

September 27, 2017

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on September 27, 2017 at 125 E. 11<sup>th</sup> Street, Austin, Texas 78701. The meeting convened at 10:14 a.m. with the following members present:

**Texas Transportation Commission Audit Subcommittee:**

Jeff Austin, III	Commissioner, Audit Subcommittee Chair
Tryon Lewis	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 3:21 p.m. on September 19, 2017, as required by Government Code, Chapter 551, referred to as "The Open Meetings Act."

**ITEM 1. Approval of Minutes of the May 24, 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 Lewis, and the audit subcommittee approved the minutes of the May 24, 2017, Audit Subcommittee meeting by a vote of 2 - 0.

**ITEM 2. Legislative Implementation Update**

**a. Federal**

This item was presented by Robin Ayers, Congressional Liaison, Federal Affairs Section of the Government Affairs Division. Ms. Ayers provided updates on Fast Act (2015), Map-21 (2012), Water Resources Reform & Development Act of 2014, Water Infrastructure Improvements for the Nation (WIIN) Act Implementation (2016) and Federal Aviation Administration Reauthorization (2016). During the presentation of MAP-21 Implementation Activities - Toll Interoperability Deadline discussion, Commissioner Austin asked for clarification on whether The International Bridge, Tunnel and Turnpike Association (IBTTA) was out in the spring to issue preference of a standards protocol. Ms. Ayers will check on this information and update Commissioner Austin.

**b. State**

This item was presented by Trent Thomas, State Legislative Affairs Section Director, Government Affairs Division. The PowerPoint presentation during the audit subcommittee meeting included a slide for Bill Implementation for the 85<sup>th</sup> Legislature timeline, Commissioner Austin asked if the timeline was linked to the investor webpage. Brian Ragland, Chief Financial Officer commented, currently the information is provided to Project Finance, Debt & Strategic Contracts Division to distribute to investors. Commissioner Austin would like to see the information available via link on the investor webpage. Director Thomas also included that the information is provided to legislature, legislature leadership and external partners. Commissioner Austin would like the Major Legislation

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summary presented during the Audit Subcommittee be made available to all commissioners for review. Commissioner Austin requested a status update on the Commissioner Dashboard and project tracker. Darran Anderson, Director of Strategy and Innovation, indicated that commission metrics are being implemented and data will be put in place over the next couple of months. In regards to the TxDOT Sunset Bill review, State Aircraft Fleet, Commissioner Austin asked who would be developing the stakeholder cost sharing formula. Benito Ybarra responded that the Internal Audit Division is facilitating between the Aviation Division and Financial Management Division. Chief Ybarra is working with Jay Joseph in the Aviation Division to schedule a meeting with the Comptroller's office to include travel coordinators from the other state agencies that use the service.

### **ITEM 3. Financial Management Division Update**

#### **a. Annual update on Spirit of Sarbanes-Oxley Act Compliance**

This item was presented by Amanda Landry, Accounting Section Director, Financial Management Division. During this annual testing, the Financial Management Division worked with the Compliance Division and selected 11 non-annual controls to be tested that help ensure financial reporting reliability. Testing showed 10 out of the 11 controls were operating effectively. The exception identified related to the classification of Public Transportation and Traffic Safety subrecipient expenditures and was found to have been designed inefficiently. The ineffective design did not result in a material financial misstatement. The Financial Management Division met with both Public Transportation Division and Traffic Safety and developed an action plan to address the control deficiency.

#### **b. Review recommendation of independent auditor rotation**

This item was presented by Amanda Landry, Accounting Section Director, Financial Management Division. The Financial Management Division recommends retaining Crowe Horwath LLP as the independent auditor. However, Financial Management Division did meet with Crowe Horwath and made the recommendation that they rotate members of their key staff including, Auditor-in-Charge and other key positions.

### **ITEM 4. External Quality Assessment – Peer Review Results**

This item was presented by Benito Ybarra, Chief Audit and Compliance Officer. As required by professional auditing standards, the TxDOT Internal Audit and Compliance Divisions underwent an external quality assurance review, conducted by the State Agency Internal Audit Forum. TxDOT Internal Audit and Compliance Divisions received a rating of Pass/Generally Conforms. The team identified seven best practices and three observations during the external quality assessment. The opportunities for improvement identified included a need to hire Information Technology Auditors, the need for the divisions to further strengthen the Quality Assurance process and documentation, and formalization of a procedure to ensure communication of management's acceptance of risks is formally documented and retained. Chief Ybarra indicated that all opportunities are being addressed.

### **ITEM 5. Fiscal Year 2018 Proposed Internal Audit and Compliance Work Plans**

This item was presented by Benito Ybarra, Chief Audit and Compliance Officer. The Texas Internal Auditing Act, Texas Government Code §2102.005; requires state agencies to perform an annual risk

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assessment to help identify the areas of greatest risk, and help determine which individual audits are to be conducted during the year. The Internal Audit Division identified six risk themes and 77 audits scheduled to be performed in Fiscal Year 2018. Commissioner Austin asked for specifics regarding the Disadvantaged Business Enterprise (DBE) & Historically Underutilized Business (HUB) Management and Reporting audit listed under Governance/Program Management; namely what is this audit going to involve and whether the TxDOT Civil Rights Division has the authority to go across divisions to get the data necessary. Chief Ybarra responded that their personnel in place can carry out their duties and has the authority needed, based on a discussion with TxDOT's Deputy Executive Director. A portion of the engagement is to assess if the proper authority is in place and being exercised and to ensure the commercially useful function reviews are being conducted, in coordination with district personnel. Commissioner Austin next asked about the Veteran Toll Discount Program listed under Financial audits. Commissioner Austin would like for the agency to coordinate with the Department of Motor Vehicles and the State Auditor's Office to identify best practices. In regards to the Fund Programming and Management Audit also listed under Financial audits, Commissioner Austin asked whether it will include segregation and use of Proposition 1 and Proposition 7 funds. Chief Ybarra confirmed. In regards to the IT Security Management audit, Commissioner Austin praised Darran Anderson and his team for the work they have done. This audit is an ongoing evaluation that is considered a proactive measure for the agency. In the future the agency will be able to utilize the work when requesting dollars from LAR for patches and upgrades.

Commissioner Lewis discussed the Fleet Purchasing and Allocation Program audit listed under Program Efficiency, asking if the audit will show the promptness of vendors to get equipment to districts. Chief Ybarra confirmed. In addition the Internal Audit Division will look at owned equipment, availability of the equipment, renting needed equipment, quality of vehicles, etc.; holistically whether the program is providing the efficiency that TxDOT needs. Commissioner Lewis requested that the Internal Audit Division conduct research regarding the statutory requirements for fleet equipment management and evaluate whether the agency is meeting industry standards. In addition, Commissioner Lewis requested that the team identify inefficiencies associated with TxDOT procurement of fleet equipment detailed in the report.

Commissioner Austin suggested an audit be added to the plan that would look at the State Infrastructure Bank. Commissioner Austin also suggested an audit that would look at the social media policy and looking into what other agencies are doing. Chief Ybarra stated he has previously spoken with Bob Kaufmann regarding a social media policy, and one was not in place at that time. Chief Ybarra will speak with the General Counsel Division regarding a social media policy and determine if one is needed. Commissioner Austin also suggested a Change in Management audit, similar to those performed in universities when a change occurs at the executive level/key positions. Finally, Commissioner Austin would like to look into the federal dollars coming in from Hurricane Harvey. Specifically, how does TxDOT reconcile purchases, equipment, emergency management, etc. Chief Ybarra directed Commissioner Austin to the Internal Audit presentation under financial risk theme audits; Emergency Management Audit will address these items.

In regards to the Compliance Division External Audit Plan, Commissioner Austin asked Darran Anderson in association with the NTT Data Information Security SLAs audit, whether TxDOT maintained a list of approved users of remote systems. Director Anderson confirmed. Commissioner Austin asked further if table top exercises have been conducted to determine proper people around the state access. Chief Ybarra has not evaluated that component specifically. Dana Glover will provide follow-up documentation to the commission, outside of the audit subcommittee.

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Commissioner Lewis asked for information regarding the Engineering Services Firms indirect cost rates. Kristin Alexander answered the indirect cost rate is an agreed upon rate that the Professional Procurement Division (PEPS) calculates and determines is appropriate. This rate also includes overhead cost. Compliance Division, External Audit and Advisory Services section will be assisting with new and unusual cost rate agreements and different business structures, to evaluate the indirect cost rates process is in conformance with applicable requirements.

The audit subcommittee approved the audit work plan as presented and recommended the work plan to the full transportation commission for approval during the September 28, 2017 Commission Meeting.

#### **ITEM 6. Compliance Division Update**

##### **a. External audit findings of the Texas Department of Transportation**

This item was presented by Kristin Alexander, Director of the Compliance Division. Director Alexander reviewed the current implementation status of External Audit Findings and revised implementation dates associated with outstanding/incomplete/past due findings.

##### **b. Internal Compliance and Ethics Program update**

This item was presented by Kristin Alexander, Director of the Compliance Division. At this time 170 entities have taken corrective action to enhance their internal ethics and compliance programs. Before a minute order goes before the commission for approval, an entity must have an internal ethics and compliance program in place to receive funds from TxDOT. Commissioner Austin inquired if this rule also applied to Metropolitan Planning Organizations (MPO). Director Alexander answered that MPOs are not currently required to have internal ethics and compliance programs in place. Director Alexander recommended the rules be updated to include all entities that receive grant funding.

##### **c. Summary of Investigations for Q4-FY17**

This item was presented by Kristin Alexander, Director of the Compliance Division. Commissioner Lewis requested additional information on how the investigations and consequences are being communicated to employees. Director Alexander walked Commissioner Lewis through the process of issuing a final investigation report and whom is on the distribution list. The Compliance Division also has several outreach events in place including, Coffees with the Crew, presentations to Divisions or Districts tailored to their specific concerns, the newly formed Compliance Council with Executive Director Bass' direct reports, and a quarterly Compliance newsletter that is distributed to all TxDOT employees.

#### **ITEM 7. Internal Audit Division Update**

##### **a. Management action plan follow-up status update**

The first item in Management action plan follow-ups is the Right of Way Division. This item was presented by Mark Summral, Director, Real Estate Services Section. The Right of Way Division has begun transferring documents into softcopy for better cataloging. Commissioner Austin asked if the digitalized data can be monetized as a way for cost recovery on our efforts. The Right of Way Division recommends partnering with the Texas State Library and Archives Commission (TSLAC); the project will cost approximately \$13 million dollars over the next 4 to 6 years. Commissioner Austin asked

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what processes are in place moving forward with current documents to ensure new documents do not add to the work load. Mr. Summral responded that currently TxDOT is transitioning away from documents and going to soft-copy as the official record; as well as implementing the Geo-spatial real time mapping.

Commissioner Lewis inquired about the Supreme Court ruling to digitize all county court documents and asked if their process to fulfill that ruling is known. Commissioner Lewis requested that TxDOT to reach out to Harris County or Dallas County to find out what challenges those count(ies) faced during the conversion of similar records, how the consultants hired by the county did, why a selected consultant was picked over another, and what the cost was.

Craig Otto, Director of the Internal Audit Division, presented an update on all open Management Action Plans. Currently there are zero Management Action Plans that are overdue.

**b. Audit Reports**

**i. Professional Engineering Procurement Services (PEPS) Consultant Procurement Process**

This item was presented by Craig Otto, Director of the Internal Audit Division. The focus of this audit was on the effectiveness and efficiency of the PEPS process for contract consultant selections. Commissioner Austin would like an update during the second quarter regarding the two findings: Monitoring of Consultant Rotation and Assignment of Work Authorizations, and Governance Over Consultant Selection Team Formation and SOQ Screening.

**ii. Aviation Flight Services**

This item was presented by Craig Otto, Director of the Internal Audit Division. The focus of this audit was on financial management, and how it works, specifically the Flight Services Management System (FSMS) integration with TxDOT's Enterprise Resource Planning system.

**ITEM 8. Executive Session**

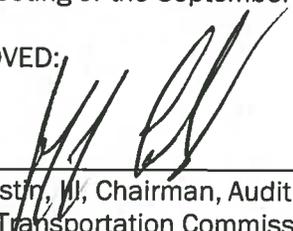
Pursuant to Government Code, Chapter 551 Section 551.071 - Consultation with and advice from legal counsel regarding any item on this agenda, pending or contemplated litigation, or other legal matters.

There was not an executive session held during this meeting.

Prior to closing the meeting Commissioner Austin asked Dana Glover, Director, Information Management Division (IMD), to provide a one page summary/dashboard, to ensure the commission is aware of any additional resources audit may need to assist. Depending on the sensitivity of the dashboards provided, or the security audits presented, they may be discussed in Executive Session.

The meeting of the September 27, 2017, audit subcommittee was adjourned at 11:57 a.m.

APPROVED:

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