

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on May 27, 2015, at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 10:00 a.m. with the following members present:

Audit Subcommittee Members:

Jeff Austin, III	Commissioner, Audit Subcommittee Chair
J. Bruce Bugg, Jr.	Commissioner, Audit Subcommittee Member

Administrative Staff:

LtGen J. F. Weber, USMC, (Ret)	Executive Director
Benito Ybarra	Chief Audit and Compliance Officer
Darran Anderson	Chief Strategy and Innovations Officer
John Barton	Deputy Executive Director
Jeff Graham	General Counsel
Richard McMonagle	Chief of Staff
Russell Zapalac	Chief Planning and Project 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 5:54 p.m. on May 19, 2015, as required by Chapter 551 of the *Texas Government Code*, referred to as "The Open Meetings Act."

Commissioner Austin invited opening remarks and introduced the new member of the Audit Subcommittee, J. Bruce Bugg, Jr.

Item 1. Approval of Minutes from the February 25, 2015, Meeting

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

Item 2. Update from the State Auditor's Office (SAO)

Cesar Saldivar, Contract Manager for TxDOT at the SAO, presented an update. In the past three years the SAO has issued four reports. Two of these were quality assurance team projects. The quality assurance team is comprised of members from the Legislative Budget Board, the SAO, and the Department of Information Resources. The reports' focus was on IT project time and budget tracking. The reports, issued in February and December of 2014, were informational and contained no recommendations.

One of the other two reports was issued in May 2012 and dealt with Flight Services Division operations. Recommendations were made regarding the inventory of maintenance supplies and strengthening internal controls, including password administration. It is up to TxDOT to implement the recommendations.

In July 2013 the SAO issued a report regarding two contracts, which indicated that TxDOT followed policies and contracting guidelines. Issues identified by the SAO had previously been identified in TxDOT internal audits.

In addition to the four reports, financial work was performed to examine the agency's roll-up into the State's annual financial report. The SAO also performed federal compliance work, which will be contracted out.

Responding to **Commissioner Austin's** question regarding whether there were any open items where TxDOT had not responded fully, Mr. Saldivar noted that there is one contracting item report that will be issued at the beginning of June. In addition, the SAO is conducting a Business Opportunity Program audit which is currently in the field-work stage; update meetings are scheduled for early June.

Commissioner Austin asked if the SAO needed anything from TxDOT in terms of timeliness or responsiveness. Mr. Saldivar described TxDOT staff as good and responsive and singled out Brian Ragland's financial team as having great turn-around times.

As a follow-up to **Commissioner Austin's** assertion that TxDOT wants to be best in class, Benito Ybarra added that the communication with the SAO has evolved to include risk management. **Commissioner Austin** stated that he saw the purpose of the SAO's work in risk mitigation and the validation of best practices.

Responding to **Commissioner Bugg**, Mr. Saldivar clarified that the contracting audit only looked at two contracts (engineering and construction) and not at the overall contracting practices at TxDOT.

Item 3. Approval of Audit Charter

Benito Ybarra presented the Audit and Compliance Charter, which includes the purpose, authority and responsibility of the Offices of Internal Audit and Compliance. The Charter was approved.

Item 4. Revisions to Approved FY15 Audit Plan

Benito Ybarra presented revisions to the audit plan for FY15, recommending the removal of two advisory services engagements and the addition of two other engagements.

Commissioner Austin asked Audit and Compliance to also look into an issue that occurred in Tyler, Texas. In the process of disposing of property, TxDOT's Right of Way Division engaged an appraiser from Victoria, Texas. The cost of the appraisal was a substantial part of the value of the property in question.

The revisions were approved.

Commissioner Bugg inquired what the annual volume of dispositions is. Mr. Ybarra agreed to providing that information.

Item 5. Finance Division Update

Brian Ragland, Director of the Finance Division, described the activities of the Finance Division with a particular focus on the Accounting and Financial Reporting Section. The section's responsibilities include producing annual reports, which are required by statute or bond covenants. The financial audit of the reports will be conducted by the independent auditor, Crowe Horwath, from Dallas, Texas. A new contract was signed during the prior week. **Commissioner Austin** asked that the independent auditor's selection be added for review and approval of the Audit Subcommittee.

Addressing the Audit Subcommittee members' need for financial information, Mr. Ragland offered to prepare an organized package of information for their review and feed-back. In addition, Mr. Ragland indicated that he might request the assistance of Audit and Compliance to further develop the financial performance reports, in coordination with the Audit Subcommittee.

Commissioner Bugg asked that in addition to the standard financial information, the subcommittee members also be supplied with a dashboard, linking financial information to metrics and the achievement of goals. Mr. Ragland said that there was a range of existing dashboards which he will make available for the members' review. **Commissioner Bugg** asked that the legacy dashboards be made available to them next month.

Commissioner Austin asked whether in light of resource limitations and the migration to the new system there was anything the subcommittee members could do to support the work. Mr. Ragland's response was that the members' support and feed-back was needed.

Item 6a. Internal Audit Office Update: Management Action Plan Follow-Up Overview

Craig Otto, Director of the Office of Internal Audit (AUD), presented an overview of the Management Action Plan (MAP) process. In terms of response identification, from 2012 to today, there are 187 open MAPs; AUD did not receive a response to 15% of the MAPs. Mr. Ybarra elaborated that what is meant by response, is a formal response that provides evidence that the risks identified have been mitigated.

Commissioner Austin requested that by the next Audit Subcommittee meeting, there should be an update that takes into account any re-assessment of risk, showing who is delinquent and the risks involved.

Commissioner Bugg added that it might be useful to re-inform the delinquent entities, letting them know that the Audit Subcommittee is reviewing this. If an issue is important enough to trigger a notice from AUD, it is important enough to warrant a response from the entity.

Commissioner Austin added that the detailed MAP response analysis, should also include the analysis of the responses to the independent and SAO audits.

Item 6b. Internal Audit Office Update: Tuition Assistance Program Follow-Up

The original Tuition Assistance Program (TAP) audit was completed in August 2012. The first MAP follow-up was performed in July 2013, when five of the six original MAPs were closed. The remaining open MAP relates to overall expenditure reporting and tracking. The expectation was that after its implementation, ERP would facilitate such reporting. To date, the MAP remains incomplete. Jennifer Williams, Deputy Director, Human Resources Division, added that additional work has been done in collaboration with Finance and the reports will be tested this week.

Commissioner Bugg asked whether the new guidelines regarding the eligibility to participate in TAP have been implemented. Ms. Williams confirmed that they have been implemented and that the complete program policy is in its final review by administration and commissioners this week. **Commissioner Bugg** asked that the updated policies be presented at the next Audit Subcommittee meeting.

Item 7. Compliance Office Update

Kristin Alexander, Director of the Office of Compliance, presented a summary of the investigative activities for the current fiscal year, including the nature and location of the cases performed. Regarding next steps, Ms. Alexander highlighted that there will be visits to all 25 districts, both as outreach but also to have districts self-identify where they perceive risks.

Responding to **Commissioner Bugg's** question, Ms. Alexander stated that she has dedicated resources and must focus on filling vacancies. **Commissioner Bugg** followed up with a question regarding cyber-security. Mr. Ybarra confirmed that there were on-going engagements regarding cybersecurity. **Commissioner Austin** added that the motto must be Trust and Verify.

Commissioner Austin next asked about the implementation schedule for legislation and asked for regular updates. LtGen Weber stated, when asked by **Commissioner Austin**, that he had not received an implementation update or schedule. Mr. Ybarra indicated that this would be added as an agenda item for the next Audit Subcommittee meeting.

Item 8. Executive Session

On May 27, 2015, at 10:57 a.m., the members of the Audit Subcommittee convened in Executive Session, pursuant to *Texas Government Code* Section 551.076.

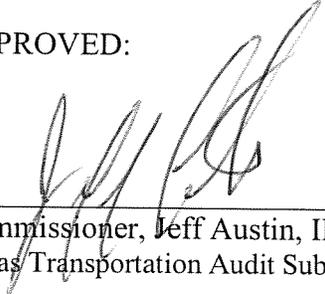
Closing Comments

The members of the Audit Subcommittee reconvened in open session on May 27, 2015, at 11:19 a.m. There was no action required related to the executive session.

There being no closing comments, **Commissioner Austin** stated that this concluded the agenda for the day. The next Audit Subcommittee meeting will be held on August 26, 2015, in Austin. The Commissioners thanked all for attending the meeting.

The meeting was adjourned at 11:20 a.m.

APPROVED:



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

