

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on September 17, 2014, at 125 E. 11<sup>th</sup> Street, Austin, Texas 78701. The meeting convened at 2:01 p.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 and Compliance Officer  
Jeff Graham      General Counsel

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

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A public notice of this meeting containing all items on the proposed agenda was filed in the office of the Secretary of State at 2:10 p.m. on September 9, 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 May 28, 2014, Meeting**

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

**Item 2. Internal Audit/Finance Update**

As a follow-up to the audit report for receivables management/statement of cost, presented at the prior audit subcommittee meeting, Craig Otto, Director of the Office of Internal Audit, and Brian Ragland, Director of Finance, offered a progress update on the management action plans related to the audit.

**Commissioner Austin** asked what responses to the fixed participation rates had been received from the counties. Brian Ragland explained that some districts had a positive reaction. Going forward, an effort will be made to actively ask for feedback. Mr. Otto commended Finance for its outreach to the districts and close collaboration with the Office of Internal Audit. Mr. Ragland highlighted a Finance team visit to the Houston District, where a project-by-project review yielded background information and provided answers to reasonableness/fairness considerations when going after receivables.

**Commissioner Austin** asked how reviews like this will be reconciled. Mr. Ragland responded that this would be achieved by amending the existing contracts. Once agreed to by the local governments, the amended contracts become the basis for revised receivables statements.

Responding to **Commissioner Underwood**, Mr. Ragland confirmed that the collection letters will be generated by the Finance Division, with Mr. Ragland's signature; however, Districts will continue to be informed about the collections. When asked by **Commissioner Austin**, Mr. Ragland explained that some District Engineers prefer this to the current system where the collection letters are generated by the Districts. Some prefer the old system out of concern that they might lose the personal interaction between the District and the local government counterparts. All communication from Finance will be shared with the Districts prior to being sent to the local governmental entities. Mr. Ragland agreed with **Commissioner Austin**'s suggestion that in some instances it could be better if the letter were mailed by the District.

### **Item 3. Key Internal Audits Completed**

Craig Otto offered the audit report Progress on Receivables Management – Statement of Cost Program. **Commissioner Austin** asked what the lead time between the estimate and the date of letting is. Rene Garcia, Director of the Design Division, explained that the lead time can be years. **Commissioner Austin** suggested that there should be a follow-up review of how that timeframe could be improved. **Commissioners Underwood** and **Austin** asked that John Barton, Deputy Executive Director, should be given the opportunity to respond.

Referring to inconsistencies in the retention of records relating to variances that were greater than 20%, **Commissioner Austin** asked if District staff was being evaluated on record retention policy adherence. Benito Ybarra responded that this question had not been part of the audit scope but that the Office of Internal Audit will follow up. **Commissioner Underwood** emphasized that keeping records that document the reasons for variances is very important.

**Commissioner Austin** asked if there were patterns regarding firms or districts that had frequent major variances. Mr. Otto indicated that an analysis of the current work papers may yield information regarding such clusters.

### **Item 4. Key Advisory Services Completed**

Tony Rose, Director of the External Audit and Advisory Services Section, offered an update on the Sarbanes-Oxley Financial Controls (SOX) testing results. Pursuant to the changes made in the March Audit Subcommittee Meeting to the Spirit of SOX approach, an Advisory Services engagement team tested 25 controls over financial reporting. The controls were identified by the Finance division. In the spring, 24 controls passed; one did not; that control was retested and passed in August. An internal report was issued in August. The change to the Spirit of SOX was undertaken to provide better financial statements assurance at a reduced cost. The Finance division, in conjunction with the administration, will use this information to obtain certification for its annual financial report.

There are two Advisory Services engagements related to SOX in the 2015 plan. This will be an ongoing annual process.

**Commissioner Austin** asked if these engagements were necessary outside of TxDOT. Mr. Ybarra responded that their purpose was internal and that, for certification purposes on financial statements, the engagements provided assurance that the TxDOT key financial controls are working. Responding to a follow-up by **Commissioner Underwood**, Mr. Ybarra emphasized that this is an Advisory Service, not an audit.

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

The Director of the Office of Compliance, Ethics, and Investigations (CEI), Suzanne Latimer, offered an update on the activities and structure of CEI, as well as legislative implementation monitoring, risk assessments, and investigations. One of the on-going activities highlighted was the outreach and training in district through CEI Roadshows.

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CEI is currently in the process of hiring a risk section director and have added eleven FTEs to CEI. **Commissioner Austin** asked how many of the new positions will be filled internally. Ms. Latimer responded that the positions are currently at the hiring/interviewing stage.

Another addition will be policy management, providing oversight for the updates, based on new legislation and rules, to TxDOT's 110 policy manuals, which are now all on-line. Audits of maintenance, construction, and safety manuals have revealed inconsistencies. Mr. Ybarra added that organizationally this was a good housekeeping practice that also lowers the Department's compliance risk.

The legislative implementation monitoring component is new and will provide front-end monitoring of the impact and implementation of legislative changes. This will be done by way of stakeholder groups that include State Legislative Affairs (SLA). **Commissioner Underwood** inserted that the involvement of SLA will allow TxDOT to have input prior to proposed legislation becoming law.

The risk assessment section will continue to collaborate with Internal Audit and the Office of General Counsel. **Commissioner Underwood** emphasized that all risk assessments must be shared with John Barton and General Weber, so that they will continue to support the activity.

In addition to collaborating with SLA, CEI is also collaborating with Federal, as the Commissioners suggested during the last Subcommittee Meeting.

Regarding discrimination claims by employees, **Commissioner Underwood** asked if the current performance evaluation regimen would lower the number of these occurring. Mr. Ybarra and Ms. Latimer suggested that evaluations and an insistence on accountability may lead to an initial increase in the number. CEI is working with HRD to channel claims, as not all claims warrant a full EEO investigation.

In closing, **Commissioner Underwood** said that he is looking forward to an update once CEI is fully staffed; he particularly likes the roadshows and said that CEI should share with TxDOT leadership what the roadshows are providing.

**Commissioner Austin** added that since the last Commission meeting, he called TxDOT leadership to share his concerns about things he has seen during his travels in various Districts, like cell phone use in a TxDOT vehicle or speeding. Safety must be a cornerstone of the employee standard of conduct.

### **Item 6. Fiscal Year 2015 Audit Plan**

The Chief Audit and Compliance Officer, Benito Ybarra, introduced the Fiscal Year 2015 Audit Plan, which will be presented to the Transportation Commission at its monthly meeting on September 18, 2014. The Texas Government Code requires an annual audit plan based on risk assessment techniques and the dedication of adequate resources for the audits. Even while transferring five FTEs to Right of Way and CEI, there has been a 250% increase over past years in the number of audits performed.

Craig Otto, Director of the Office of Internal Audit, highlighted a few of the FY2015 proposed audits, including:

- Contract administration with the aim to provide consistency and enhanced efficiency and effectiveness.
- Toll operations – vendor performance, where the use of data analytics allows a review of millions of transactions to conduct a quality assessment/quality control of contractor performance.

**Commissioner Austin** asked if this will also include customer service metrics because the customers are the citizens of Texas. Mr. Ybarra responded that service level agreements are established by TxDOT, performed by the vendors, and the execution monitored in this process.

- We will be hiring an IT Lead Auditor to facilitate the ERP post-implementation reviews and improve IT audit coverage.
- Data classification: a year ago, an advisory service was performed to assist IT in terms of establishing a program. This time, we will take a look at where we are and how are we going forward; special emphasis will be on the privacy of information.
- Change order process. **Commissioner Austin** asked if we know the volume of change orders. **Commissioner Underwood** questioned whether change orders are more likely in urban than in rural areas. Mr. Ybarra confirmed that the answers would be part of the audit scope. Mr. Ragland added that in recent history, change orders have dwindled, due to a more involved approval process and making the districts letting operations financially responsible to pay for change orders. **Commissioner Underwood** suggested that it would be useful to see how this is working.
- Management Action Plans are to provide assurance that the actions that were planned have been carried out and were undertaken in a timely manner.

**Commissioner Austin** asked whether allocations to Regional Mobility Authorities (RMA) and allocations to other types of toll authorities have ever been evaluated. Mr. Ybarra said that those have not been evaluated by TxDOT External Audit; once it is determined that we have the authority to audit further, we should discuss potential audits as part of the risk assessment at a subsequent quarterly Subcommittee Meeting. **Commissioner Underwood** added that it is important to audit the real risk and exposure.

Tony Rose, Director of the External Audit and Advisory Services Section, highlighted the following FY2015 proposed advisory services engagements:

- Sarbanes-Oxley Key Controls Testing (2014 Annual Controls)
- Sarbanes-Oxley Key Controls Testing (2015 Non-Annual Controls)
- Cybersecurity - Network Vulnerability/Penetration Program will provide a look at the work of the Department of Information Resources to determine what is included in the penetration scan; what are best practices; and are there gaps?

**Commissioner Austin** added that in the banking business the cybersecurity analysis is performed annually and yields great recommendations for the operation. Mr. Ybarra added that this engagement goes hand-in-hand with the data classification audit mentioned by Mr. Otto.

In conclusion, the Commissioners commended Audit and Compliance.

#### **Item 7. Executive Session**

Not deemed necessary.

#### **Closing Comments**

**Commissioner Underwood** thanked Mr. Ybarra and asked him to be sure to pass on from the Commissioners here how much they appreciate the Audit and Compliance staff's work and their professionalism. **Commissioner Underwood** spoke at the annual Audit and Compliance Conference on September 16, 2014. He was impressed when he had a chance to talk to some of the auditors the night before the Audit and Compliance Conference. They were very nice and they cared about each other and about TxDOT. **Commissioners Austin** and **Underwood** really appreciate their hard work. There have been a lot of changes; they have been pushed hard; they had to move faster, and they obviously got a lot more things done. They have done a good job and it is appreciated and they need to be recognized for that.

**Commissioner Austin** commented that he recently had a phone conversation with a Senator who referenced the old Grant Thornton report. He asked if we can create a one or two-page summary of all the progress that has been made during the last few years at TxDOT. **Commissioner Underwood** added that the summary should also include the compliance with the wishes of the legislature, the Sunset Commission, and the Grant Thornton report. Mr. Ybarra agreed that such a summary could be produced in collaboration with SLA.

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

The meeting was adjourned at 3:21p.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

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