

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on February 25, 2015, at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 10:01 a.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
Tim Jennings Chief Information Officer

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 3:14 p.m. on February 17, 2015, as required by Chapter 551 of the *Texas Government Code*, referred to as "The Open Meetings Act."

Commissioner Underwood invited opening remarks. **Commissioner Austin** thanked **Commissioner Underwood** for his leadership of the work of the Audit Subcommittee since its creation; TxDOT is now in a much stronger place thanks to **Commissioner Underwood's** steady hand and guidance. He went on to thank Benito Ybarra and his team for their work. **Commissioner Underwood** expressed his appreciation and reemphasized that the credit had to go to the staff.

Item 1. Approval of Minutes from the December 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 an overview of two audit engagements that the Office of Internal Audit conducted in the fall of 2014: the *Emergency Equipment Requisition Process* and the *Professional Engineering Procurement Services (PEPS) Contract and Work Authorizations*.

Item 2a: Emergency Equipment Requisition Process Audit

The audit objective was to determine if a process exists that ensures equipment can be obtained during emergency winter weather and hurricane events. The overall audit result was "satisfactory."

Commissioner Austin tied the audit objective to Fleet Forward and asked about the sale of unused equipment and whether economic losses were incurred because TxDOT did not sell the surplus equipment and is now facing an oil sector that is scaling back buying, and is itself

selling equipment. In this context, what was the role of the Texas Facilities Commission? Tim Ginn, Commission Policy Analyst, was charged with finding out from Mr. Bass, Chief Financial Officer, what equipment is still left to sell and what could still be used in an emergency. Benito Ybarra stressed that questions like these provide valuable input for the annual risk assessment conducted by Audit and Compliance. **Commissioner Austin** encouraged the inclusion of this question in the FY2016 Audit Plan.

Item 2b: Professional Engineering Procurement Services (PEPS) Contract and Work Authorizations

The audit objective was to determine the effectiveness and efficiency of the Professional Engineering Procurement Services (PEPS) consultant selection and work authorization process.. The overall rating was “satisfactory.”

Commissioner Austin explained that he had taken part in the Comptroller training on contracting and asked what the deadline is for everybody concerned to take the same training. He also asked that the list of TxDOT staff required to take the training be provided and that the training be an agenda item in the next ASCM. In addition, **Commissioner Austin** inquired whether there is a system of staff rotation for contracting staff and a follow-up system to ensure that staff not receive any after-the-fact favors from selected vendors. **Commissioner Underwood** called for a three-way conversation between the members of the subcommittee, the Office of General Counsel, and Audit and Compliance.

Item 3. Independent Auditor’s Report

Kevin W. Smith, Partner, of Crowe Horwath, Dallas, presented the executive summary of the financial audit for FY2014 of TxDOT, the Texas Mobility Fund, and the Central Texas Turnpike System. Mr. Smith stated that this was the first year of the Crowe Horwath engagement and commended the Finance Division staff for their close and effective collaboration.

Brian Ragland, Director of the Finance Division, added that the independent audit findings were accepted as part of the routine items of the meeting of the Texas Transportation Commission on January 29, 2015.

Commissioner Austin requested a copy of the independent audit conducted by Crowe Horwath.

Mr. Smith reported that all three entities’ financial statements, TxDOT, the Texas Mobility Fund, and the Central Texas Turnpike System, were presented in accordance with the Governmental Accounting Standards Board (GASB) and that the books and records supported the amounts shown in the financial statements.

During the review period, TxDOT implemented two accounting changes:

1. expensing, rather than depreciating, the cost of bond issuance (in line with GASB), and
2. the adoption of the depreciation approach for both highways and bridges. Previously, only bridges were depreciated; the new approach puts TxDOT in line with the vast majority of its peer

organizations. The White Paper put together by TxDOT Finance to support the change was “Best in Class.”

Commissioner Austin requested that an executive session be scheduled to include the independent auditor, Finance, and Audit and Compliance. Going forward, **Commissioner Austin** wants the Audit Subcommittee to review the fiscal audit prior to it being presented to the full Commission.

Mr. Smith discussed a significant deficiency in the area of IT change management. Responding to **Commissioner Underwood**, Benito Ybarra stated that access control is decentralized and it is challenging for TxDOT to determine when an employee has left or changed roles and adjust the employee’s access manually. While it has gotten better, challenges remain. Mr. Smith added that even after access had been terminated, the audit found that application authorizations sometimes remained in place. Tim Jennings, Chief Information Officer, added that until now access and application terminations depended on paperwork submission by the supervisor. Now HRD, via PeopleSoft/ERP, triggers a same-day termination across all applications. IT continues to work through issues regarding employee transfers that result in changed access requirements.

Commissioner Underwood stated that he would like to see an audit of change orders. Benito Ybarra explained that an audit of change orders, planned for FY15, is a prime target for the type of data analytics that Audit and Compliance has been advocating. The Office of Internal Audit will conduct an audit of change orders and then, leveraging what has been learned, the External Audit Section will engage in continuous engagements with contractors. Audit and Compliance will develop a risk assessment and provide it to the Audit Subcommittee, if possible, at the next quarterly meeting.

Responding to **Commissioner Austin**, Brian Ragland stated that the independent audit is available to TxDOT investors and is, in fact, a bond issuance requirement.

When asked by **Commissioner Austin**, Brian Ragland explained that the retrieval of financial information from the new ERP system is steadily improving but he anticipates that some manual adjustment and corrections will still be necessary when the FY15 financial data is compiled later this summer. Benito Ybarra added that the Office of Internal Audit is planning a number of audits of the ERP system during the summer and will be able to provide information regarding the quality and reliability of the data.

Item 4. Executive Session

An executive session was not deemed necessary.

Closing Comments

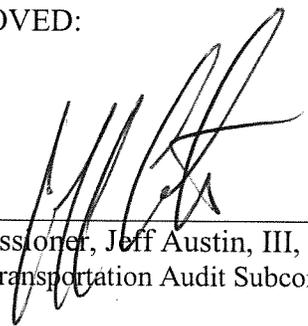
Commissioner Underwood invited closing comments. **Commissioner Austin** asked the TxDOT General Counsel, Jeff Graham, if, regarding the make-up of the Audit Subcommittee, there is a requirement to have an outside member as part of the Audit Subcommittee. Jeff

Graham responded that the Audit Subcommittee was created organically by the Transportation Commission and that there is no requirement for an outside member. Mr. Smith added that, regarding best practices, an outside member could, in some instances, be a valuable resource for the commissioners. However, this can also be achieved by having an outside advisor to the Audit Subcommittee.

Commissioner Underwood stated that this concludes the agenda for today. The next Audit Subcommittee Meeting will be held on May 27, 2015, in Austin. **Commissioner Underwood** expressed his thanks to the audit staff and his pride in the great work that has been done since the inception of the Audit Subcommittee. The Commissioners thanked all for attending the meeting.

The meeting was adjourned at 10:58 a.m.

APPROVED:



Commissioner, Jeff Austin, III, Chair
Texas Transportation Audit Subcommittee