

December 11, 2019

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on December 11, 2019 at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 10:07 a.m. with the following members present:

Texas Transportation Commission Audit Subcommittee:

Laura Ryan	Commissioner, Audit Subcommittee Chair
Alvin New	Commissioner, Audit Subcommittee Member

Staff:

Benito Ybarra	Chief Audit and Compliance Officer
Jeff Graham	General Counsel
Marc Williams, P.E.	Deputy Executive Director
Brian D. Ragland, CPA	Chief Financial Officer
R. C. McMonagle	Chief Administrative Officer
William L. Hale, P.E.	Chief Engineer
Anh Selissen	Chief Information Officer
Mary Anne Griss	Chief of Staff
Bob Kaufman	Director of Communications & Customer Service
C. Michael Lee, P.E.	Director of Engineering & Safety Operations
Quincy Allen, P.E.	Director of District Operations

A public notice of this meeting containing all items on the proposed agenda was filed in the Office of the Secretary of State at 3:13 p.m. on December 3, 2019, 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. Volume was an issue, and Chief Ybarra confirmed no one had questions about safety in the event of an emergency prior to starting the meeting.

ITEM 2. Consider the approval of the Minutes of the September 25, 2019, Audit Subcommittee meeting

This item was presented by Laura Ryan, Audit Subcommittee Chair. Commissioner New made a motion to approve, Commissioner Ryan seconded the motion. The audit subcommittee approved the minutes of the September 25, 2019, Audit Subcommittee meeting by a vote of 2 - 0.

ITEM 3. Independent Auditor's Report

This item was presented by Mr. Kevin Smith, Partner, Crowe LLP; Stephen Stewart, Financial Management Division Director, and Amanda Landry, Accounting Section Director. As the independent auditor, Mr. Smith confirmed the audit would be completed by the State Auditor's Office deadline of December 20, 2019. Reports would be issued on the Texas Department of Transportation (entity wide basis), Texas Mobility Fund, Central Texas Turnpike System, and Grand Parkway Transportation Corporation. Each entity received an Unmodified "Clean" Opinion which is the highest level of assurance in accordance with the *Government Auditing Standards*. Mr. Smith also discussed the independent auditor's second deliverable, a report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. The independent auditor communicated orally with management a few performance improvement opportunities and one

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deficiency, noting nothing rose to the level of material weaknesses or significant deficiencies in internal control. Finally, Mr. Smith discussed the Statement on Auditing Standards 114, required communication with those charged with governance, covering the financial statements of TxDOT being filed in accordance with Generally Accepted Accounting Principles (GAAP). Commissioner Ryan asked Mr. Smith to provide additional information regarding the debts in the footnotes of the Texas Mobility Fund statements. Mr. Smith explained that Governmental Accounting Standards Board (GASB) has created two sets of financial statements, government wide and fund level. He went on to explain the differences between accounting for long-term and short-term debt on both types of financial statements. Director Stewart, and Ms. Landry joined the conversation confirming the long-term debt is recorded on the government wide financial statements for TxDOT. Commissioner Ryan asked if the areas of improvement verbally communicated to management would be shared in writing. Director Stewart stated the Financial Management Division documents the feedback and includes any suggestions or areas of improvement in their annual work plan to ensure they are addressed. Further, he explained that the independent auditor would document areas for improvement that had not improved, if they were identified. Commissioner Ryan requested that the audit subcommittee would appreciate communication of activities that TxDOT performs well, based on the work performed. Commissioner Ryan asked whether there were things TxDOT could do to make the process more time-efficient, in preparation for next year. Mr. Smith said that he felt this year was one of the easier audit periods, with the least impact GASB has had in recent years. Preparing for the next audit, TxDOT should prepare for lease accounting focus, given GASB updates.

ITEM 4. Information Technology/Project Planning and Development Update

a. Password Policy Follow-up

This item was deferred.

b. TxDOTCONNECT Risk Management Report

This item was presented by Erika Kemp, MPPM Project Director. Ms. Kemp provided an update on the TxDOTCONNECT Triple Constraint, as requested in the September subcommittee meeting concerning releases 1 and 2. As it relates to scope, release 1 is now fully delivered, and release 2 is 50% delivered; and with the approved budget for the next biennium, the project is not over budget. Releases 1 and 2 were planned to be delivered in 43 months, and the new projected timeline is 50 months. From a total project perspective, over the six years approved, TxDOTCONNECT projected 6,000 functional and enabler user stories; currently 1,500 have been delivered in the past twelve months (no functionality stories were recorded during the first three years of the project). Commissioner Ryan asked for clarification on the scope and budget being over what is projected, and Ms. Kemp confirmed that while they are currently over on scope and budget, they are planning to make up for it with the remaining timeline coming in on time, and on budget. Ms. Kemp went on to discuss the risk and issue management process, and the TxDOTCONNECT high priority risks and issues. Commissioner Ryan inquired about the service level agreements (SLA) being a key part of the contract negotiations with new IT vendors. Ms. Kemp discussed the environments and production stages currently supported by IT vendors and moving forward Information Technology Division will expand the role of the contractors to support the lower environments currently being managed by TxDOT staff. Chief Information Officer Anh Selissen joined the discussion stating that the 2020 contract will specifically have it written that the contractors will also support TxDOTCONNECT. Commissioner Ryan finished the discussion alerting Chief Selissen and Ms. Kemp that she has requested each "Look Ahead" briefing with commissioners contain an update on the ITD contracts quarterly.

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ITEM 5. Internal Audit Division Update

a. Management action plans (MAP)

Item (1) Overall Status, and Item (2) Organizational Dashboard were presented by Craig Otto, Director of the Internal Audit Division. Fiscal Year (FY) 2019 ended with 169 total Open MAPs with one MAP considered overdue. FY 2020 first quarter also has 169 total Open MAPs with one MAP overdue. The Internal Audit Division is in the process of issuing three audit reports, which will cause the Open MAP number to rise. The Internal Audit Division will focus on 17 MAP follow-up engagements in FY 2020, none were done in the first quarter, as none were due. Commissioner Ryan asked for clarification on the overdue MAP from FY2019 and the one overdue MAP listed for FY2020. Director Otto clarified that the owner for the MAP that was overdue in FY2019 submitted information, and the Internal Audit Division has begun working on closure of the MAP. The new MAP for FY2020 is related to TxDOTCONNECT and internal audit is reviewing the MAP. Given the status of the project, the MAP may no longer be applicable. Director Otto continued the discussion to item 5.a(2) Organizational Dashboard, detailing the three MAP reports submitted to the commissioners detailing MAPs from FY 2017 and FY2019, aging listing and MAP detail listing.

b. Internal Audit Report

Item 5b.(1) Public Funds Investment Act was presented by Craig Otto, Director of the Internal Audit Division. The focus of this reoccurring audit engagement is on TxDOT and Grand Parkway Transportation Corporation (GPTC) Public Funds Investment Act (PFIA) compliance for FY 2019; both entities were found fully compliant, and no findings are noted on this audit. Director Otto continued onto item 5b. (2) Third Party Website Administration internal audit report. Two findings were identified during this audit with an overall rating of needs improvement; the audit focused on third-party website administration for compliance with state law and Texas Department of Information Resources (DIR) and TxDOT requirements and guidelines. The first finding focused on oversight and management of third-party websites to determine conformance with state law, DIR requirements, or internal TxDOT requirements and guidelines, with issues identified being discussed. The second finding identified that Divisions or Districts did not always obtain nor provide metric reporting to the Communications Division – Web Services Branch, as required, for review. Commissioner New led off the questions asking for clarification on whether Districts are engaging contractors to develop websites through contract process. Director Otto invited Beth Hallmark, Communications Division Director, and Michael Sledge, Creative Services Section Director to join the conversation as the subject matter experts. Director Hallmark expressed her gratitude in the audit teams work, and findings. Director Hallmark confirmed that the contracts are typically at the district/division level for specific reasons, confirming the engagement of contractors. Commissioner Ryan joined the conversation asking what TxDOT's role is in the finding; should contracts and negotiation process be stronger upfront. Director Hallmark confirmed the Communications Division is reviewing contractual language, best practices and procedures, in order to provide more clarity. Commissioner Ryan asked General Counsel's opinion on the value of purchasing back URLs pertaining to TxDOT projects, and if the expectation that they would be handed over to the department at the end of project could be written into the contracts. Director Graham confirmed that this could be done. Director Otto concluded his presentation with the Post Implementation Travel and Expense Module audit report. The focus of this audit was on the Travel and Expense Module tool to determine if it is effective and efficient for business operations. The audit had one finding related to cycle time expectations to process expense reports not being met due to a combination of inefficient process requirements and staffing constraints. Commissioner New addressed the timeliness aspect of the reimbursements, asking what information was learned about the delays during the audit, and what the division is

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doing to improve. Director Otto responded that part of the Management Action Plan would be to provide training and development to the pre-pay auditors. In addition, discussions with Financial Management Division personnel included reassessing the process to reject reimbursement requests when the change required is not material to the approval of the request. Financial Management Division has agreed to examine this further. Commissioner New discussed the importance of timeliness in TxDOT personnel reimbursements to ensure impacts of business travel do not put undue burdens on personnel. Chief Ragland joined the conversation highlighting programs TxDOT has in place for individual travelers designed to minimize personal financial impact on personnel while traveling on business. Examples included direct billing for hotels, flights and rental cars, fleet vehicles and fuel cards, as well as a travel credit card program that works similarly to a debit card. Chief Ragland went on to discuss the turn around timeline goal, and Director Stewart stated the Traveler's have 10 days after travel to submit an expense report that includes direct billing, then travel coordinators, HR supervisors, and pre-pay auditors each have 3 days to process the expense report. Commissioner Ryan joined the conversation asking what percentage of expense reports fall within Financial Management Division's goal of 30 days or less goal and requested the Key Performance Indicators (KPIs) be included on the audit slides moving forward, to help understand goals important to the functions being audited. Chief Ybarra noted that KPIs are discussed during the planning phase of engagements and agreed to supply the KPIs for the three audits discussed after the meeting.

ITEM 6. Compliance Division Update

a. Compliance Program Effectiveness

This item was presented by Kristin Alexander, Director of the Compliance Division. The TxDOT Compliance Program Assessment is an annual review comparing TxDOT's compliance program against the 8 Elements of an Effective Compliance Program identified in the US Sentencing Commission Guidelines. The Compliance & Ethics Training Program is between a *Maturing* and *Advanced* rating. Director Alexander highlighted key FY2019 Compliance Program Activities within TxDOT that aligned with the 8 Elements of an Effective Compliance Program. During the self-evaluation process, the Compliance Division reviewed FY2019 allegation trends; noting hotline submissions increased 48% over FY2018 and only 51% of complaints were submitted anonymously. During the September subcommittee meeting, Director Alexander discussed a more targeted outreach program identifying Vehicle Misuse; her final slide on Compliance Program Assessment included a sample of the Compliance Division's campaign to highlight the impacts of misusing of state resources.

b. Summary of Investigations – Fiscal Year 2020, 1st Quarter

This item was presented by Kristin Alexander, Director of the Compliance Division. The Compliance Division Opened 32 cases, and closed 31 cases in the 1st Quarter of 2020, 55% of the cases closed were substantiated. Of the 31 closed cases, 18 were in the Districts, 4 in Divisions and 9 involved third-party violations; three of the 9 third-party violations were referred to the Sanctions Committee. Director Alexander identified the outcome by allegation category, conflict of interest, misuse of state resources, theft, third-party violations and other violations. Commissioner Ryan asked for clarification on what was classified as "other". Director Alexander answered, other policy violations, which do not fall within the established categories mentioned.

c. Sanctions Update

This item was presented by Kristin Alexander, Director of the Compliance Division. The first sanction discussed involved a maintenance contractor in which the owner of the entity misrepresented

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herself as an agent of TxDOT to rent equipment on a TxDOT line of credit. The second sanction discussed involved an engineering consultant firm that created a conflict of interest (revolving door violation) by hiring a former TxDOT employee to perform work on projects the employee worked on while employed by TxDOT. The final sanction discussed involved a grant recipient whose employee misused material developed under the TxDOT grant agreement for his personal consultant business. Following Director Alexander's full presentation, Commissioner Ryan referred to the increase in hotline complaints and triages the Compliance Division is receiving, asking if the Compliance Division was able to respond in a timely manner to complainants. Director Alexander discussed the current anonymous submission process; and discussed a current open procurement for a Case Management System that would allow anonymous back and forth communication. Chief Ybarra added that the Compliance Division does track cycle time, categorizes allegations, prioritizes allegations, and shifts resources when necessary.

ITEM 7. Executive Session

Pursuant to Government Code Section 551.071, consultation with and advice from legal counsel regarding any item on the agenda; and Government Code Section 551.074 discussion concerning the evaluation and duties of the Chief Audit and Compliance Officer.

The audit subcommittee recessed to executive session at 11:33am, and executive session convened at 11:37 a.m.

The audit subcommittee reconvened in open session at 11:59am.

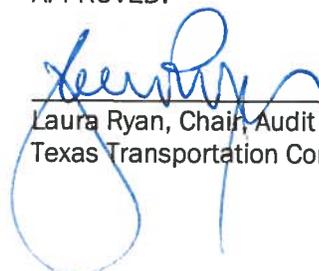
ITEM 8. Compensation Approval

Commissioner New made a motion, which was seconded by Commissioner Ryan, and the audit subcommittee members unanimously approved the Minute Order setting the annual compensation of the Chief Audit and Compliance Officer to \$231,000 annually, beginning January 1, 2020.

Commissioner Ryan announced the next meeting of the Audit Subcommittee will be February 26, 2020 at 10:00 a.m.

Commissioner Ryan adjourned the meeting of the December 11, 2019 Audit Subcommittee at 12:00 p.m.

APPROVED:



Laura Ryan, Chair, Audit Subcommittee
Texas Transportation Commission