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This item was presented by Trent Thomas, Director, State Legislative Affairs Section. Mr. Thomas covered updates from the 85th, and 86th State Legislative Sessions. Regarding the 85th Legislature, Mr. Thomas highlighted Senate Bill 312 (also referred to as the Sunset Bill); and Senate Bill 1, the General Appropriations Act. Moving to the 86th Legislature, Mr. Thomas covered additional information Senate Bill 1, the General Appropriations Act and 10 new or amended TxDOT budget riders. He also briefly covered the two new provisions to Senate Bill 500, Supplemental Appropriations Bill.

ITEM 4. Information Technology Update

a. Information Technology Contracts

This item was presented by Anh Selissen, Chief Information Officer. Chief Selissen discussed the transition planning; the awarded procurements, vendor selection and the diversification of the vendor pool. The awarded procurement areas included; Infrastructure IT, Engineering Services, Business Network, Traffic Network, Information Security, Web Services and Enterprise Architecture. The three vendors assisting TxDOT with these operations include NTT Data, Skyline (subcontracted by NTT Data) and HCL. Commissioner New has emphasized the importance of increasing and updating bandwidth in TxDOT Districts, and the Business Network and Traffic Network (new service component) will focus mainly on that. Total 5-year cost on contracts is \$241M and encompasses several new service components not in original contract, including dedicated support in the Districts (not all Districts will have dedicated support to start). Commissioner Ryan asked if the Enterprise Architecture new service component is for current or strategic planning purposes; Chief Selissen answered it is for more strategic planning and in her role, she will be looking into standards and operational perspective, as well. Following the discussion of the awarded procurements and vendor diversification, Chief Selissen discussed the risk areas and mitigation of those risks with these new contracts and vendors. Risks are being identified using customer satisfaction surveys, looking at tickets and ticket closures and district visits by IT leadership and vendor leadership, allowing them to experience and see what the districts are seeing and feeling daily. New project statement of work will go through DBITS. Chief Ybarra added that both the internal audit and compliance functions have focused on service level agreements (SLA) over the past year; something Chief Selissen mentioned during her presentation and will remain a continual focus for both Internal Audit and Compliance Divisions. Commissioner Ryan asked if Chief Selissen will be able to share information gathered to use as a baseline. Chief Selissen confirmed.

b. TxDOTCONNECT

This item was presented by Erika Kemp, MPPM Project Director. TxDOTCONNECT is currently under an active procurement, and Ms. Kemp will discuss risks associated with that procurement. Ms. Kemp discussed project delivery in releases 1 and procurement. To date, they have estimated and drafted 1100 Functional and Enabler User stories. Release one has been delivered, and they are in the process of delivering release 2 as long as it does not conflict with letting. The combination of both releases will include 771 user stories. The second portion of release two, the Right of Way functionality, is set to launch in January 2020, and they project having 929 user stories. Ms. Kemp also covered Budget, and Timeline, rounding out her discussion on the TxDOTCONNECT triple constraint. Commissioner Ryan asked if Ms. Kemp would be talking through the scope being lower than expected and the budget being higher than expected. Ms. Kemp responded discussing the waterfall approach to product development. Ms. Kemp spoke about TxDOTCONNECT high priority risks, including short-term staffing solutions. TxDOTCONNECT is not using the IMD contract vendors, and is looking for a long-term solution, hopefully to be procured and onboarded by January 2020. Additionally, Ms. Kemp covered knowledge transfer, refactoring, and overtime as high priority risks. Ms. Kemp finished her presentation covering high priority issues; including, resources, release 2 deployment delay and automated testing. Commissioner Ryan asked if Release 2 was the release that would take TxDOT completely off the Mainframe, and Ms. Kemp responded that it will take TxDOT out of Design/Construction Information System (DCIS), but Construction

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and Maintenance Contract System (CMCS) and Subcontractor Monitoring System (SMS) mainframe environments are scheduled for future replacement.

ITEM 5. Financial Management Update

This item was presented by Steven Stewart, Director, Financial Management Division (FIN) and Amanda Landry, Accounting Section Director. Director Stewart covered the objective of SOX and a brief overview of its history at TxDOT. Ms. Landry covered an update on the Spirit of Sarbanes-Oxley (SOX) Program; including working with the External Audit and Advisory Services Section of the Compliance Division (CMP) who performed an advisory service engagement for the Financial Management Division in Fiscal Year 2019. For the engagement performed, FIN selected 14 key controls for effectiveness testing on data from the first three quarters of the fiscal year. The testing results identified that 12 out of the 14 controls were operating effectively. A control related to PeopleSoft duplicate invoicing was found to be designed ineffectively and was not tested. Commissioner Ryan asked for clarification if our tool or the process was ineffective; Ms. Landry responded that the control script was looking for a default setting that was not selected and inconsistently configured. Commissioner Ryan asked if duplicate invoices had been disbursed; and Ms. Landry confirmed yes. Kristin Alexander, Director, Compliance Division joined the discussion confirming duplicate invoices went out and were corrected; there is a compensating control in place that would catch duplicates after the fact. The control associated with passwords policy and was not configured correctly across multiple systems and failed testing. Ms. Landry stated the finding on passwords is similar to one found during the Fiscal Year 2018 Single Audit and the Information Management Division is actively working on it. Commissioner Ryan asked if it would be a short fix or long fix. Chief Information Officer Anh Selissen joined the conversation stating they are assessing the complexity of the issue and has asked for an opportunity to take a deeper dive into the issue and present more clarification around password policies.

ITEM 6. Audit and Compliance Charter

This item was presented by Benito Ybarra, Chief Audit and Compliance Officer. Chief Ybarra highlighted that the charter is reviewed annually, and it outlines the purpose, responsibility and authority of the Internal Audit Division and Compliance Division. The only update required this year was to the signatory lines to include Chair Ryan.

ITEM 7. Audit Plan

This item was presented by Craig Otto, Director, Internal Audit Division. Director Otto discussed the three components of the audit lifecycle starting with the risk assessment process. Per the Texas Internal Audit Act, the audit plan requires approval from the full Texas Transportation Commission. The risk assessment process helps reaffirm the Internal Audit Division has enough resources to focus in on areas of high risk and impact. Director Otto presented a list of the 20 audits selected for Fiscal Year 2020, 17 Management Action Plan Follow-ups, and 10 audits listed as contingency. Commissioner New provided additional commentary regarding consistent follow-up engagements that have large implications to TxDOT functions; particularly previous functions that have received yellow and red ratings and the importance of follow-up audits in high impact functions. Commissioner Ryan asked for information about the audits selected for Fiscal Year 2020, such as historical data that shows the last time a function was audited and have the information represented on the slides during the presentation. For recurring audits Commissioner Ryan would like to know if there are requirements for recurring audits, or if they are recurring based on Risk Score and previous audits. Director Otto stated there are two audit engagements that are required by law and they are Public Funds Investment Act and Toll Facilities Federal Reporting. Commissioner Ryan asked for additional information on the Management Action Plan Follow-ups and the Contingency items. Director Otto talked through the Management Action Plans and the contingency audits. Chief Ybarra stated Internal Audit Division communicates to Divisions and Sections listed on the contingency list making them

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aware and allowing them to address the risks internally. Commissioner Ryan asked if Internal Audit Division provided those on the contingency list with a template to follow, and the Chief Ybarra agreed it would be beneficial and Internal Audit Division would work on a template for self-assessments. Chief Ybarra closed the discussion covering the percentage of coverage from the audit plan across the organization as well as who has input in the decision on what functions to audit.

ITEM 8. Compliance Division Update

a. External Audit Report – North Central Texas Council of Governments

This item was presented by Kristin Alexander, Director of the Compliance Division. The objective of this audit was to determine if North Central Texas Council of Governments (NCTCOG) MPO had implemented financial controls to ensure appropriate grant and loan management and to determine whether TxDOT payments to the MPO were supported by sufficient documentation and allowable per applicable agreements. The Compliance Division was able to determine that NCTCOG MPO has implemented controls ensuring appropriate grant funding management. The Compliance Division did identify opportunities for improvement in internal controls and processes. A key takeaway was NCTCOG does not have standardized or documented procedures for Regional Toll Revenue expenditures, earned interest and transfers; Compliance Division has added visiting subrecipients to the Compliance Work Plan.

b. External Audit Report follow-up status

This item was presented by Kristin Alexander, Director of the Compliance Division. Director Alexander confirmed that outstanding money due to TxDOT has been returned, including the \$279,000 in unallowable costs from the University of Texas at Austin's Center for Transportation Research (CTR). The other two findings related to control issues from the CTR audit are still being implemented. The Houston-Galveston Area Council (HGAC) has reimbursed TxDOT \$125,659 for unallowable costs paid to a subrecipient that was determined to be fraudulent.

c. Summary of Investigations

This item was presented by Kristin Alexander, Director of the Compliance Division. The Compliance Division Investigations Section opened 33 cases in the 4th quarter, an increase from the 3rd quarter; and closed 28 cases, a decrease from the 3rd quarter. Of the 28 cases closed, 19 were substantiated. Substantiation rate remains high, 68% for the 4th quarter. Of the closed Investigations 20 of them occurred in the Districts, 3 in Divisions and 5 involved a third-party. Commissioner New asked if the internal cases continued to be around vehicle misuse. Director Alexander confirmed that vehicle misuse and timesheets misreporting are the most common misuse of state resources reported to the Compliance Division. Director Alexander continued her presentation covering the summary of investigations for all of fiscal year 2019. The Compliance Division received 387 allegations, 29% higher than fiscal year 2018; initiating 113 investigations, 60 of which were substantiated. Vehicle misuse and timesheet misreporting being amongst the highest reported allegations; with vehicle misuse remaining high for several years, even after the implementation of GPS technology and frequent reminders to vehicle users about vehicle tracking. The Compliance Division is working on more targeted outreach campaign with the creation of posters highlighting cases of misuse of state resources and termination numbers for distribution statewide. Commissioner New asked when smaller or midsize districts have a high allegation rate, is it cultural? Director Alexander responded that often the investigations team finds new management has been put in place. Director Alexander also stated that when the investigators do outreach in the districts, staff bring forth concerns after presentations. Commissioner Ryan asked for clarification on the presentation of the annual Employee Investigation Location slide, Commissioner Ryan would like future presentations to include the number of substantiated cases, and the known drivers for those cases.

ITEM 9. Internal Audit Division Update

a. Management action plan (MAP) follow-up status

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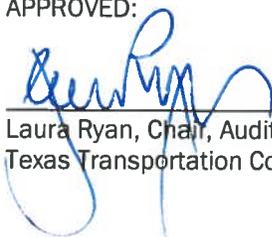
This item was presented by Craig Otto, Director of the Internal Audit Division. For the end of fiscal year 2019, there was an uptick in Management Action Plans (MAP), which is standard for the end of any fiscal year when reports are issued. At the end of fiscal year 2019, there were a total of 169 open MAPs, and one MAP was considered overdue. The overdue MAP is in the Materials Testing Division (MTD) relating to materials quality monitoring and was due August 15, 2019. MTD has since submitted documentation for review and is working with Internal Audit Division to close the open, overdue MAP. For fiscal year 2019 the MAPs created came from 28 audits rated unsatisfactory, 116 rated needs improvement and 25 rated satisfactory. Seventy-one of the MAPs created are from three audit engagements. Commissioner New appreciated the clarification that three audit engagements created 71 of the MAPs listed and asked if they were part of the 28 rated unsatisfactory. Chief Ybarra responded that two of the three audits are included in the unsatisfactory ratings.

b. Internal Audit Report – Surplus Property Management

This item was presented by Craig Otto, Director of the Internal Audit Division. Two findings were identified during this audit with an overall rating of needs improvement; the audit primarily focused on the efficiency and effectiveness of the management of non-inventoried surplus property (i.e. property valued at less than \$5K) in preparation for the influx of surplus items anticipated during campus consolidation. The first issue discussed included the tracking and re-use of non-inventoried surplus property. The second issue identified was surplus warehouse physical security. Commissioner Ryan reiterated that the estimated value of all items in the warehouse totaled approximately \$16,000, and TxDOT procured new comparable items for approximately \$75,000; she then asked what the cost of rent/leases is for the space housing the surplus materials. Director Otto responded that the space currently being leased in Austin is approximately \$104,000 annually. In addition to the surplus items, Director Otto noted that capital equipment such as signage is also stored in the warehouse. Commissioner Ryan further asked if the warehouse space is still necessary; Director Otto responded that to his knowledge the warehouse is not taking new items for surplus, but TxDOT is continuing to hold the lease for the next few years and will use it for storage during the campus consolidation.

Commissioner Ryan adjourned the meeting of the September 25, 2019 Audit Subcommittee at 11:31 a.m.

APPROVED:



Laura Ryan, Chair, Audit Subcommittee
Texas Transportation Commission