These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held February 23, 2011, in Austin, Texas. The meeting opened at 10:10 a.m. with the following members present:

Audit Subcommittee Members:

Fred Underwood	Commissioner, Audit Subcommittee Chair
Ted Houghton	Commissioner, Audit Subcommittee Member

Administrative Staff:

Steve Simmons	Deputy Executive Director
Owen Whitworth	Audit 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 filed in the office of the Secretary of State at 3:08 p.m. on February 11, 2011, 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 August ~~26~~ 25, 2010, Quarterly Meeting

Minutes were presented by Owen Whitworth, Audit Director, and approved by Commissioners Houghton and Underwood.

Item 2. Annual Review of the Audit Subcommittee Charter

Mr. Whitworth commented on the adequacy of current charter but requested input on any recommended changes. The current charter has been in effect for approximately one year.

Commissioner Underwood had concerns about how the charter reads concerning the Performance Plan and Evaluation (PPE) for the Chief Audit Executive (CAE). The charter now states: "At least once per year, the Executive Director shall evaluate the performance of the CAE for review, feedback, and concurrence of the Subcommittee." A revision should be made to allow the Audit Subcommittee Chair evaluate the performance of the CAE with input from the Executive Director.

Angie Parker, Office of General Counsel (OGC), commented on the procedure for changes and recommended presenting a revision to the full Commission for approval.

The recommendation was approved by Commissioners Underwood and Houghton.

Item 3. Preparation of the Annual Report to the Transportation Commission

Mr. Whitworth requested comments and suggestions from the Commissioners on contents of the Subcommittee Annual Report to be submitted to the Transportation Commission. He recommended a reporting period of May 2010 through May 2011. The report would include financial reporting, internal control, internal auditing, legal, reporting and other matters.

Commissioner Houghton asked whether specific audits would be included in this annual report and whether the audit results would be included in the report.

Mr. Whitworth stated that audit summaries are currently submitted to the Commission on a quarterly basis.

Commissioner Houghton and Underwood both recommended the report include a table of contents for audit coverage, including audits from the State Auditor's Office, with the ability to drill down for further information, which would require having audit reports posted on the department website. This would exclude complete audit reports of district, division, regional auditors, but may include a summary of that audit coverage.

Commissioner Underwood emphasized the need for including the Office of General Counsel in significant audits and investigations conducted by the district, division, regional auditors.

Ms. Parker stated that Bob Jackson, OGC, was interested in being involved in the audit process, to be made aware of significant incidents in order to review potential legal risks. She also mentioned the importance of maintaining a separation of responsibilities for the OGC and the Internal Compliance Program.

Mr. Simmons, DED, stated in regard to the Internal Compliance Program (ICP), disciplinary processes have to go through OGC and the Human Resources Division (HRD) to be assured that they are handled appropriately. He also stated that a department employee, Suzanne Mann, is involved in the ICP process and coordinates, informally, with the General Counsel.

Commissioner Underwood recommended further solidification of the coordination between Audit, OGC, and ICP.

Mr. Whitworth, CAE, agreed and stated that procedures are currently being drafted on the processing of ICP complaints, to include who would be notified in the chain of command about complaints directed at Administration from ICP.

Commissioner Underwood recommended that the Commission Chair should be notified on any incidents involving members of the Administration. He also requested the development of these procedures be completed on or before next quarterly meeting in May.

Discussion on the Subcommittee Annual Report concluded and a decision was made to present the report to the Subcommittee for approval at the May 25th quarterly meeting, with a recommendation it be distributed to the full Commission.

Item 4. Audit Restructuring Status

Owen Whitworth, CAE, reported that there has been some turn-over relating to the restructuring process, but overall it is going well. Regional Auditors are now responsible for coordinating the regions' audit resources, and reviewing auditors' work, holding them to audit standards, and recommending audit approvals to the CAE. Regional auditors participate in leadership team meetings in each region and the district auditors attend the DE staff and team meetings. The integration as far as the administrative functions as well as the evaluations and performance plans are now being accomplished. Budget and audit resources will be under the CAE's control and responsibility. The Audit Office is working with General Services Division (GSD), Occupational Safety Division (OCC), Finance (FIN) and Technology Services Division (TSD), so when changes are made there are not any gaps in the plan and the district auditors are well supported. This will be completed and reviewed at the Audit Conference in June and implemented by September 1, 2011.

Mr. Simmons stated that the auditors are being utilized to the very best and having the Audit Director actively involved in the hiring process has been beneficial. Mr. Whitworth

suggested hiring additional personnel for supervisory or manager positions to help approvals, evaluations and hiring. He will present a revised organizational chart at the next quarterly meeting.

Item 5. Audit Peer Review Update

Mr. Whitworth reported that AASHTO conducted a peer review last spring. It was a virtual peer review and there were some communications issues. The peer review team tried to apply audit standards to all audit products, including some of the more administrative assignments, which resulted in some items receiving an unfavorable rating. Corrective action is in progress including revisions to the Audit Manual as well as the audit tools, guidelines, and quality assurance program relative to the External Audit section. This action, once fully implemented, should ensure that audit work is properly documented and audit standards be applied to the audit products. The Audit Manual revisions have been drafted to include clarification of which products comply with standards. The draft is about ready to submit to OGC for their review. The process should be complete by April 1, 2011.

Commissioner Underwood requested Audit report to him when the Manual is ready. He discussed the peer review's finding regarding insufficient continuing professional education (CPE).

Mr. Whitworth stated changes have already been made to ensure each auditor receives forty hours of CPE every year. Auditors receive quite a bit of training internally but external classes are budgeted for as well.

Mr. Underwood requested hiring an external auditor to conduct a follow up on the peer review findings. It was agreed this would be accomplished this fiscal year.

Item 6. Internal Audits Completed During 1st and 2nd Quarters of Fiscal Year 2011

There have been four audit reports issued this quarter. Each Auditor-in-Charge (AIC) presented information from their respective audit(s).

Karin Faltynek, AIC, presented the results of the *Letting, Programming, and Scheduling Function Audit.*

Previously the letting management was operated in the Transportation Planning and Programming (TPP) and the Design (DES) divisions. This audit was performed after the letting management related offices were combined under the Finance Division (FIN).

The objective of the audit was to determine if the current programming and letting scheduling processes and related controls produce verifiable financial constraints.

Findings and recommendations include: 1. Functions were not clearly defined or documented in policy and guidelines. 2. IT access requests and approvals for transferred employees were not on file and access needs for transferred employees should be verified and supported by proper authorization. A plan to periodically monitor access should also be developed. 3. A majority of Performance Plans are outdated and past due. 4. Data inaccuracies, inadequate coordination and communication of data were also found.

A variety of recommendations were made to improve data verification procedures, project close-out procedures and a change in signature authority for funding approval requests.

The processes are operating within financial constraints; however, the processes are not verifiable due to the lack of documented methodology. Management is currently in the process of developing a methodology for future years' programming and letting scheduling. At the time

of the audit, the cost of construction change orders were not being deducted from the district letting caps, however, FIN and Construction (CST) have since implemented a process to capture change orders by district and category.

The audit was started in October 2008 and there has been some follow up. The division completed some of the recommendations; however, the division has requested more time on some items. Mr. Whitworth, CAE, commented that the directives for the CFO; the goals and procedures needed to be clarified. John Barton, AED Engineering Operations, commented that functions were placed under the CFO and those activities were implemented in March /April 2008. Mr. Bass, CFO, reported that staff know and understand their roles/responsibilities but their official job descriptions do not align with what personnel are doing now. Part of the problem is the terms used in the job descriptions are inconsistent, such as 'manage, supervise, oversee, approve', etc. The new job descriptions have been drafted and ready to be reviewed by HRD. Implementing full corrective action on some of the findings has been delayed because of recent recommendations from the TxDOT Restructure Council, which recommended changes to the organizational structure of some of these functions.

Kathy Baca, AIC, reported on the *After Hours State Vehicle Usage Audit.*

In the last Legislative session, there were questions about the usage of state vehicles after hours. A part of TxDOT's response was that they would focus on any practical reductions to after hour usage. The impact is reflected in the GSD *After Hours State Vehicle Usage Comparison Report*. This report shows the number of authorized employees has decreased from 729 in 2008 to 442 in 2010. State vehicles that have been taken home after hours have also decreased from 92,879 in 2008 to 19,191 in 2010.

The objective of this audit was to determine if the after hours vehicle usage is within the requirements of the TxDOT policies and procedures.

This audit focused on the necessity of taking state vehicles home after hours and was based on the percentage of times a state vehicle was taken out after hours and the number of miles an employee lived from the maintenance office. Proper authorization was determined by verifying the State Vehicle Usage Authorization Form was completely filled out and approved by the District Engineer prior to the employee taking the state vehicle home after hours.

In general, there is compliance with the intent of the after hours vehicle use policy, but the forms and procedures need to be clarified to improve compliance and monitoring.

Two recommendations were offered for improvement, 1. The GSD Director should be notifying the district or division DE/DD/OD/RD of non-compliance and carbon copy the Assistant Executive Director for District Operations and, 2. Suggest modifications to the Equipment Manual that gives specific directions for filling out and submitting the Form 1558 and the Reporting Requirements.

Best practices were identified in the Austin district, the only district visited. They developed two vehicle usage record keeping practices and a cost saving process for maintaining documents.

Mr. Whitworth commented that it was a very successful audit and GSD and the Regions have used this audit for improvements. Mr. Simmons, DED, also stated that there were some very good procedures that came out of the audit, in particular with regard to reporting of vehicle usage. The reporting issue came up last legislative session – what was being reported was the number of people who were authorized to take a vehicle home, not the number of times a vehicle

was actually used. So it looked like we had more vehicles taken home than actual. The audit helped improve both our vehicle usage procedures and our reporting procedures.

Raymond Martinez, AIC, presented the *Toll Collections Audit.*

This audit's objective was to determine if any actions could be taken to improve the return on the toll roads managed by the department. This audit also examined a concern that the toll operations general engineering consultant (GEC) was conducting work outside the scope of their contract.

The Turnpike Authority Division (TTA) is responsible for overseeing toll roads in the Austin, Tyler and Laredo areas and they rely on several consultants to handle the daily operations.

Some actions can be taken to improve the return on the toll roads. It was not determined if the GEC was conducting work outside the scope of their contract because the contract and related invoices are very general but overall, the work appears to relate to toll operations.

There was one finding and two observations: 1. Revenue can be improved by collecting toll charges for vehicles with dealer tags, 2. reducing the number of bad images, 3. reducing misclassifications/missed toll transactions and eliminating free passage for customers who purchase a TxTag at the toll plaza. Recommendations are that TTA work with OGC, the consultants and Austin District to try to resolve or minimize these issues.

It was observed that TTA directed a sub-consultant to conduct work that could be considered inappropriate for an engineering contract and it was recommended that TTA consult with OGC when there is any question. It was also observed that TTA doesn't maintain a simple "big picture" report of current revenues, expenses, receivables and uncollectable toll transactions and it was recommended that TTA develop this type of report.

Commissioner Underwood requested a follow-up on the corrective action. Mr. Whitworth explained that the Audit Office will follow-up on the action taken and that the timing of the follow-ups are determined by the deadlines for action as presented in the audit report. Mr. Simmons further explained that the corrective action proposed in the audit report and deadlines for corrective action are reviewed and concurred with by the Administration who ensures that appropriate resources are available as needed. At times the Administration will require different action and/or timeframes. General Counsel is also involved in the process and are requested to concur with the audit report and management response.

Commissioner Houghton requested to receive written information on the amounts paid to CTTS vendors and what the contract is for, for the last 2 fiscal years. He questioned the need for so much work to be performed by outside consultants when the agency has talented employees capable of doing the work. The agency needs to be running the system, not the consultants or GECs.

Mr. Barton, AED, Engineering Operations, commented that TxDOT internal workforce can perform many of the operations but he would provide an analysis of what can be done internally vs. outsource. One of the positions that has been vacated and not formally filled for quite some time is a Manager of Toll Operations. We would like to move forward with some of these initiatives but they are part of the changes recommended by the Restructure Council. Mr. Bass, CFO, stated that some functions need to be outsourced to remain independent because of the covenants and trust agreements with bond holders. For example, the department is required to have a GEC for functions such as system assessment, (providing assurance that the department

is maintaining the toll-way to required standards), and providing estimates of what they believe the required maintenance expenditures will be going into the future.

Roberto Manzo, AIC, reported on the *Primavera 6, (P6) Project Development/Project Management Software Audit.*

The objective for the P6 audit was to determine whether the P6 implementation is achieving the goals and objectives established by TxDOT administration. The P6 project is a very ambitious effort by the department and involves managing a project from start to finish: planning, development, construction and to the conclusion of every project. The audit found that the P6 effort is progressing to achieve the objectives set forth. There are issues discussed in the findings that the Project Management Office (PMO) is aware of and is working to address, these include the need to continue improving the accuracy of the data and the development of standard operating procedures (SOPs) for the project manager.

Each district should consider having a full time P6 Coordinator to assist project managers carry out their responsibilities, assist in the coordination efforts, address everyday P6 concerns, arrange for peer to peer exchange of ideas and streamline some of the requirements identified in the SOPs. The team concept, as some districts have already established, should be studied as a best practice. Additionally, the SOP, reference manual and training manual should be compared for inconsistencies and the PMO should consider developing a Project Management Manual.

The PMO employees should be commended for their efforts. P6 implementation is planned for completion by August 2011.

Commissioner Underwood asked Mr. Barton for his opinion on the need for a P6 Coordinator in every district. Mr. Barton, AED for Engineering Operations, responded that he believed it was important to have one in each district, whether full time or part of other job duties. Mr. Steve Simmons, Deputy ED, concurred.

Item 7. Internal Compliance Program (ICP) Update

Steve Simmons, Deputy Executive Director and Internal Compliance Officer, presented the *Internal Compliance Program Update.*

The TxDOT Watch Program is working and people feel free to report issues within the department. From August 16, 2010 to February 1, 2011, there were 112 reports received via TxDOT Watch. Of these, 90 have been investigated and results have been reported. The remaining cases are in the investigation process. Allegations in 29 reports were substantiated or partially substantiated. Other categories can include fraud that are not employee related and outside TxDOT's capacity to investigate. Those are referred to the Office of the Attorney General. There are some multiple complaints that are not substantiated or the complainants continue to make the same complaints, often times the complainant is not aware that disciplinary action has already taken place.

The ICP has worked to develop rules on Traffic Safety, and are now in the 2nd year of the IDEA training program. We continue to keep the focus on integrity and ethics through the ICP newsletter.

Additional discussion:

Commissioner Underwood inquired about the status of receiving transportation development credits (TDCs) from the Harris County Toll Road Authority (HCTRA). Brian Ragland, Finance Director, reported the department has now received TDCs earned from

HCTRA and these are being submitted to the Federal Highway Administration (FHWA) for approval.

Commissioner Underwood inquired on the status of Audit Office job vacancies. Owen Whitworth, CAE, reported there are currently four district vacancies; job offers are currently being extended for three vacancies in the Internal Audit Section and one vacancy in the East Region. Commissioner Underwood requested to be informed of the hiring status. Mr. Whitworth stated that updates will be included in the monthly memo to the Audit Subcommittee.

Commissioner Underwood inquired on the status of filling the position that ran the Bond Program. Mr. Brian Ragland, Finance Division Director, responded that the position is still vacant. There was a delay due to the Restructure Council's recommendation of moving that position from Finance Division to the Chief Financial Officer's responsibility. There is now a new organizational chart reflecting that change, effective February 1, 2011, so the position will be posted.

Commissioner Underwood requested a copy of the Chief Audit Executive's Performance Plan for the coming year.

Closing Comments:

Commissioner Underwood stated that the next Audit Subcommittee meeting will be held May 25, 2011. The members thanked all for attending the meeting.

The meeting adjourned at 11:48 a.m.

APPROVED:

Fred Underwood

Commissioner Fred Underwood, Chair
Texas Transportation Audit Subcommittee