

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on September 23, 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:

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

Administrative Staff:

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| 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.

A public notice of this meeting containing all items on the proposed agenda was filed in the office of the Secretary of State at 1:49 p.m. on September 15, 2015, as required by Chapter 551 of the *Texas Government Code*, referred to as "The Open Meetings Act."

Commissioner Austin opened the meeting and invited opening remarks.

Item 1. Approval of Minutes from the May 27, 2015, Meeting

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

Item 2. Approval of Audit Subcommittee Charter

The revised Audit Subcommittee Charter was presented by Benito Ybarra. The Audit Subcommittee agreed unanimously to recommend that the Texas Transportation Commission approve the Charter as presented.

Item 3. Approval of Fiscal Year 2016 Audit Plan

The FY16 Audit Plan was presented by Craig Otto, Director, Office of Internal Audit.

Commissioner Austin commented that in addition to the audits listed in the Audit Plan, there had to be a strong message that there is follow-through by management; this is not about "gotcha," this is about doing a better job collectively.

Responding to **Commissioner Austin**, Benito Ybarra confirmed that there are sufficient resources to accomplish the items in the Audit Plan. When asked by **Commissioner Bugg**, Benito Ybarra explained that the methodology for determining that staff resources were adequate was to allocate staff hours to each audit based on complexity. **Commissioner Austin** asked if this process still allowed for new items to be added during the year. Benito Ybarra explained that while the process anticipates special projects, they still have an impact on the overall schedule. **Commissioner Austin** asked for a summary of staff-time allocations to the audits on the audit plan as well as a summary of audits of high risk areas in the Audit Plan.

The Audit Subcommittee agreed unanimously to recommend that the Texas Transportation Commission approve the Audit Plan as presented.

Item 4. Internal Audit Office Update

a. Management Action Plan Follow-Up Status Update

Craig Otto presented an update on the response rate for pending Management Action Plan Follow-Ups (MAPs). **Commissioner Austin** asked that going forward this update become a standing agenda item at all Audit Subcommittee Meetings and that a list of MAPs be provided.

b. Inventory Management - Management Action Plan Follow-Up Final Report

Craig Otto presented the Internal Audit Follow-Up Report regarding the open MAP items from the August 2013 Inventory Management audit report. He explained that some of the response delays and changes to the MAP were linked to the ERP implementation during the last 12 months. **Commissioner Austin** cautioned that while there needs to be an audit focus on adherence to existing rules, procedures, and policies throughout the agency, the issue of materiality also needs to be considered. Mr. Ybarra responded that while some of the management actions in this MAP were detail activities, they had to be understood in the context of the need for common practices for key procedures.

Item 5. Finance Division Update

Brian Ragland, Director, Finance Division, offered an overview of the implementation of the Spirit of Sarbanes-Oxley (SOX) at TxDOT. **Commissioner Bugg** asked how many other departments of transportation around the country and how many other Texas state agencies have implemented SOX. Mr. Ybarra stated that no other department of transportation has implemented SOX. He and Mr. Ragland agreed with the subcommittee members that this makes TxDOT a national leader in this field. Mr. Ragland stated that a few Texas state agencies have adopted SOX. **Commissioner Bugg** asked that this information be provided to the Transportation Commission.

Stephen Stewart, Director of the Finance Division's Accounting Section, provided an update on the SOX key annual financial controls testing for fiscal years 14 and 15. Of the 20 key financial controls tested over the two engagement years, only one was deemed ineffective; the reason for this is related to an outdated process for requesting SiteManager access; this is now done through technology and the Finance Division believes that, if tested, it would now pass. **Commissioner Austin** followed up by asking if this had any impact on the recurring issue of change orders. Mr. Ragland explained that change orders are part of the contracting process; not the accounting process.

When asked by **Commissioner Austin**, Mr. Ybarra confirmed that a change order audit was part of the FY16 Audit Plan. **Commissioner Austin** asked that the report be presented at the next subcommittee meeting.

Commissioner Bugg asked if there is information regarding contracts from the initial award to completion. Mr. Ybarra responded that the Compliance Office is monitoring change orders in a continuous, quarterly review. Mr. Otto added that the details and background information of the change order audit will be shared with the Compliance Office to assist that office in its review. Mr. Ragland added that things have drastically improved because, unlike before, change orders now are charged to a district's overall letting budget and procedures have become more stringent. **Commissioner Austin** asked that this be brought up at a Transportation Commission meeting.

Item 6. Implementation of Legislative Initiatives and Bills

Trent Thomas, Director of State Legislative Affairs (SLA), presented an overview of the implementation of legislation from the 83rd and 84th legislative sessions.

Focusing on the implementation of highway naming legislation, **Commissioner Austin** discussed the desirability of having such legislation expire after a number of years, unless implemented. In response to a question from **Commissioner Austin**, Mr. Thomas stated that the cost of renaming ranges from \$3,000 to \$60,000.

Commissioner Austin requested a scoresheet identifying the relevant contents of the legislation, showing the steps necessary for implementation and the timeline for completion. Mr. Thomas responded that each impacted division is asked for an action plan and timeline; SLA then checks monthly on the progress. In response to **Commissioner Austin**, Mr. Thomas explained that SLA is the entity responsible for implementation and that SLA collaborates closely with the Compliance Office.

Commissioner Austin asked for a similar presentation regarding the implementation of federal legislation at the next Audit Subcommittee Meeting.

Item 7. Report on New Tuition Assistance Program Guidelines

Jennifer Williams, the Deputy Director of the Human Resources Division, offered an update of the revised rules for the Tuition Assistance Program (TAP). The number of participants and the per participant contributions are now capped. She highlighted further that if a participant fails or drops a program or fails to fulfill a service commitment, the TAP assistance has to be paid back. In response to **Commissioner Bugg's** question, Ms. Williams stated the educational program paid for under TAP must be related to the employee's current or future job at TxDOT.

Commissioners Austin and **Bugg** urged that the program be more widely advertised as an important and valuable benefit to employees. In addition, **Commissioner Austin** asked for data showing the number of employees who are reimbursed for the cost of their professional certifications or designations.

Item 8. Compliance Office Update

a. Investigations Update

Kristin Alexander, Director of the Compliance Office, presented an update of the trends and investigative activities for fiscal year 2016. Responding to **Commissioner Austin**, Ms. Alexander confirmed that most allegations are anonymous. While the number of allegations is in line with prior years, the number of substantiated cases has gone down. Responding to **Commissioner Bugg**, Ms. Alexander confirmed that substantiation is evidence-led and that the rate of substantiation is in line with industry averages. Over time, the case load has proven stable and will allow the Compliance Office to dedicate staff resources to a pro-active detection effort through data analysis.

Responding to **Commissioner Bugg**, Ms. Alexander confirmed that criminal cases are referred to the District Attorney; My Ybarra added that when federal funds are involved, the matter is also referred to the Office of the Inspector General of the Federal Highway Administration.

b. Findings from External Audits

Responding to the **Commissioners'** request for a list of external entities that have audited or are in the process of auditing TxDOT, the Compliance Office found 47 different external entities and will provide a list and populate the newly-developed data base.

Describing the work of her office, Ms. Alexander explained that the Compliance Section is undertaking an on-going risk assessment of areas identified by the Office of Internal Audit.

Commissioner Austin complimented the work of Audit and Compliance by highlighting the contribution to a change in culture; issues are now properly identified and then fixed. Audit and Compliance is here to protect everybody else and is the first line of defense against risk. Benito Ybarra thanked the subcommittee for its support, without which the work of Audit and Compliance would not receive the attention and collaboration that it does.

Item 9. Executive Session

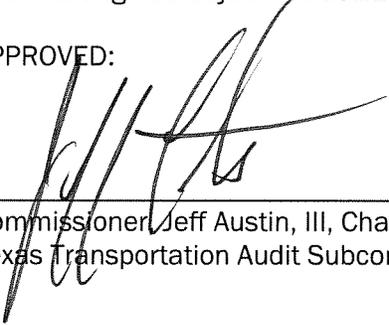
Not deemed necessary.

Closing Comments

Commissioner Austin invited closing comments and then stated that this concluded the agenda for the day. The next Audit Subcommittee meeting will be held on December 16, 2015, in Austin. The Commissioners thanked all for attending the meeting.

The meeting was adjourned at 11:27 a.m.

APPROVED:



Commissioner Jeff Austin, III, Chair
Texas Transportation Audit Subcommittee