

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on December 17, 2014, at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 1:09 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
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 2:20 p.m. on December 9, 2014, as required by Chapter 551 of the *Texas Government Code*, referred to as "The Open Meetings Act."

Commissioner Underwood invited opening remarks. **Commissioner Austin**, in his capacity of Chair of the Audit Committee for The University of Texas at Tyler, recently participated in a presentation by the UT System external auditor. The presentation has been shared with the Chief Audit and Compliance Officer and may be a helpful template. It showed the importance of leadership, the tone at the top, and the interplay of the various roles in the audit process. The presentation particularly stressed that audit is not an adversarial process but a tool for self-identification of issues. **Commissioner Austin** expressed his pride in the work the TxDOT audit team is doing and how things are being examined to make TxDOT "Best in Class."

Item 1. Approval of Minutes from the September 17, 2014, Meeting

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

Item 2. Internal Audit Update

Craig Otto, Director of the Office of Internal Audit, provided information regarding two Management Action Plan (MAP) Follow-Up engagements where the Office of Internal Audit would be reviewing the mitigation/remediation plans set forth by TxDOT.

Item 2a: Comprehensive Development Agreement (CDA) MAP Follow-Up

The review showed that the corrective actions, previously communicated in the CDA Monitoring Process audit issued on August 28, 2013, have been completed in the agreed upon timeframe.

Responding to **Commissioner Austin's question**, Mr. Otto confirmed that after the award of a contract, the relevant monitoring communications between TxDOT and the 3rd party consultant were now being documented in the Project Implementation Plan or PIP. **Commissioner Austin** asked if penalties could be imposed for non-compliance. Jeff Graham responded that, globally speaking, any contract may contain penalties for non-compliance, covering both actual, and liquidated damages. **Commissioner Underwood** added that before that point is reached, there needs to be an examination of the relevancy of such provisions. Mr. Ybarra added that in the example of the NTT Data contract, non-compliance of precisely defined performance metrics may lead not to penalties, but to non-payment/delayed payment under the service agreement.

Item 2b: Privacy MAP Follow-Up

The original audit identified opportunities to improve protection of employee personally identifiable information (PII). One MAP called for written policies defining examples of PII and the protection needed. While good progress has been made, instances of inadequate safeguarding of PII were identified as part of an after hour walkthrough of two divisions' workspaces by the Office of Internal Audit. As a result, three of the four MAPs remain open from the original audit that was issued in August 2013.

Commissioner Austin asked what guidance a new TxDOT employee receives in terms of handling sensitive data. Mr. Ybarra responded that while not specifically addressing PII, policies regarding sensitive information are communicated to new employees. **Commissioner Austin** added that his primary concerns were data breaches and a common definition of what is to be considered private information. Mr. Otto responded that, currently, there is an on-going audit focusing on data security that will help assess if progress is being made by TxDOT on classification of data. Those final results will be made available upon completion of that audit. In response to a further question by **Commissioner Austin**, Mr. Graham confirmed that PII-related policies also extend to vendors.

Item 3. Internal Audit FY 2014 Review

Mr. Otto reported on the overall rating of the results of full scope audits, MAP Follow-Ups, and advisory service engagements. During the three years under the leadership of the current Chief Audit and Compliance Officer, there have been a number of encouraging improvements being made by the employees of TxDOT: a positive shift in the organizational tone; an increased understanding of the importance of controls; an improvement in the availability of supporting documentation (i.e., the audit trail); and an enhanced transparency in the planning of and approach to audits.

While there has been an overall improvement of the control environment, there remain some areas of opportunity, such as improving the techniques for monitoring external vendors; updating of policy and procedure manuals, securing documents, and managing record-keeping and retention.

Mr. Otto next addressed the internal performance metrics of key audit activities/initiatives. **Commissioner Austin** asked a follow-up question concerning the client feed-back regarding best practices by peer organizations. Mr. Ybarra responded that many peer organizations do not seek client feed-back or may limit it to specific themes. The 75% positive rating achieved by the Office of Internal Audit is considered “good” in the audit profession. In the ensuing discussion, it was stated that there is always the inherent question of whether the act of measuring performance impacts the auditors’ objectivity and independence. **Commissioner Underwood** agreed that very high scores may be a greater reason for concern, while the current score seems to indicate a healthy balance.

Commissioner Underwood commended the Office of Internal Audit for having increased the number of full-scope audits from 24 in FY13 to 29 in FY14 as a great sign of the office’s ability to achieve more with fewer headcount. **Commissioner Austin** asked what the projected number of audits for FY15 is likely to be. In response, Mr. Otto explained that that number will likely be in the low 20s because of the additional work linked to the ERP-implementation audits which require longer audit cycle time and the re-assignment of full-time-equivalent positions to other areas of the organization.

Item 4. 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 for the first quarter of FY15. The caseload and turn-around times for the first quarter are within industry standards. CEI benchmarks against other similar organizations, like the Florida Department of Transportation. One of the ongoing activities highlighted was the outreach and training in districts through CEI “Roadshows.” CEI has hired an additional presenter and plans to utilize some of the investigators in the future. There has been very good feed-back regarding the training.

Commissioner Austin suggested that CEI follow up on surveys to make sure that they were received by the appropriate people. **Commissioner Underwood** added that such follow-up should be recorded.

The legislative implementation monitoring component is on-going and, in collaboration with State Legislative Affairs (SLA), will provide monitoring of the impact and implementation of legislative changes. Current numbers show an implementation rate for bills of just under 72% and just under 53% for riders. However, TxDOT is 100% up to date in its legislative

implementation. Incomplete implementation is due to input/action required by entities outside TxDOT.

John Barton added that in view of the upcoming legislative session, in his interaction with legislators and legislative committees, it is very helpful to be able to say that TxDOT has complied fully, to the extent possible, with all legislative mandates. He commended CEI for the excellent work of monitoring legislative implementation.

In response to the request by **Commissioner Austin**, Ms. Latimer promised a summary of the reasons that legislative implementation is incomplete.

Item 5. Executive Session

On December 17, 2014, at 1:48 p.m., the members of the Audit Subcommittee convened in Executive Session; pursuant to *Texas Government Code* Section 551.074.

Item 6. Chief Audit and Compliance Officer Annual Compensation

The members of the Audit Subcommittee reconvened in open session on December 17, 2014, at 2:00 p.m. A motion was made and approved unanimously to concur with the Executive Director's determination of the performance and annual compensation of the Chief Audit and Compliance Officer, including any salary adjustment. In addition, the Chief Audit and Compliance Officer's performance plan for fiscal year 2015 was approved. These recommendations and approvals will be sent to the Texas Transportation Commission, as required.

Closing Comments

Commissioner Underwood invited closing comments. There were none.

Commissioner Underwood stated that this concludes the agenda for today. The next Audit Subcommittee Meeting will be held on February 25, 2015, in Austin. The Commissioners thanked all for attending the meeting.

The meeting was adjourned at 2:02 p.m.

APPROVED:



Commissioner Fred Underwood, Chair
Texas Transportation Audit Subcommittee