

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on January 29, 2014, at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 10:02 a.m. with the following members present:

Audit Subcommittee Members:

Fred Underwood	Commissioner, Audit Subcommittee Chair
Jeff Austin, III	Commissioner, Audit Subcommittee Member

Administrative Staff:

Benito Ybarra	Chief Audit & Compliance Officer
Joanne Wright	Deputy General Counsel
Tim Jennings	Chief Information Officer

Registration sheets listing others in attendance are on file with the Texas Department of Transportation's Audit Office.

A public notice of this meeting containing all items on the proposed agenda was filed in the office of the Secretary of State at 1:39 p.m. on January 21, 2014, as required by Chapter 551 of the Government Code, referred to as "The Open Meetings Act."

Opening remarks were made by Commissioner Underwood and Commissioner Austin.

Item 1. Approval of Minutes from the August 28th, 2013, Quarterly Meeting

The Minutes were presented by Benito Ybarra, Chief Audit & Compliance Officer, and approved by Commissioner Underwood and Commissioner Austin.

Item 2. Internal Audits Completed

There were two audit reports presented this quarter by Craig Otto, Director of Internal Audit.

Item 2a. Accounts Payable Management Action Plan Follow-Up

Mr. Otto presented the results of *Accounts Payable Management Action Plan Follow-Up*.

As discussed at previous meetings, about six to eight months after the action plans have been put in place, Internal Audits will perform a follow up and evaluate whether risks are mitigated. The first engagement was to assess corrective actions from a "needs improvement" finding from 2013.

The objective for *Accounts Payable Management Action Plan Follow-Up* was to assess the status of corrective actions for high risk management plans previously communicated in the Accounts Payable Audit Report, dated March 11, 2013. The engagement produced five findings: various management action plans to remediate the risks associated with system access, voucher processing documentation, prevention of duplicate payments, and compliance with the Spirit of the Sarbanes-Oxley Act that was initiated in 2009.

Internal Audit follow-up showed that good progress was being made in the Finance (FIN) Division. One Management Action Plan (MAP) was closed, while two MAPs remained open because improvements were needed in two primary areas: quality control review of vouchers being submitted for payment, and assessing and documenting the review process for duplicate payments. MAPs were to be in compliance as of November 2013, and will be revisited in FY 14.

Commissioner Austin stated that he had spoken to contractors, and received very good feedback on how contractors were paid. Best practices should be shared with the Internal Audit team. Having looked at accounts payable, accounts receivable should be looked at, too.

Mr. Otto advised that they have an engagement that has been on-going – Statement of Costs Receivables Report – he is working with Brian Ragland, Finance Director, Benito Ybarra, James Bass, and John Barton regarding completions of that report. There is some work to be done – making sure all districts and divisions are aligned.

Commissioner Underwood questioned the six to eight month delay in the follow-up. If an area is critical, six to eight months is too long. He requested defined criteria for issues on response time.

Mr. Otto advised that the business unit implements the MAP or they may have additional potential risks.

Mr. Ybarra advised that there is a four-tiered rating system: *exemplary*, *satisfactory*, *needs improvement*, and *unsatisfactory*. *Unsatisfactory* items potentially have the greatest negative impact on the organization; these items will have a much shorter delay in the follow-up. Most of the time, a *needs improvement* finding allows for the six to eight months delay in the follow-up.

Item 2b. Disaster IT Recovery

Mr. Otto presented the results of *Disaster Recovery – IT Audit*.

The objective of this *Disaster Recovery – IT Audit* was to determine if adequate plans and the ability to ensure critical TxDOT operations are not impacted by business interruptions to the IT infrastructure, as well as whether testing debriefs and remediation plans have been developed and implemented. The engagement identified two findings: April 2013 recovery plan was reviewed and it did not include sufficient recovery instructions for all IT systems – either critical or noncritical. It was noted that servers were given adequate priority but not all IT systems were documented in the disaster recovery plan as required. In addition, existing technical recovery instructions (known as run books) were not always found to be updated or complete to help correct these deficiencies as noted during system testing or any result of infrastructure changes to the existing IT infrastructure.

MAPs require ongoing projects that will help identify the current system criticality for all applications along with implementing more frequent reviews (quarterly review process) of the run books procedures to make sure these systems run properly and there are ways to get them back up and running in the event of a disaster. TxDOT will also create and implement a process to recover non-critical applications that may not have been considered part of the disaster recovery process. Tim Jennings, Chief Information Officer, is aware of the range of applications here at TxDOT.

Commissioner Austin advised follow-ups are essential and to sustain the focus on IT so it is available when we need it.

Commissioner Underwood inquired as to how the contract with NTT Data is working out.

Mr. Ybarra advised that NTT Data billings and service levels will be audited in the summer of 2014. We will look at the Service Level Agreements (SLAs) that we established with NTT Data, particularly the billings which will determine NTT Data support for meeting our needs.

Commissioner Underwood requests to be kept informed of arrangement for disaster recovery when delegating to someone else?

Commissioner Austin discussed maintenance agreements. He wants follow-up from maintenance agreements – double-billing and being double-billed. Mr. Ybarra advised they will provide those results.

Commissioner Underwood wants Audit to work with staff and administration. They need to be involved in this process as we go along.

Commissioner Austin requested an update regarding Audit resources to fulfill the audit plan.

Mr. Ybarra advised of ongoing hiring people and will provide an update by March 2014.

Recessed to Executive Session in Commissioner Underwood's office at 10:17 a.m.

Item 3. Executive Session

Commissioner Underwood and **Commissioner Austin** returned from Executive Session at 10:32 am.

Closing Comments

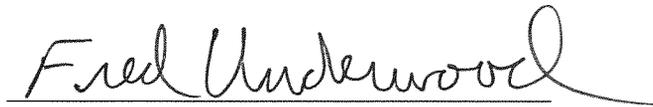
Commissioner Underwood stated we are now out of Executive Session at 10:32am. The next Audit Subcommittee Meeting would be held in March 2014. The members thanked all for attending the meeting.

Commissioner Austin commended Benito Ybarra on his implementation of good practices.

Commissioner Underwood requested Benito Ybarra congratulate all of the people that work with him.

The meeting was adjourned at 10:34a.m.

APPROVED:

A handwritten signature in black ink that reads "Fred Underwood". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Commissioner Fred Underwood, Chair
Texas Transportation Audit Subcommittee