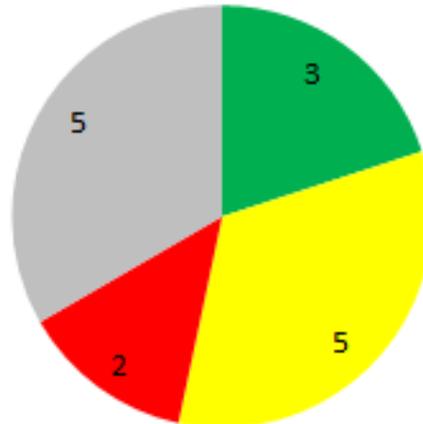
Fiscal Year 2013



37 Audit and Advisory Service Reports Issued

- Full/Limited Scope - 24
- Risk Response - 1
- Follow-Up (Not Rated) - 9
- Advisory Service (Not Rated) - 3

Fiscal Year 2014



15 Audit and Advisory Service Reports Issued

- Full/Limited Scope - 10
- Follow-Up (Not Rated) - 4
- Advisory Service (Not Rated) - 1

Takeaways

- Flat trend (no change Y/Y)
- Issues tend to be more **operating effectiveness** issues, which could have been prevented and/or detected through stronger monitoring

Example of Final Report (excerpts)

Human Resources Procedures Management TxDOT Office of Internal Audit – Full Scope

Objective

Evaluation of compliance, control design and process mapping for key Human Resource functions.

Opinion

Based on the audit scope areas reviewed, control mechanisms are effective and substantially address risk factors and exposures considered significant relative to impacting operational execution and compliance. The organization's system of internal controls provides reasonable assurance that most key goals and objectives will be achieved despite significant control gap corrections and improvement opportunities identified. Control gap corrections and improvement opportunities identified are likely to impact the achievement of the organization's business/control objectives, but management has agreed to corrective action plans to address the relevant risks within 6 months.

Overall Engagement Assessment	Satisfactory
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Finding				
	Title	Control Design	Operating Effectiveness	Rating
Finding 1	Updating Human Resource Policies	x	x	Satisfactory

Management concurs with the above finding and prepared management action plans to address deficiencies.

Control Environment

Staff members in the Human Resource Division (HRD) recognize the risks inherent in administering TxDOT's HR functions and have a positive tone towards carrying out the various functions. In addition, management at TxDOT recognizes the division's importance and the overall impact it has on the department's core business functions.

Summary Results

Finding	Scope Area	Evidence
1	Statutory Compliance	Four federal and one state statutory references were not found in the TxDOT HR Policy Manual

Audit Scope

The scope of the audit work focused on activities in the HRD, specifically policies and procedures associated with employee onboarding, separation of employment and disciplinary actions of employees. Audit coverage included an evaluation of compliance with human resource statutory and regulatory requirements.

The audit was performed by Veronica Chacon, Catherine Edwards, Timothy Owen and Jack Timmins (Engagement Lead). The audit was conducted during the period from January 13, 2014 to March 21, 2014.

July 2, 2014 2

Focus on effectiveness of control mechanisms, achievement of business objectives, and closure of identified control gaps/weaknesses

Objective rating of program/processes; gives management outlay to consider whether investment of resources is worth it

Auditor's assessment of internal control environment

Lists summary of key testing and results

Example of Final Report (excerpts)

Human Resources Procedures Management — TxDOT Office of Internal Audit – Full Scope

Summary Results Based on Enterprise Risk Management Framework

Audit Results Dashboard		
Human Resources Procedures Management		
Business Objectives (Reporting, Operational, Compliance)		Scope Areas Evaluated
ERM Component	Control Activities	O, C Statutory Compliance
Control Environment	Organizational Tone	
	Planning	1
	Forecasting	
	Goal-Setting	
Risk Assessment	Cost-Benefit Analysis	
	Business Continuity	
	Evaluations/Analysis	
Control Activities	Management Action Plans	
	Policies/Procedure Development & Maintenance	1
	Approvals/Authorizations	
	Supporting Evidence/Records Availability	
	Segregation of Duties	
	Safeguarding Assets	
	Information Classification	
Information & Communication	Information Input	
	Information Processing	
	Output/Reporting and Messaging	
Monitoring	Exception Reporting Review	
	Reconciliations/Root Cause Analysis	1
	Peer Reviews	
	Management Representations	
Scope Area Assessment		

Rating Assessment Grid			
Exemplary	Satisfactory	Needs Improvement	Unsatisfactory

Closing Comments

The results of this audit were discussed with the Human Resources Division Director and the Enterprise Resource Planning Office Director. The audit team would like to express its appreciation to the employees of the Human Resources Division and the Enterprise Resource Planning Office for their cooperation throughout the audit.

Lists areas evaluated along with corresponding assessment (color)

Provides management with information regarding what area(s) require improvement to ensure investment of resources makes sense.

Global Recognition

INTERNAL AUDITOR

JUNE 2014 INTERNALAUDITORONLINE.ORG

Meet John Wszelaki, The IIA's New N.A. Board Chairman

COSO 2013: A Public Sector Case Study

Strengthening the Response to Business Disruption

Eye on Business: Cyberattacks

A WORLD OF TECHNOLOGY

RISK + SPEED

CYBERSECURITY

DATA ANALYSIS

INTERNAL CONTROL

ROAD to process improvement

The Texas Department of Transportation successfully implemented COSO 2013 to enhance its audit procedures.

Benito Ybarra

JUNE 2014

18% of chief audit executives say they have started transitioning to COSO 2013, while 35% say they will start the transition in the next 12 months. —Grant Thornton 2014 CAE Survey

AUDIT RESULTS DASHBOARD

Planning Phase - The engagement dashboard at this phase depicts audit engagement focus areas in terms of COSO elements. The dashboard provides consistent alignment and communication of results throughout the engagement.

Name of Audit	Risk & Control		Process Areas		Overall Rating
	Risk	Control	Process Area 1	Process Area 2	
Information and Communication					
Monitoring					
Operations, Reporting, and Compliance					
Financial Reporting					
Strategic Planning, Development, and Execution					

Execution Phase - At this stage, the dashboard depicts audit engagement performance by engagement area. The dashboard is used to deliver updates to the client.

ROAD TO PROCESS IMPROVEMENT

Information and Communication, and Monitoring. These components are the basis for the audit team's evaluation and allow for annual reporting, which provides an comprehensive view of the organization's risk profile. The dashboard also includes COSO defined objectives, which are highlighted to scope areas to be evaluated during the audit engagement: Operations, Reporting, and Compliance. In addition to knowing what is being evaluated during an audit engagement, key stakeholders get assurance and notification of what achievement of COSO objectives is strong or at risk.

The Strategic element of COSO also is addressed in every audit engagement. For every engagement performed, the team is charged with aligning its work with the organization's primary goals and the value to the organization. "Engagement Summary" on this page. This focuses focus on organizational goal achievement, while performing work to meeting such objectives.

The intended end products are refined objectives and scope, as well as documenting the best methodology for accomplishing these objectives. Documented or published issues often are identified during planning and are further used to identify root causes and organizational impacts during the execution phase of the engagement. Key outputs of the planning phase are the engagement risk assessment, control design evaluation, and engagement work program. These items are included in the work recommendation presentation, which is delivered by the

Planning The purpose of planning is to gain a deeper understanding of the engagement area and allow staff members to identify and assess risks.

ENGAGEMENT SUMMARY

Engagement Name	Client Name
Engagement Area	Engagement Area
Engagement Phase	Engagement Phase
Engagement Date	Engagement Date
Overall Engagement Rating	Overall Engagement Rating

Scope Area	Objective	Overall Assessment
Scope Area 1	<50%	100
Scope Area 2	<50%	100
Scope Area 3	<50%	100

Designed to establish and be a continuous reminder of the key drivers of the audit engagement, the engagement summary is part of the presentation to audit management and the client throughout the engagement. Where any drivers change, it allows for discussion, consideration, alignment, and approval, as appropriate.

More information available at www.theiia.org

Thanks!