

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held August 29, 2012, in Austin, Texas. The meeting convened at 10:18 a.m. with the following members present:

Audit Subcommittee Members:

Fred Underwood Commissioner, Audit subcommittee Chair
Jeff Austin Commissioner, Audit subcommittee Member

Administrative Staff:

Benito Ybarra Chief Audit Executive
John Barton, P.E. Deputy Executive Director

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

A public notice of this meeting containing all items on the proposed agenda was file in the office of the Secretary of State at 9:14 a.m. on August 21, 2012.

Opening remarks were made by Commissioner Underwood. Commissioner Austin moved to begin the meeting.

Item 1. Approval of Minutes from May 30, 2012, Quarterly Meeting

The Minutes from the May 30, 2012, quarterly meeting were presented by Benito Ybarra, Chief Audit Executive and approved by Commissioner Underwood and Commissioner Austin.

Item 2. Approval of FY13 Audit Plan

Benito Ybarra, Chief Audit Executive (CAE), presented the Fiscal Year 2013 Audit Plan. The Texas Government Code requires a program of internal auditing that includes an annual audit plan that is prepared using risk assessment techniques and that identifies the individual audits to be conducted during the year.

Mr. Ybarra defined three primary activities: a 12-point audit criteria, prior audit results and trends from the last 2 years, and 40+ interviews and survey results from the Commission and from members of Administration and management, to obtain input for the FY13 Audit Plan.

The Audit Plan Overview includes five categories: Full Scope Audits (12 planned); Regional/District Audits (8); Management Action Plan (MAP) Follow-up (8); Risk Response (4); and Consulting (4). Mr. Ybarra stated that an investigations team has been hired and will work on Risk Response Audits.

Commissioner Underwood discussed the Risk Response Audits and asked if the Audit Office went outside the agency for consulting. Mr. Ybarra explained that an outside professional statistician was hired to help develop sampling techniques, and the focus is on training employees in these areas.

Commissioner Austin asked about following up on follow-up engagements. Mr. Ybarra explained when a follow-up was performed, the need for an additional engagement would be determined based on the determination of risks being mitigated.

Mr. Ybarra continued by breaking down the full scope audits by categories including Financial, Operational and Regulatory audits.

Commissioner Austin requested the location of the final reports. Mr. Ybarra explained that the final reports are on the TxDOT external website for viewing by the general public, as well as the internal website.

Mr. Ybarra proposed that the Minute Order be approved by the Commissioners at the next Commission meeting on August 30, 2012.

Item 3. Internal Quality Assessment Results

Tony Chavez, Audit Section Director, presented the *Internal Quality Assessment Results*.

Background: Statutes require the Internal Review program shall conform to the IIA Standards and the Professional Practice of Internal Auditing, the Code of Ethics and generally accepted government auditing standards.

The overall assessment was the Audit Office complies with standards and review components. Based on the review components and a sampling of audits, the areas that needed improvement are supervision and oversight, planning and performance of audits, and mandatory meetings with the CAE and Section Directors for added value.

Commissioner Austin asked about labor hours and he encouraged the audit team to be good stewards with work-time hours. Benito Ybarra, CAE joined the discussion by stating that performance standards have been put into place. They continued by discussing Continuing Professional Education (CPE) hours and tracking. Mr. Ybarra, explained 40 CPE hours is the requirement for each member of the Audit Office, on an annual basis. Based on the progress and goals, the level of product has increased and it is anticipated that by next year the Audit Office should be operating higher levels.

Mr. Ybarra explained the Internal Audit Capability and Maturity Model Matrix and pointed where the Audit Office was a year ago and the improvements and strides made. In addition, goals for next year were discussed.

Commissioner Underwood and Craig Otto, Audit Section Director, also joined in the discussion.

Item 4. Internal Audits Completed

There were four audits completed this quarter.

Karin Faltynek, Engagement Lead, presented the *Multiple Use Agreements Audit*.

The objective of this audit was to determine if TxDOT's Multiple Use Agreements (MUA) for Right of Way benefit the general public and TxDOT accordance with regulatory requirements.

There were three findings: 1) deficient file management resulting in inaccurate and incomplete MUA records, 2) no processes including documentation, for MUA evaluation, coordination and approval to ensure consistent application and appropriate use of Right of Way in accordance with Federal and State regulations., and 3) no guidance provided to districts for monitoring MUA locations to ensure facilities are constructed and maintained in compliance with agreement provisions..

John Barton, Deputy Executive Director (DED), expanded on the MUA program and public use on state right-of-ways such as parking lots operated by transit authorities, helipads by

Emergency Medical Services, or access to rivers for boat ramps by Parks & Wildlife (for an example). Once the public use areas are in place, the files are not revisited.

Mr. Howard Holland, Maintenance Division Director, was asked to revisit and discuss the agreements with the Commissioners. Mr. Holland stated there needs to be a follow-up to see if the fees collected are going back to the right-of-way areas for maintenance as intended, and over the years, the amount of maintenance required have become vague. Mr. Holland considered this audit a low risk, but the MUA program needs a process to be put in place to track the agreements. Overall, Mr. Holland thought this was a good audit. Andy Keith, Maintenance Division, concurred with the discussion.

The Right of Way and Maintenance Divisions are reviewing the findings and are preparing a management action plan to address deficiencies in the program.

Tim Owen, Internal Auditor, presented the *Tuition Assistance Program* audit.

The objective of this audit was to determine if the Tuition Assistance Program (TAP) is being conducted in accordance with state statute and department policies.

The TAP program has no consistent or department-wide processes in place for monitoring or evaluating program objectives, or no oversight over Districts, Divisions, Offices or Regions for managing compliance with Departmental policies governing the TAP program.

Commissioners Austin and Underwood asked about the procedure for enrollment and for repayment and/or garnishments if the employee doesn't comply with the program. John Barton, Deputy Executive Director, explained more about the processes and the benefit to the Department.

During FY2012, 172 participants were enrolled, and there is over \$356,000 in repayments due since 2004. Commissioner Austin agreed that it is a great program and had more questions on repayment.

Benito Ybarra, CAE, explained that the TAP program has been suspended for a minimum of 90 days while Scott Leonard, Chief Administrative and Strategy Officer is examining it closer, to look for improvements, safeguards and actions. In addition, management has prepared management action plans to address deficiencies identified.

Vivian Cohn, Internal Auditor, presented the *Delegation of Authority/Budget Compliance* Audit.

The objective of this audit was to determine whether consultant contracts are properly authorized and contract funds appropriately managed.

There were two findings: 1) inequitable distribution of work authorization among the vendors for indefinite deliverable contracts, and 2) insufficient guidance regarding encumbrance reporting. Two of four (50%) of the regions did not report encumbrances accurately.

Commissioner Austin requested an example, so, Ms. Cohn explained that support for the forecasted amounts was not available. Brian Ragland, Finance Director, went on to explain encumbrances. John Barton, DED, Commissioner Underwood, Mark Marek, Design Division Director, and Benito Ybarra, CAE, joined the discussion.

Commissioner Austin suggested training and sharing to make improvements.

Management concurs with the findings and has prepared a management action plan to address deficiencies.

Tony Chavez, Audit Section Director, presented the *Flight Services & Permit Operations Management Action Plan Follow-ups*.

Flight Services Follow-up – Remaining actions include: finalize and approve inventory SOPs; complete 100% of Inventory; implement new inventory control process; publish updated Purchasing Manual and HRM manuals; development of user log and document procedures for performing annual user access review; and migrate software changes into production.

Overall, the Flight Services are moving forward and has addressed key issues.

Permit Operations Follow-up Audit – Remaining actions include: develop and distribute district permit coordinator's guide and memorandum to district permit coordinators to recap TxDOT roles and responsibilities as outlined in Senate Bill 1420. Adoption of rules; negotiate and execute inter-local agreement with Victoria County Navigation District and develop and implement procedures to monitor inter-local agreement.

Commissioners Underwood had questions about Department of Motor Vehicles routing and Andy Keith explained the permitting process and accommodations of large trucks on highways. Mr. Holland also joined the discussion.

Mr. Ybarra requested that the Commissioners approve the FY 2013 Audit Plan, and Commissioner Austin moved to approve the FY 2013 Audit Plan before the full Commission. Commissioner Underwood seconded the motion.

Closing Comments:

The members thanked all for attending the meeting.

The next Audit Subcommittee Meeting will be held on November 14, 2012.

The meeting adjourned at 11:33 a.m.

APPROVED:



Commissioner Fred Underwood, Chair
Texas Transportation Audit Subcommittee