

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held November 16, 2011, in Austin, Texas. The meeting opened at 3:03 p.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 Officer
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 filed in the office of the Secretary of State at 2:03 p.m. on November 8, 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 November, 2011, Quarterly Meeting

The Minutes from the November 16, 2011, quarterly meeting were presented by Benito Ybarra, Chief Audit Officer and approved by Commissioners Underwood and Austin.

Item 2. Audit Restructuring Status

Benito Ybarra, Chief Audit Officer, (CAO) presented a background from when the District, Division and Regional (DDR) Auditors were transferred to the Audit Office at the end of August 2011. Mr. Ybarra was hired and started working on September 19, 2012, and at that time all 54 DDOR Auditors reported to him, which proved to be inefficient.

Mr. Ybarra proposed to hire two (2) Audit Managers to provide support and manage multiple audits; ensure advisory services standards are followed and provide ongoing feedback on audits and performance evaluations. Currently performance evaluations are on an annual basis, but with the proposed plan auditors would be evaluated at the end of each audit also. He also explained that this will ensure quality, consistency, and teamwork.

Commissioner Austin questioned if job descriptions were complete and Mr. Ybarra reported that they are in the draft stages. Commissioner Underwood requested a copy of the job descriptions. Mr. Ybarra agreed to supply a copy and continued to present the *Restructuring Status*:

Adding an Investigations Team is important and will perform Continuous Fraud Risk Assessments; Waste/Abuse/Misappropriation Audits, and Management Directed Reviews (investigations).

Commissioners Underwood and Austin, and Mr. Ybarra discussed the Investigations Team at length including ongoing required training for auditors. Commissioner Underwood asked if Mr. Ybarra felt that there were enough auditors in place. Mr. Ybarra answered that a total of eight (8) new positions will be added including the two Audit Manager positions

The Information Technology Team will perform Continuous Information Technology Assessments and Information Technology-focused audits which will provide assurance to TxDOT Administration and the Commission. A review of software, IT vendors and the financials were discussed with Commissioners Austin and Underwood.

An Audit Pool Structure will be put into place and is designed to increase collaboration, mindshare and independence; provide better opportunity for development of TxDOT insight and provide for better succession planning. No change in structure planned for the External Audit Section (8 positions).

Item 3.a. Audit Modernization

Benito Ybarra, CAO, reported on the Audit Modernization. An analysis was performed to determine opportunities for improvement and what kind of improvements the customer wants to see.

Improvement Workstreams: Six (6) Improvement Workstreams were created to address opportunities; ensures cross-functional coordination and collaboration. A Lead was assigned for each Workstream Team.

District Audit Plan Regionalization: To identify functions that are regionalized and to recommend Regional Audits, based on risk and to identify lower risk areas included in audit plan to be displaced by Regional/Program Audits.

Audit Framework: The Audit Framework will enhance current framework/standard operating procedures and will include tools and presentation templates for consistent use by the audit team. (A rating scale will be used.) This will include status meetings with CAO and Internal Engagement Stakeholders.

Engagement Reporting: Engagement Reporting will develop a consistent reporting template for Audits, Management Directed Reviews and Consulting Engagements.

Engagement Risk Assessment : Engagement Risk Assessment will develop a consistent approach to engagement risk analysis, including tools and presentation templates.

Working Papers: Working Papers should have a consistent standard and a single workflow tool/repository.

Peer Review Remediation: Peer Review Remediation will provide assurance that 2010 Peer Review recommendations are closed and that sustainable processes are in place to ensure continued conformance to standards.

Item 3.b. Consulting Statement of Work

Benito Ybarra, CAO, presented the Statement of Work (SOW). Audit standards allow for the performance of consulting, however the Chief Audit Officer must ensure staff maintains objectivity and not assume management responsibility.

A Statement of Work template was created because a consistent tool was needed with the large number of auditors in the field. It outlines the key stakeholders, deliverables and timelines. It requires approval of key stakeholders and the Chief Audit Officer. A pilot program in El Paso District has been started and will be implemented in the next month.

Item 3.c. Continuous Risk Assessment

Mr. Ybarra continued to report that currently Audit Plans and resources are assigned and approved annually. However, risks evolve and develop continually and the Audit Plan should be flexible. It is planned that a Continuous Risk Assessment Program be developed on a quarterly

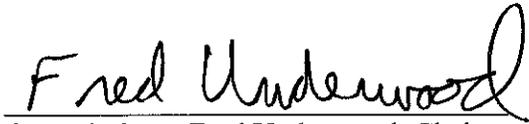
basis to re-evaluate risks and to re-prioritize the audit plan and be approved by the Commissioners. This program will drive recommendations for updates and provides a basis for audit resources.

Closing Comments:

Commissioner Underwood stated that the next Audit Subcommittee meeting will be held February 22, 2012. The members thanked all for attending the meeting.

The meeting adjourned at 3:38 p.m.

APPROVED:

A handwritten signature in black ink that reads "Fred Underwood". The signature is written in a cursive style with a large, looping initial "F".

Commissioner Fred Underwood, Chair
Texas Transportation Audit Subcommittee