

June 24, 2020

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on June 24, 2020 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:**

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

**Staff:**

|                       |                                     |
|-----------------------|-------------------------------------|
| Benito Ybarra         | Chief Audit and Compliance Officer  |
| Jeff Graham           | General Counsel                     |
| Mary Anne Griss       | Chief of Staff                      |
| Brian Ragland         | Chief Financial Officer             |
| Rich McMonagle        | Chief Administrative Officer        |
| Anh Selissen          | Chief Information Officer           |
| William L. Hale, P.E. | Chief Engineer                      |
| Quincy Allen, P.E.    | Director of District Operations     |
| Darran Anderson       | Director of Strategy and Innovation |

A public notice of this meeting containing all items on the proposed agenda was filed in the Office of the Secretary of State at 4:47 p.m. on June 16, 2020, as required by Government Code, Chapter 551, referred to as "The Open Meetings Act."

**ITEM 1. Meeting Guidelines**

The meeting began with the Chief Audit and Compliance Officer Benito Ybarra providing instruction and guidance on procedures for the meeting.

**ITEM 2. Consider the approval of the Minutes of the February 26, 2020, 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 February 26, 2020 Audit Subcommittee meeting by a vote of 2 - 0.

**ITEM 3. Selection of the Independent Auditor**

This item was presented by Amanda Landry, Accounting Section Director, Financial Management Division. The independent auditor will provide an audit opinion on four financial reports and conduct agreed upon procedures during this engagement. The Request for Proposals (RFP) was posted in the spring of 2020, and TxDOT received four respondents for review and scoring. The proposals received were reviewed by a three-member committee for key considerations. After reviewing all four proposals Crowe LLP's proposal was selected as the TxDOT independent auditor by unanimous decision by the committee. Crowe LLP has been the TxDOT independent Auditor since 2014. The accepted proposal from Crowe covers the 2020 year with four additional annual renewal options. Commissioner New asked for Ms. Landry to repeat the number of proposals received, and how many members from the Financial Management Division and how many members from the Internal Audit Division sat on the selection committee. Ms. Landry responded that 4 proposals were received and reviewed by two members of the Financial Management Division and one member of the Internal Audit Division who

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has experience with governmental accounting standards and internal audit engagements. Commissioner Ryan asked for a follow-up from the 2019 audit report by Crowe LLP that identified added efficiencies; asking specifically if those efficiencies would be carried forward. Ms. Landry confirmed her team worked to identify efficiencies and continued the effort; and seeks input from Crowe. Commissioner Ryan narrowed her questioning to time delays noted by TxDOT staff in the previous engagement. Ms. Landry confirmed that her staff was beginning interim procedures this summer ahead of the Crowe 2020 engagement, including testing on controls through the third quarter.

#### **ITEM 4. Internal Audit Division Update**

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

This item was presented by Craig Otto, Director of the Internal Audit Division. Director Otto covered Total Open MAPs from the last quarterly meeting; covering Total Open Maps Not Yet Due, Partially Implemented MAPs, no new FMAPs, and Director Otto reported one overdue MAP this quarter down from two reported during the last audit subcommittee meeting. Fiscal year 2020 progress has surpassed the number planned in the 2020 audit plan with plans to close twenty-four MAP follow-up engagements. MAP follow-up engagements now include twelve completed, 4 in final report phase, and 8 follow-up engagements in progress – of which 37 MAPs are being tested for closure. Commissioner New asked if the current overdue MAP was one of the two counted during February's meeting, and Director Otto confirmed it was related to TxDOTCONNECT. Commissioner Ryan asked if new guidelines due to COVID-19 and not being able to conduct face-to-face interactions during fieldwork impacted or benefited work progress; and is there a plan in place to re-evaluate processes in 6-months. Director Otto responded that they have been successful working remotely, and he is considering a hybrid approach in the future, an ongoing conversation he and Chief Ybarra continue to have. Director Otto noted that his division traveled a significant amount prior to COVID-19, and while he does not have plans to rely on testimonial evidence only they will begin to assess each MAP and consider if physically being in person is necessary to the audit work. Chief Ybarra confirmed that during the annual risk assessment process the Internal Audit Division, in-person audits versus testimonial only over web conference has been discussed, and they are developing guidelines about what can be done remotely.

##### **b. (1) Internal Audit Report – Independent Financial and Information Security Assessment Reports**

This item was presented by Craig Otto, Director of the Internal Audit Division. This audit focused on System and Organization Controls (SOC) reports and third-party service providers. This audit identified two findings. The first finding is in relation to SOC 2, TxDOT has not established an agency wide process to identify the security requirements that service providers, who host or have access to TxDOT data, must comply with to protect TxDOT data from information security risks. The second finding in relation to working with Financial Management Division and financial reviews. It was determined that there is not consistency in assessing and monitoring their service providers' internal controls over financial reporting when those providers host reports. The ownership of these findings is across multiple divisions: Financial Management Division, Contract Services Division, Information Technology Division and Procurement Division. Commissioner New asked for clarification comparing SOC reports to a risk mitigation approach. His question of who on TxDOT staff can make the proper assessment of things like internal controls was answered by Director Otto with Stephen Stewart, Director Financial Management Division and Amanda Landry, Accounting Section Director, Financial Management Division are often asked for financial expertise; Steven Pryor, Information Security Officer, Information Technology Division, is consulted from a data classification aspect. Commissioner Ryan and Commissioner New would like the Management Action Plans (MAPs) to clearly identify resolution of the findings, owners and accountability. In addition, Commissioner New

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would like assurance that a prioritization process occurs to avoid applying these control mechanisms to low risk processes/functions. Commissioner Ryan requested updates on this audit as the MAPs are developed and processes are put in place. Stephen Stewart, Director, Financial Management Division joined the discussion to emphasize they are identifying key roles and responsibilities, define criteria and formalize guidance. This will allow better collaboration with the Procurement Division and Contract Services Division bringing due diligence to the process.

**b. (2) Internal Audit Report – Americans with Disabilities Act Goal Setting & Reporting**

This item was presented by Craig Otto, Director of the Internal Audit Division. This audit focused on the effectiveness of TxDOT's Americans with Disabilities Act (ADA) reporting and goal setting programs related to the Quarterly Federal Highway Administration (FHWA) Dashboard and annual ADA Goals and Accomplishments report. This audit identified two findings. This program continues to mature within TxDOT. The audit team noted staffing within the Civil Rights Division dedicated to this program and better understanding the instructions are needed. The first finding encompassed district reporting to the Civil Rights Division, including unsupported ADA activities, inaccurate reporting based on activity dates, duplication of corrected barrier reporting and unreported ADA activities. The second finding includes the monitoring of federal reporting and district goals not being designed or operating effectively. Commissioner New asked if district level employees are being asked to additional conduct duties to their primary roles in the agency and whether ADA responsibilities are examples of the additional duties. Director Otto confirmed that during the audit his team regularly was informed that ADA liaisons also manage other agency programs at the district level. Commissioner New requested staff be provided with prioritization of assigned ADA tasks, specifically those relating to FHWA reporting. Commissioner Ryan asked for clarification on goal setting responsibilities. Director Otto clarified FHWA communicates goals and then each district or division executes goals based on most critical within district or division. Commissioner Ryan requests MAPs set expectations and structure that tie outcome to the purpose of the program on the districts and divisions.

**ITEM 5. Compliance Division Update**

**a. Summary of Investigations**

This item was presented by Kristin Alexander, Director of the Compliance Division. The Compliance Division Investigations Section opened 20 cases in the 3<sup>rd</sup> quarter, an increase from the 2<sup>nd</sup> quarter, though allegations decreased significantly beginning in April. Investigations Section closed 26 cases, also an increase. Of the cases closed, 58% were substantiated. Twenty-two of the closed investigations occurred in the Districts, 1 in a Division and 3 involved a third-party. The third-party investigations were some of the more significant investigations including a third-party falsification in bid qualifying and a falsification of material testing. Director Alexander noted that due to COVID-19 her staff has been unable to go into the field for *Coffees with the Crew* outreach sessions but has released other education media including: Fraud training videos on the TxDOT YouTube Channel, *Red Flags of Fraud* resource cards found on the division home page, and will soon be releasing a summer edition of the *Compliance Corner* newsletter. Commissioner New asked a question about materials information, being approximately 5% of investigations, as a citizen he finds these to be most dangerous and a potential contractor liability; additionally, with the same concern deals with the falsification of documents from third-parties. Director Alexander confirmed Compliance Division has seen a trend with materials issues, noting the three substantiated cases from this quarter were all brought to the Compliance Division's attention by agency staff when something did not look right and something that has become a focus. Commissioner Ryan asked if the Compliance Division

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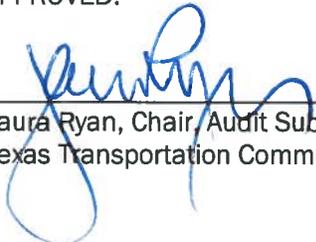
currently offers fraud training for any of the industry associations, or even our larger third-party vendors. Chief Ybarra agreed that engaging contractors and offering training is an excellent form of outreach and he will coordinate directly with Chief Engineer Bill Hale. Commissioner Ryan then posed the same question to Director Alexander that she asked Director Otto, regarding work being hindered by not being able to meet face-to-face. Director Alexander responded that the challenge with not being able to travel to investigations is the inability to gather evidence; her investigators have improved at interviewing remotely. Director Alexander will also approach future work that would have previously required travel with a hybrid model. Commissioner Ryan revisited the idea of outreach programs for TxDOT staff, proposing more virtual trainings, or virtual conference formats to replace in-person outreach in order to sustain momentum previously gained from outreach success. Director Alexander confirmed that her staff often provides fraud training to most agency-wide conferences. Annually the Internal Audit Division and Compliance Division hold a conference for internal staff, Director Alexander will explore options to offer conference topics about fraud and extend the invitation to Divisions who host conferences her staff speaks to.

b. External Audit Report follow-up status

This item was presented by Kristin Alexander, Director of the Compliance Division. Director Alexander presented audits of TxDOT by external entities, most commonly the State Auditor's Office. Her presentation covered the audit report(s) and the total recommendations to TxDOT from the audit. From the total number of recommendations Director Alexander further discussed per audit how many recommendations have been fully implemented, how many of the recommendations are in progress and the number of overdue recommendations with overdue implementation dates. Director Alexander highlighted the progress made on findings specifically within the Information Technology Division. Commissioner New noted the high percentage of Overdue Recommendations specifically in the Audit Report on Contract Change Management at TxDOT and on Audit Report on Information Technology Contract Oversight at TxDOT. Commissioner Ryan asked when we will receive follow-up testing and a completion date. Director Alexander confirmed her staff is still working with ITD on these recommendations.

Commissioner Ryan adjourned the meeting of the June 24, 2020 Audit Subcommittee at 11:06 a.m.

APPROVED:



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Laura Ryan, Chair, Audit Subcommittee  
Texas Transportation Commission