

June 27, 2018

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on June 27, 2018 at 125 E. 11<sup>th</sup> 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
Alvin New	Commissioner, Audit Subcommittee Member

**Staff:**

Benito Ybarra	Chief Audit and Compliance Officer
Jeff Graham	General Counsel
Marc Williams	Deputy Executive Director
Brian Ragland	Chief Financial Officer
Bill Hale	Chief Engineer
Rich McMonagle	Chief Administrative Officer

A public notice of this meeting containing all items on the proposed agenda was filed in the Office of the Secretary of State at 11:13 a.m. on June 19, 2018, as required by Government Code, Chapter 551, referred to as "The Open Meetings Act."

**ITEM 1. Approval of Minutes of the March 28, 2018, 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 March 28, 2018, Audit Subcommittee meeting by a vote of 2 - 0.

**ITEM 2. Legislative Implementation Update**

**a. Federal**

This item was presented by Andrea Lofye, Federal Affairs Section Director. Director Lofye provided implementation updates on the FAST Act of 2015, MAP-21 of 2012, Water Resources Reform & Development Act (WRRDA) of 2014, Water Infrastructure Improvements for the Nation (WIIN) Act of 2016, and Federal Aviation Administration (FAA) Reauthorization of 2016.

**b. State**

This item was presented by Cory Henrickson, State Legislative Affairs Section Assistant Director. Mr. Henrickson provided implementation updates on legislation passed during the 85<sup>th</sup> Regular Legislative Session and the Commission's action on legislation requiring rulemaking. Commissioner Austin asked about the state-wide contacting of the General Appropriations Act (SB1) being applicable to all state agencies or just the Texas Department of Transportation (TxDOT), and Mr. Henrickson replied that Article IX applies to all state agencies. Commissioner Austin also asked Brian Ragland, Chief Financial Officer, if TxDOT had any reserve balances in the Cesar Chavez Freeway Project. Chief Ragland did not recall any balances.

**ITEM 3. Financial Management Division Update**

This item was presented by Stephen Stewart, Director, Financial Management Division, and Amanda Landry, Accounting Section Director. Director Stewart noted Crowe Horwath has undergone a global rebranding and is now known just as Crowe. Director Stewart and Commissioner Austin acknowledged the quality work Crowe has been performing and discussed the options of extending the Crowe contract for FY2019 and reopening the contract for other bids. Chief Ragland mentioned

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the State Auditor's Office must first waive their right of performing the audit and delegate the authority to allow TxDOT to use an outside party to perform the audit.

#### **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 June 1, 2018, there were 96 open Management Action Plans (MAPs) and none of those MAPs are overdue. The net increase of MAPs from March 1, 2018 was in relation to issuing new audit reports, which increased the number of new actions for management follow-up. Progress has been made towards 36 MAPs follow-up engagements from the FY18 audit plan; currently of those 36 MAPs, 22 are completed, 10 are in progress, and 30 are being tested for closure.

##### **b. Internal Audit Reports**

This item was presented by Craig Otto, Director of the Internal Audit Division.

- 1) The State Infrastructure Bank Audit resulted in 2 findings and 1 observation. Findings were program lending and management procedures needs improvement and FHWA annual reporting is satisfactory. The observation was to look for better ways to be more complete in documentation and retaining files. The Audit concurred that the State Infrastructure Bank is operating effectively; however, it requires additional rigor to ensure scalability and program compliance.
- 2) The Enterprise Resource Planning (ERP) Conversion Rates Audit resulted in 2 findings and 1 observation. Findings were usage of manual conversions needs improvement and establishment and monitoring of NIGP codes needs improvement. The observation was process improvement can take place by procurement increasing their activity and disseminating communication of the process to the associated parties. The Audit found that ERP Conversion Rates needs improvement.

#### **ITEM 5. Compliance Division Update**

##### **a. Summary of Investigations for Q3-FY18**

This item was presented by Kristin Alexander, Director of the Compliance Division. For the third fiscal quarter of 2018, the Compliance Division Investigations Section opened 22 cases, and closed 29 cases. The 22 open cases are a substantial decrease over last quarter, due to the second fiscal quarter procurement card (p-card) data analysis project. Twelve of the 22 open cases were substantiated, which is consistent with past trends of closed substantiated cases from the last few years. Investigations were mostly located in districts, but there were three instances of third-party investigations, which is where the bigger issues are more likely to be found. Investigations continue to most often be the misuse of state resources, particularly the misuse of state vehicles, and employee misconduct. The Compliance Division is continuing to promote the capabilities of the fleet navigation system to track vehicles as a deterrence for employees to misuse a state vehicle.

##### **b. Outreach Efforts**

This item was presented by Kristin Alexander, Director of the Compliance Division. Internal TxDOT awareness activities included 4 district visits for risk assessment and fraud discussions, fraud awareness training for the Construction Division and Financial Management Division, and Coffee with the Crew in 3 maintenance offices. External fraud awareness with contracting committees involved presentations at the 2018 TxDOT Annual Surveyor Conference and the 2018 Construction, Pavements, and Materials Conference. The Compliance Newsletter provides information about

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misuse of TxDOT vehicles, the sunset review process, and sanctions rules for ethical violations from third-party businesses that work with TxDOT.

**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.

**b. Section 551.089**

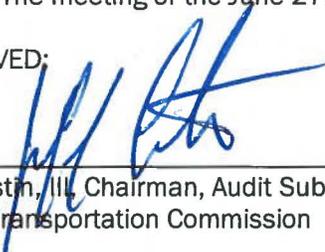
Deliberation on network security audits and recommendations by both the Internal Audit Division and the Compliance Division.

The Audit Subcommittee convened in executive session at 11:09 a.m., and adjourned at 11:23 a.m.

The Audit Subcommittee reconvened in general session at 11:25 a.m.

Commissioner New made a motion to adjourn the meeting, which was seconded by Commissioner Austin. The meeting of the June 27, 2018, audit subcommittee was adjourned at 11:26 a.m.

APPROVED:



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