

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on May 28, 2014, at 125 E. 11<sup>th</sup> Street, Austin, Texas 78701. The meeting convened at 10:01 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  
John Barton      Deputy Executive Director  
Jeff Graham      General Counsel

A sign-in sheet listing others in attendance is on file with TxDOT's Office of Internal Audit.

A public notice of this meeting containing all items on the proposed agenda was filed in the office of the Secretary of State at 1:35 p.m. on May 20, 2014, as required by Chapter 551 of the Government Code, referred to as "The Open Meetings Act."

Opening remarks were made by **Commissioner Underwood**.

**Item 1. Approval of Minutes from the March 26, 2014, Meeting**

The Minutes were presented by Benito Ybarra, Chief Audit & Compliance Officer, and approved by the Audit Subcommittee.

**Item 2. State Auditor's Office**

A team from the State Auditor's Office (SAO), Angelica Ramirez, Audit Manager, Kelley Ngaide, and Robert Pagenkopf, presented results of the financial portion of the 2013 statewide single audit report as well as reports on the 2013 audits of the Central Texas Turnpike System and the Texas Mobility Fund.

**Commissioner Austin** asked whether uncollected toll revenue was considered during the audit. Ms. Ngaide explained that this was not considered a material line item and that the level of materiality is linked to a percentage of gross revenue. The Chief Audit and Compliance Officer was asked to follow up with the SAO team to ascertain what percentage of gross is considered material.

**Commissioner Austin** sought clarification regarding the overstating of future debt service identified. Brian Ragland, Director of Finance, explained that the interest rate on future debt service is an estimate, and that Finance will strengthen controls and reviews to be in compliance with the GASB requirement that the effective interest rate be used.

**Commissioner Underwood** asked if there was a way to show both interest rates, i.e., the actual current rate and a projected higher future rate, to protect against future interest rate increases. **Commissioner Austin** asked if a reserve could be set up for the same purpose.

The SAO team was doubtful that either approach was feasible. **Commissioner Underwood** stressed that complying with GASB was the priority.

The next discussion focused on the inventory of bridges. Brian Ragland explained that since the original finding of 2010 continual improvements have been made. The underlying issue is that under current policy, bridges are depreciated, highways are not; under the new policy, bridges and highways will be blended into one asset, eliminating the need to identify bridges as a stand-alone asset. John Barton added that this fits in with the improved asset management system at TxDOT. **Commissioner Underwood** asked how long this will take. Both John Barton and Brian Ragland stated that the implementation is taking place in FY 2014, and being reported in the 2014 annual financial report. When asked about the impact of the implementation, John Barton explained that the new approach allows for a better characterization of the total value of assets to decision makers and policy makers; he added that, nationally, Texas with its hybrid approach had been the outlier.

**Commissioner Austin** asked how, at the point of implementation, the useful life of a road would be assessed. Brian Ragland explained that the asset value would be determined globally, not on a project-by-project basis. The State has an inventory system for capital assets and TxDOT will have one asset. Referring to the TxDOT Investor Webpage, **Commissioner Austin** asked that a summary of what has been discussed here be posted to allow analysts to understand what has been happening and reconcile this year's to prior years' information. **Commissioner Underwood** agreed and emphasized that this affects the whole state and urged Finance to continue the collaboration with the SAO.

**Commissioner Underwood** and Benito Ybarra thanked the SAO team.

### **Item 3. Approval of Audit Charter**

The Charter was approved as presented.

**Commissioner Austin** added that as the balance sheet was getting more complex, there will be a continuing need for the activities outlined in the Internal Audit Plan to be examined to ensure appropriate coverage and continuous learning and improvement.

### **Item 4. Internal Audits for Discussion**

The Director of the Office of Internal Audit, Craig Otto, presented the audit reports for Receivables Management – Statement of Cost and Right of Way Acquisition.

#### *Receivables Management – Statement of Cost*

When discussing the delays in sending demand letters to local governments, John Barton explained that the need for additional collections is that the cost of projects can be fluid and this affects the proportional share of the costs to local governments. The proposed change will set a fixed cost to the local government based on the initial project cost estimate. Changes requested later by the local government would be collected at an agreed rate. Mr. Barton agreed with

**Commissioner Underwood** that management of the receivables discussed here requires significant improvement but predicts that, in collaboration with Finance, all of the issues can be addressed and reconciled within an 18-24 months' time-period. After full implementation receivables will be less common; overall the system will offer more predictability for local budgets, more transparency, and, as a result, possibly, more local participation.

Mr. Otto concluded by emphasizing the process of record reconciliation between Districts and Finance and that in many instances District Engineers have been very good at assuming that role. **Commissioner Austin** thanked Mr. Otto and the audit team for the report and reiterated that communication matters.

### *Right of Way Acquisition*

In response to Mr. Otto's presentation, John Campbell, Director of the Right of Way (ROW), agreed that there is no central repository for ROW records; instead, records are kept in 27 different locations. Mr. Ybarra interjected that this was a result of the decentralization of ROW. Responding to **Commissioner Austin**, Mr. Campbell explained that while hardcopy originals of working papers have to be kept two to four years, paper deed records have to be kept in perpetuity. **Commissioner Austin** asked after backup documentation/disaster recovery and urged ROW to explore the digitization of all records (e.g., cost, timing, repository location).

### **Item 5. Compliance, Ethics, and Investigations**

The Director of the Office of Compliance, Ethics, and Investigations (CEI), Suzanne Latimer, offered an update on office activities. Responding to the legislative implementation and consequent risk assessment work of CEI, **Commissioner Austin** commented that he sees the value of this in relation to the next legislative session as it provides the information that can be offered to legislators on the implementation of prior legislation. When asked by **Commissioners Underwood** and **Austin** whether this provided coverage at the state and federal level, Ms. Latimer confirmed that it was state coverage. Both Commissioners supported a similar process to cover federal legislation. Reporting on the implementation of state legislation to legislators and, especially, bill sponsors, is currently the role of the Office of State Legislative Affairs (SLA). **Commissioner Underwood** added that it is beneficial to TxDOT when the department can respond to legislative stakeholders – this greatly helps the relationship.

During the presentation on risk assessment and mitigation, **Commissioner Austin** asked where the risk related to IT data breach/magnetic wipe would fall. Benito Ybarra explained that because IT is a support function across all of TxDOT, the risk, accordingly, is spread across all work groups as well.

During the discussion of Case Management and Outreach, **Commissioner Austin** stressed the importance of having new rules and initiatives incorporated into TxDOT training materials.

**Item 6. Executive Session**

Not deemed necessary.

**Closing Comments**

**Commissioner Underwood** thanked Mr. Ybarra and asked that the Subcommittee's appreciation be conveyed to the SAO team. **Commissioner Austin** thanked Mr. Barton and Mr. Ragland.

**Commissioner Underwood** stated that this concludes our agenda for today. The next Audit Subcommittee Meeting will be held on September 17, 2014, in Austin. The Commissioners thanked all for attending the meeting.

The meeting was adjourned at 11:15a.m.

APPROVED:

A handwritten signature in cursive script that reads "Fred Underwood". The signature is written in black ink and is positioned above a horizontal line.

Commissioner Fred Underwood, Chair  
Texas Transportation Audit Subcommittee