

March 28, 2018

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on March 28, 2018 at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 10:09 a.m. with the following members present:

Texas Transportation Commission Audit Subcommittee:

Jeff Austin, III	Commissioner, Audit Subcommittee Chair
Alvin New	Commissioner, Audit Subcommittee Member

Staff:

Benito Ybarra	Chief Audit and Compliance Officer
Jeff Graham	General Counsel
Marc Williams	Deputy Executive Director
Jesus "Chuy" Gonzalez	Chief of Staff
Brian Ragland	Chief Financial Officer
Bill Hale	Chief Engineer
Bob Kaufman	Director of Communications & Customer Service

A public notice of this meeting containing all items on the proposed agenda was filed in the Office of the Secretary of State at 9:08 a.m. on March 20, 2018, as required by Government Code, Chapter 551, referred to as "The Open Meetings Act."

ITEM 1. Approval of Minutes of the December 13, 2017, Audit Subcommittee meeting

This item was presented by Benito Ybarra, Chief Audit and Compliance Officer. Commissioner Austin made a motion to approve, which was seconded by Commissioner New. The audit subcommittee approved the minutes of the December 13, 2017, Audit Subcommittee meeting by a vote of 2 - 0.

ITEM 2. Financial Management Division Update

This item was presented by Stephen Stewart, Director, Financial Management Division, and Amanda Landry, Accounting Section Director. The purpose of this agenda item is to discuss the continuance of the independent auditor, Crowe Horwath. Ms. Landry presented a slide showing the results from the Client Satisfaction Survey coordinated by the Compliance Division. The survey results showed an overall high level of satisfaction with services provided by Crowe Horwath. The State Auditor's Office (SAO) has first rights to audit all state agencies. TxDOT received a delegation of authority from the SAO to employ an external private auditor for the fiscal year audited. The cost of the independent audit services was confirmed to be reasonable, and Crowe Horwath confirmed they have no impairments to its independence. The Crowe Horwath team has continued to rotate auditors throughout the team over the course of the contract. Commissioner Austin commented that the continued use of Crowe Horwath has included rotation of the team members from Crowe Horwath each year. Commissioner New asked if the lead was changed; as is common practice, a lead would stay on an engagement and the team would rotate. Director Stewart responded that Crowe Horwath does rotate the auditor-in-charge, senior staff members, and the field auditors.

Commissioner Austin suggested that in the near future, TxDOT have the independent auditor come in to meet with Commissioner New and Brian Ragland, Chief Financial Officer; this meeting would be an overview of the balance sheets and financials.

Ms. Landry finished her presentation with next steps. Next steps include a one year extension of Crowe Horwath into Fiscal Year 2018.

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Commissioner Austin asked if the extension of Crowe Horwath needed to be approved or ratified by the audit subcommittee. Director Stewart answered no formal action is required. From a governance standpoint Commissioner Austin would like to take action. Jeff Graham, General Counsel, noted no minute order was prepared for approval, and if an approval were needed, then it would first need to be discussed with James Bass, TxDOT Executive Director. Commissioner Austin would like to approve the recommendation of bringing back the independent auditor Crowe Horwath and make the recommendation to the full commission. Commissioner Austin would like the approval and minute order as an item on the next audit subcommittee agenda.

ITEM 3. Compliance Division Update

a. External Audit Findings follow-up status

This item was presented by Kristin Alexander, Director of the Compliance Division. The Compliance Division follows up on the implementation status of external audit findings from external entities that audit TxDOT operations; examples include: the State Auditor's Office, the independent financial auditor and the Federal Highway Administration. As of March 2018, 32 reports with outstanding findings remained from external auditors, with a total of 121 recommendations. From the 121 recommendations, 110 of them were asserted by management and corrective actions have been implemented; the Compliance Division followed up and confirmed with 89 of those 110 recommendations, the other 21 are pending Compliance Division review. According to management, only 11 of the 121 recommendations remain incomplete. Commissioner New asked Director Alexander if any of the outstanding 11 open recommendations are high priority. Director Alexander answered the oldest recommendations are Construction Contracts at the Department of Transportation, issued in June of 2015. The recommendations include updates needed in Spec books; steps have been taken, but implementation has not been fully finalized. Director Alexander added the high priority recommendations come from Selected Business Opportunity Programs audit report; management has outstanding actions that still need to be taken, but are moving along. Commissioner Austin clarified the recommendations are from external entities, and are apart from any legal requirements or law enforcement entities to ensure federal funds are being utilized correctly. Chief Ybarra further clarified the audits Director Alexander is discussing are normal audit(s) and review(s) of department operations.

b. Summary of Investigations for Q2-FY18

This item was presented by Kristin Alexander, Director of the Compliance Division. For the second fiscal quarter of 2018, the Compliance Division Investigations Section opened 47 cases, and closed 32 cases. The 47 open cases are a notable increase over last quarter; of those cases, 12 of them are cases that were opened after a procurement card (p-card) data analysis project. Twelve of the 47 open cases were substantiated, a lower percentage than last quarter, and more in line with the trend of closed substantiated cases in the past. Investigations continue to most often be the misuse of state resources, employee misconduct, and this quarters investigations included 2 cases involving falsification of documents. Commissioner Austin informed Commissioner New of the TxDOT fraud line (TxDOT Watch) and asked which employees of TxDOT receive the allegations from the hotline. Chief Ybarra responded that a contracted third party vendor handles the allegations; Director Alexander, Mr. Graham, Chief Ybarra and a member of Human Resources receive the complaints. Director Alexander's group triages the allegation(s) for appropriate response. The allegation(s) that warrant investigation are turned over to the investigations section for handling. Director Alexander copies the list of TxDOT employees previously mentioned for their insight/perspective as to how the allegation(s) should be handled. Director Alexander specified that while investigations do come from

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the Hotline, a number of investigations start with internal TxDOT employees calling/or emailing the Compliance Division to report an allegation.

ITEM 4. Internal Audit Division Update

a. Management action plan follow-up status

This item was presented by Craig Otto, Director of the Internal Audit Division. As of March 1, 2018 there were 89 open Management Action Plans (MAPs) and none of those MAPs are overdue. The net increase of MAPs from December 1, 2017 was in relation to issuing new audit reports, which increased the number of new actions for management follow-up. Progress has been made towards the 41 MAPs follow-up engagements from the FY18 audit plan; currently of those 41 MAPs, 15 are completed, and 10 are in progress. Commissioner Austin requests a follow-up item; he would like the audit subcommittee to be supplied with a spreadsheet in addition to the MAP listing, of current open maps that details the audit findings and recommendations being implemented.

Commissioner New asked Director Otto how close the Internal Audit Division was, or what steps are being taken to audit the Information Management Division processes; and does Internal Audit Division have staff capable and able to lead those audits. Director Otto answered yes, he has an audit team in place, whom focuses only on IT related audits; they are led by an Audit Section Manager that is a Certified Information Systems Auditor (CISA). Commissioner Austin would like to receive an internal confidential document that details IT vulnerabilities; previously it was distributed to Commissioner Austin and Commissioner Bugg as part of audit subcommittee; and Commissioner Austin would like to begin receiving it again, as would Commissioner New. In addition to IT vulnerabilities, Commissioner Austin would like to see an in-depth look at policies in place. In regards to the Legislative Appropriations Request (LAR) presentation, Commissioner Austin would like to ensure TxDOT has enough IT resources, to fund the systems the agency needs. Director Alexander noted that the Compliance Division's External Audit and Advisory Services section audit's TxDOT third party vendors and contracts, including IT related services. The External Audit and Advisory Service section also has Certified Information Systems Auditor(s) (CISA) and other expertise in place to manage external audits.

Commissioner Austin asked Mr. Graham to schedule an Executive Session item for Network Security due to the sensitive nature of the material being discussed. Mr. Graham stated that closed meetings may be held to discuss security audits. Commissioner Austin would like to have a high level briefing at the next audit subcommittee meeting on the network security issues that might be of concern.

b. Internal Audit Report: Veteran Toll Discount Program

This item was presented by Craig Otto, Director of the Internal Audit Division. The objective of this audit was to determine the effectiveness of managing the Veteran Toll Discount Program to ensure the program is administered according to Minute Order 113682 and the Texas Transportation Code. The overall audit rating was satisfactory, and the audit produced 3 findings. The first finding was in relation to monitoring the non-revenue account by the Toll Operations Division (TOD). TOD did not employ anyone that monitored the controls, which is used to track eligible discount plates for the accuracy and completeness. The second finding was an analysis performed around concurrent use of Veteran Toll account information; working in conjunction with the Department of Motor Vehicles (DMV) to determine if an individual was utilizing their account to become eligible for multiple plates. Texas Transportation Code does not limit the number of license plates a veteran may have. The audit report shows two veterans having as many as 11 qualifying license plates. The audit team tested to see if more than one vehicle owned by a veteran was on the roadway at the same time; testing

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between 0 to five minutes. The analysis shows 84,748 transactions for FY17; what the Internal Audit Division was unable to determine who the driver is in each of these transactions. The third finding showed that TxDOT reimbursed Central Texas Turnpike System (CTTS) for eligible veteran toll transactions at a two-axle transponder rate, including vehicles that exceeded two axles that are normally eligible for a higher full-fare rate. Director Otto stated that of the 6.8 million transactions posted to the veteran toll non-revenue account in FY17, there were 53,410 transactions involving 6,709 plates with 3 or more axles. Commissioner Austin asked for clarification on what would qualify as a three-axle vehicle. The example of a truck pulling a trailer was given.

Commissioner New noted that the look at this analysis is to help with growth. Director Otto concurred saying TOD tests shows Toll Road usage is in the 20 - 30% range on certain roads. Commissioner Austin gave a brief overview of the history of the Veteran Toll Discount Program; detailing the original request from the Governor Perry to TxDOT to help with the veterans across the state, and the LAR funding. Brian Ragland, Chief Financial Officer, clarified the LAR amount requested is approximately \$20 million; the details of the request would be detailed during the March Commission Workshop. Chief Ragland reiterated that the growth of Toll Roads continues, but the growth in the Veteran Toll Discount Program far exceeds toll road growth. Mr. Graham reminded Commissioner Austin that if he would like legal advice surrounding the Veteran Toll Discount Program, it could be done during Executive Session.

ITEM 7. Executive Session Pursuant to Government Code 551

a. 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 convened in executive session at 10:48a.m., and adjourned at 11:09 a.m.

The Audit Subcommittee reconvened in general session at 11:10 a.m.

Commissioner New made a motion to adjourn the meeting, which was seconded by Commissioner Austin. The meeting of the March 28, 2019, audit subcommittee was adjourned at 11:11 a.m.

APPROVED:



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