

May 24, 2017

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on May 24, 2017 at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 10:00 a.m. with the following members present:

Texas Transportation Commission Audit Subcommittee:

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

Staff:

Benito Ybarra	Chief Audit and Compliance Officer
Jeff Graham	General Counsel
Richard McMonagle	Chief Administrative Officer
Jesus "Chuy" Gonzalez	Chief of Staff
Brian Ragland	Chief Financial Officer
Darran Anderson	Director of Strategy and Innovation

A public notice of this meeting containing all items on the proposed agenda was filed in the Office of the Secretary of State at 11:00 a.m. on May 16, 2017, as required by Government Code, Chapter 551, referred to as "The Open Meetings Act."

ITEM 1. Approval of Minutes of the March 28, 2017, Audit Subcommittee meeting

This item was presented by Benito Ybarra, Chief Audit and Compliance Officer. Commissioner Austin made a motion, which was seconded by Commissioner Bugg, and the audit subcommittee approved the minutes of the March 28, 2017, Audit Subcommittee meeting by a vote of 2 - 0.

ITEM 2. Audit and Compliance Charter Update

This item was presented by Benito Ybarra, Chief Audit and Compliance Officer. The Audit and Compliance Charter is presented on an annual basis to evaluate the purpose, authority and responsibility of both the Internal Audit Division and the Compliance Division. The recommended updates to the charter include an inclusion of an internal quality assurance program, and more delineation between Internal Audit Division and Compliance Division. Commissioner Bugg made a motion to approve the Audit and Compliance Charter, which was seconded by Commissioner Austin, the Audit and Compliance Charter was approved by a vote of 2 - 0.

ITEM 3. Internal Audit Plan Update

This item was presented by Benito Ybarra, Chief Audit and Compliance Officer. During the March 28, 2017 Audit Subcommittee meeting, staff vacancies were discussed. Due to these vacancies, the Internal Audit Division will not complete the following four audits: Local Government Project Monitoring, Oracle Patch Management, Environmental Contract Management, Telework Program Standards. These four audits will be removed from FY17 Internal Audit Plan and reassessed for the FY18 Internal Audit Plan. In addition, the National Environmental Policy Act (NEPA) Public Involvement Process audit was removed to avoid duplication issues with a FHWA audit being conducted. The FY18 Audit Plan will be presented at the August 30, 2017 Audit Subcommittee

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Meeting. Commissioner Austin requests that while going through Risk Assessment and putting together the FY18 Audit Plan that Internal Audit Division ensure they have enough resources allocated to IT audits, related testing and follow-up.

ITEM 4. Internal Audit Division Update

a. Management action plan follow-up status update

This item was presented by Craig Otto, Director of the Internal Audit Division. Currently there are 6 Management Action Plans that are overdue. Commissioner Austin requests that Professional Engineering Procurement Services (PEPS) Division to present PEPS Contract and Work Authorizations Management Action Plan 2.1, PEPS Contract and Work Authorizations Management Action Plan 3.1 and PEPS Contract and Work Authorizations Management Action Plan 3.2. Commissioner Austin and Commissioner Bugg would like the reporting from PEPS no later than June 30, 2017. The audit subcommittee would like PEPS to present the reports during the August 30, 2017 Audit Subcommittee. Any additional extension requests must be reported to the commissioners. In the instance an extension is request, Commissioner Austin proposes calling a special meeting of the Audit Subcommittee.

b. Audit Report – Purchasing Process Efficiency

This item was presented by Craig Otto, Director of the Internal Audit Division. Purchasing Division Director Glenn Hagler also answered questions from the commissioners. The audit subcommittee would like Procurement Division Director, Glen Hagler to present steps his division has taken to close the Management Action Plan assigned from the Purchasing Process Efficiency audit relating to blanket purchase orders exceeding their established maximum purchasing limit, during the August 30, 2017 meeting. The second finding from the Purchasing Process Efficiency audit showed liquidated damages were not assessed to offset invoice amounts paid on vehicles or heavy equipment that was delivered late in FY2016. Commissioner Austin and Commissioner Bugg asked to see an exception list of vendors not being held to the terms of contract(s) in regards to delivery of goods and services. The third finding of the Purchasing Process Efficiency audit identified inefficient processes and activities that delay the purchase order issuance process. The fourth finding from the Purchasing Process Efficiency audit identified that TxDOT did not complete and report all required Vendor Performance Evaluations to the Comptroller of Public Accounts (CPA) for purchases over \$25,000. Commissioner Austin requested additional information from Vendor Performance Evaluations, asking for confirmation that vendor(s) met the Historically Underutilized Businesses/ Disadvantaged Business Enterprises (HUB/DBE) goals during review. Glen Hagler, Director of the Procurement Division noted that the current evaluations do not included metrics around HUB/DBE goals. Commissioner Austin would like to see HUB/DBE contractual goal and whether or not the vendor met the goal on each Vendor Performance Evaluation moving forward. Benito Ybarra, Chief Audit and Compliance Officer noted the Civil Rights Division would need to be coordinated with regarding HUB/DBE.

ITEM 5. Compliance Division Update

a. Contract manager training evaluation update

This item was presented by Kristin Alexander, Director of the Compliance Division. The Procurement Division worked with the Human Resources Division to take corrective action, and coordinated with the Comptroller's Office to provide Certified Texas Contract Manager courses at TxDOT.

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b. Summary of Investigations for Q3-FY17

This item was presented by Kristin Alexander, Director of the Compliance Division.

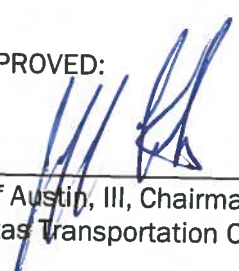
ITEM 6. Executive Session

Pursuant to Government Code, Chapter 551 Section 551.071 - Consultation with and advice from legal counsel regarding any item on this agenda, pending or contemplated litigation, or other legal matters.

The audit subcommittee recessed to executive session at 10:36am and returned from executive session at 10:48am.

The meeting of the May 24, 2017, audit subcommittee was adjourned at 10:49 a.m.

APPROVED:



Jeff Austin, III, Chairman, Audit Subcommittee
Texas Transportation Commission