

August 29, 2018

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on August 29, 2018 at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 10:05 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
Brian Ragland	Chief Financial Officer
Rich McMonagle	Chief Administrative Officer
Bob Kaufman	Director of Communications & Customer Service
Darran Anderson	Director of Strategy & Innovation
Randy Hopmann	Director of District Operations
Brian Barth	Director of Project Planning and Development

A public notice of this meeting containing all items on the proposed agenda was filed in the Office of the Secretary of State at 2:34 p.m. on August 21, 2018, as required by Government Code, Chapter 551, referred to as "The Open Meetings Act."

ITEM 1. Safety Briefing

The meeting began with the Greer Building safety briefing video.

ITEM 2. Consider the approval of Minutes of the June 27, 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 June 27, 2018, Audit Subcommittee meeting by a vote of 2 - 0.

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 gave remarks about the Spirit of the Sarbanes-Oxley (SOX), which began at TxDOT in 2009 and was revised in 2014. Ms. Landry spoke about the results of the recently completed internal controls testing of financial reporting. In FY 2018, the TxDOT Compliance Division's External Audit Advisory Services Section assisted Financial Management with complying with the Spirit of SOX initiative by completing two engagements: (1) Key Control Identification and (2) Key Control Testing. Commissioner Austin asked about approving the "color of money" on projects for Proposition 1 and 7 and if it was included in the report. Director Stewart answered that it was not included in the report, but the Financial Management Division has other compensating controls that are used to review all dollars used on Proposition 1 and 7. Ms. Landry reported that 9 of the 10 controls tested in the Compliance Division's results were found effective. The ineffective control, SiteManager Estimate Approvals, was found to have been overridden during Hurricane Harvey response to ensure contractors, maintenance, and construction would receive timely payments during the disaster response. Discussions have been underway with the appropriate stakeholders to address this condition. The FY 2019 Spirit of SOX Engagement Plan will mirror the same process that was completed for FY 2018.

August 29, 2018

ITEM 4. Audit Subcommittee Charter

This item was presented by Benito Ybarra, Chief Audit and Compliance Officer. Chief Ybarra informed the Commissioners the Charter had been updated to include the Compliance Division within the scope of the Charter and would be presented for approval as a routine item at the Texas Transportation Commission meeting the following day, August 30, 2018. Commissioner Austin noted that Chairman Bugg had expressed a desire for the Audit Subcommittee to take on a more active role and responsibility in reviewing how different divisions procure and award contracts before and after contracts are awarded.

ITEM 5. Audit and Compliance Charter

This item was presented by Benito Ybarra, Chief Audit and Compliance Officer. Chief Ybarra explained to the Commissioners this Charter outlines the purpose, authority, and responsibility of the Internal Audit Division and the Compliance Division and that it requires the approval of the Executive Director but is reviewed by the Audit Subcommittee. The Charter was updated to include Commissioner New as a member of the Subcommittee. Commissioner New made a motion to approve, which was seconded by Commissioner Austin. The audit subcommittee approved the Audit and Compliance Charter by a vote of 2 - 0.

ITEM 6. Audit Plan

This item was presented by Benito Ybarra, Chief Audit and Compliance Officer. Chief Ybarra explained that the Texas Internal Auditing Act requires a risk assessment be conducted and adequate resources be dedicated to complete the Audit Plan, both of which Chief Ybarra affirmed. Chief Ybarra explained the Internal Audit Plan Development Process using key sources of input and enterprise risk management results, which showed an overall improvement in four of five key control activities over the past three fiscal years. Craig Otto, Director of the Internal Audit Division, presented the Internal Audit Division Proposed Work Plan, which proposes 59 engagements and 4 special projects over 8 Risk Themes or Focus Areas. The engagements propose to cover 100% of districts, 50% of divisions, and address 36% of identified organizational risks. In reviewing the proposed engagements, Commissioner New asked when the last time the SmartBuy Program was reviewed; Chief Ybarra answered he believed it was last reviewed in 2009. Commissioner New encouraged a review of the program, based upon his district visits; Chief Ybarra and Director Otto said they would assess it. Commissioner Austin asked if a contracting audit had been performed on the engineering and PEPS side; Director Otto noted the proposed CEI Invoicing audit engagement would cover that, and Chief Ybarra added the Internal Audit Division performed a comprehensive contracting audit 4-5 years ago. Commissioner Austin requested a copy of that report; Chief Ybarra responded he would send it to him. Kristin Alexander, Director of the Compliance Division, presented the Compliance Division Proposed Work Plan, which focuses on conducting a fraud risk assessment to prevent, detect, and investigate fraud, waste, abuse, and serious breaches of internal and external TxDOT policy. The Compliance Plan proposes 28 compliance and fraud risk areas; 7 external audits; 4 advisory services; 9 compliance evaluations; as well as investigations, detection projects, and statewide outreach. In reviewing the proposed engagements, Commissioner Austin asked if the plan included assessment of the grants provided by TxDOT to outside groups, such as drunk driving prevention; Chief Ybarra answered affirming that traffic safety grant recipients are included in the external audit. Commissioner Austin also asked when the last time Hidalgo County Regional mobility Authority was audited; Director Alexander responded they were audited two years ago and received a favorable result. Commissioner Austin recommended another review if possible, due to the increased funding and operations increasing. Commissioner New made a motion to recommend the

August 29, 2018

Audit Plan for approval by the Texas Transportation Commission, which was seconded by Commissioner Austin. The audit subcommittee recommended the Audit Plan by a vote of 2 – 0.

ITEM 7. Compliance Division Update

a. Houston-Galveston Area Council (H-GAC) External Audit Report

This item was presented by Kristin Alexander, Director of the Compliance Division. This report sought to determine whether the H-GAC Metropolitan Planning Organization (MPO) had implemented the necessary financial controls to ensure appropriate grant and loan funding management and to determine whether payments to the MPO were supported by sufficient documentation. The report concluded H-GAC MPO had implemented necessary controls to ensure appropriate grant funding management. Additionally, reimbursements to the MPO were supported by sufficient documentation and allowable per applicable standards. Because of the issue identified in the report with fraudulent contractor funding, Commissioner Austin asked about the process for holding contractors accountable or receiving restitution in the future; Jeff Graham, General Counsel, and Director Alexander explained the options currently available, as well as those under the rules proposed for approval by the Texas Transportation Commission the next day.

b. External Audit Findings Follow-up Status

This item was presented by Kristin Alexander, Director of the Compliance Division. These external findings were identified from outside organization on TxDOT. Of the 112 total recommendations, 101 were confirmed to be fully implemented by TxDOT management and Compliance Division staff. The 11 incomplete were in progress for completion. Commissioner Austin asked about requirements for identifying audit staff on reports for fear of retaliation; Chief Ybarra and Director Alexander answered there was no requirement for identifying the audit staff, and it had been included previously as recognition for having completed the work.

c. Summary of Investigations for Q4-FY18

This item was presented by Kristin Alexander, Director of the Compliance Division. Director Alexander noted the presented data was not complete, as the Fiscal Year's 4th Quarter was not complete and new cases had been identified in recent days. For the fourth fiscal quarter of 2018, the Compliance Division Investigations Section opened 22 cases, and closed 18 cases. Of the 18 cases that were currently closed, 50% were substantiated, which is an increase and consistent with recent trends. Investigations were mostly located in districts, but there were two instances of third-party investigations. Commissioner Austin asked if Human Resources was providing right and timely follow-up for taking action on allegations; Chief Ybarra and Director Alexander answered that Human Resources was responding within the timeframes that had been set, but Chief Ybarra would always desire faster responses. Common investigations were conflict of interest and the misuse of state resources; however, Director Alexander noted two instances of increased significance: the acceptance of a cash gift from a contractor they oversaw, the acceptance of a benefit, theft of petty cash, and an unreported employee injury.

ITEM 8. 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 September 1, 2018, there were scheduled to be 50 open Management Action Plans (MAPs) and none of those MAPs are overdue. Director Otto noted the timeframe for closing each MAP was gradually decreasing over the past three fiscal years from about 12 months to about 3 months. Progress has been made

August 29, 2018

towards 36 MAPs follow-up engagements from the FY 18 audit plan; currently of those 36 MAPs, 10 are completed, 26 are in progress, and 86 are being tested for closure.

b. Local Government Project MAP update

This item was presented by David Millikan, Section Director for Local Government Projects. The objective of this MAP was to improve development and execution of Advance Funding Agreements with local government entities in order to decrease special approvals needed for specified percentage arrangements and reduce delinquent receivables. Mr. Millikan explained the MAP workgroup's formation, progress, and recommendations schedule. Commissioner Austin asked if the recommendations would need to go out for public comment; Mr. Millikan answered the rule changes would need to be posted in the Texas Register. Mr. Millikan stated the MAP was predicted to be completed by April 2019.

c. Internal Audit Report – Professional Engineering Procurement Services (PEPS) Contract Negotiations Audit

This item was presented by Craig Otto, Director of the Internal Audit Division. The PEPS Audit focused on the negotiation process for determining labor and profit rates associated with professional services contracts, and the audit resulted in 3 findings. The findings were: (1) optimization and assessment of rate negotiations, (2) job classifications without percentile information, and (3) incomplete/inaccurate data in PS-CAMS. The first finding was rated unsatisfactory; the second and third findings were rated as needing improvement.

ITEM 7. Executive Session

Pursuant to Government Code 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.

Commissioner New made a motion to adjourn the meeting, which was seconded by Commissioner Austin. The meeting of the August 29, 2018, Audit Subcommittee was adjourned at 11:18 a.m.

APPROVED:



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