

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held December 12, 2012, in Austin, Texas. The meeting convened at 10:00 a.m. with the following members present:

**Audit Subcommittee Members:**

Fred Underwood	Commissioner, Audit subcommittee Chair
Jeff Austin	Commissioner, Audit subcommittee Member

**Administrative Staff:**

Benito Ybarra	Chief Audit Executive
John Barton, P.E.	Deputy Executive Director
Jeff Graham	General Counsel

Registration sheets listing others in attendance are on file with the Texas Department of Transportation Audit Office.

A public notice of this meeting containing all items on the proposed agenda was file in the office of the Secretary of State at 12:49 p.m. on December 4, 2012.

Opening remarks were made by Commissioner Underwood. Commissioner Austin moved to begin the meeting.

**Item 1. Approval of Minutes from August 29, 2012, Quarterly Meeting**

The Minutes from the August 29, 2012, quarterly meeting were presented by Benito Ybarra, Chief Audit Executive and approved by Commissioner Underwood and Commissioner Austin.

**Item 2. Johnny Johnson Ferry Update**

The *Johnny Johnson Ferry* update was presented by Benito Ybarra, Chief Audit Executive (CAE).

The Audit Office reported during the March 28, 2012, Audit Subcommittee Quarterly Meeting: 1) Construction of the propulsion system – The initial subcontractor was unable to complete the system and eventually defaulted causing a 12 month delay and \$1.6 million increase. A second subcontractor successfully completed construction. 2) Ferry buoyancy – The propeller was too high in the water to achieve acceptable draft and speed, attributed to a flaw in the design. Approximate 400 tons of ballast was added. This caused an 11 month delay and a \$1.8 million increase.

Benito Ybarra, CAE, reported that the Johnson Ferry construction is finished and the vessel is operational. The total cost of making the vessel operational was \$25 million, which was \$4 million over the original budgeted amount and included 7 change orders.

Commissioners Underwood and Austin, Mr. Ybarra and Quincy Allen, Houston Deputy District Engineer, discussed the finer points of the buoyancy, change orders, and the subcontractor used for the design and construction. Howard Holland, Maintenance Division Director, also commented. The ferry is now 25% heavier than the original design; however, the ferry has sufficient power and has passed inspection by the U.S. Coast Guard. Mark L.

Rodriguez, Galveston Ferry Engineer/Maintenance Supervisor pointed out safety issues and inspections.

Management is in the final stage of moving forward with the Errors and Omissions Claim. Commissioner Austin asked for an update in six months on the Errors & Omissions Claim. Michael Bryant, Attorney, Office of General Counsel is handling the claim.

### **Item 3. Internal Audits Completed**

Benito Ybarra, CAE, presented the *Compliance of Executives, Divisions and Office Directors Audit*.

The objective of this audit was to determine the adequacy of Texas Department of Transportation (TxDOT) Regional and District internal control mechanisms that ensure compliance with TxDOT policies, procedures and state and federal laws related to the areas reviewed.

There were two findings: 1) 73% (11 of 15) of the districts evaluated completed employee performance plans and evaluations inconsistently. Issues identified included incorrect dates on plans, overdue evaluations and limited information to assist the employees in improving performance (training plans). Inconsistent performance management processes limit the organization's ability to retain and improve its workforce and the ability to achieve its goals and objectives effectively and efficiently. An agency-wide performance management system has been developed and will be in place in 2013.

2) 47% (7 of 15) of the districts evaluated did not have current Delegation of Authority forms filed with General Services Division (GSD). The potential to allow unintended/unauthorized transactions based on outdated Delegation of authority forms is increased when forms are not updated. The outdated Delegation of Authority forms identified were updated and submitted to GSD.

Sonya Ayers, Engagement Lead, presented the *State Highway 130 Segments 5&6 Audit*. Veronica Chacon, Yania Munro, Staff Auditors and Sidney Shelton Austin District Auditor performed the audit and Sonya Ayers, Fort Worth Auditor provided oversight as the lead.

The *SH 130 Segments 5&6 Audit* was conducted to determine if TxDOT management had assigned roles and responsibilities and to determine if the control design for the operations was adequate.

Finding #1: An Executive Sponsor responsible was not initially established when audited and a process to ensure obligations are met across various functions has not been developed. Subsequently, an Executive Sponsor has been assigned.

Finding #2: The Financial Impact Model being used does not include all revenue sources, direct and indirect costs. A meeting will be scheduled to clarify and assign responsibilities.

Finding #3: Final roles have not been assigned and the process has not been identified in the Section 129 agreement for SH 130 Segments 5 & 6.

Finding #4: Specific roles, responsibilities, timelines, and written defined processes related to the review and approval of Developer's deliverables have not been established.

There have been Management Action Plans (MAP) developed and the Audit Office will revisit the MAP in six to nine months from completion.

Benito Ybarra, CAE, Commissioner Underwood and Craig Otto, Audit Section Director, discussed the length of time for a follow-up with Ms. Ayers.

Sabra Vaughan, Internal Auditor and Co-Lead presented the *Facilities Management Audit*.

The objective of the audit was to determine whether Facilities Management (FM) operations are optimized to provide consistent and safe environments. The stake holders for this audit were the District Engineers and the Region Directors with the Maintenance Division Facilities Management Section.

Finding #1: Statewide Routine Facility Contract (RFC) data is not available in one centralized location or database. A total of 51 RFCs were provided by the districts/regions and 12 RFCs were selected to testing. Management Action Plan (MAP) to be completed by April 15, 2013.

Finding #2: Routine Facility Contract (RFC) administration is inadequate, such as documentation for inspection, change order justification, regulatory compliance, payment authorization and adherence to the contract terms and conditions. MAP to be completed by March 15, 2013.

Finding #3: The department did not have a consistent facilities preventive maintenance PM program. Testing was conducted from six sampled district headquarters and Maintenance Building Operations from 40 facility systems.

The Facilities Management Audit rating is “Needs Improvement.” The Management Action Plan includes filling an Accounting Specialist position, develop stand-alone financial database to maintain and track RFC financial data; develop SOP for forecasting, budgeting, tracking and reporting. And to conduct applicable staff training to implement action items. The completion date is March 15, 2013.

Commissioners Underwood and Austin, John Barton, P.E., Deputy Executive Director, Benito Ybarra, CAE, and Uly Flores, Facilities Management Section Director, discussed the details for the findings.

#### **Item 4. Office of Compliance and Ethics Update**

Beverly West, Office of Compliance and Ethics (OCE) presented an update of the office's activities.

Ms. West reviewed the OCE Components which includes Investigation referrals, Risk Assessment, Outreach and Reporting.

To date OCE has established procedures for routing, assigning, monitoring, overseeing and coordination of all complaints/concerns regarding fraud, waste, abuse and violations of the ethics policy to OCE. The office provides communication, analysis and reporting by establishing a centralized system for tracking and reporting activities related to complaints and investigations.

Ms. West explained OCE's process flow chart from the complainant to OCE and how it is routed to the appropriate office; Audit Office, Office of Civil Rights (OCR), or Human Resources Division (HRD).

The OCE reports to the Commission on a monthly basis; to the Audit Subcommittee quarterly and the State Auditor's Office (SAO) periodically.

The majority of the reports come in from TxDOT Watch Hotline; TxDOT internally; the SAO, and externally. There are 15 categories of closed cases.

Grievances being the highest with 36 incidents out of 112 reports from March 1, 2012 – August 31, 2012.

There were substantiated cases with Management Action on the following categories: Misuse of State Property, Sexual Harassment, Unprofessional Behavior, Hostile Work Environment, Contract Management, Hiring/Interviewing Practices, Time, and Negative Productivity.

The OCE is planning for FY 2013: Increased education opportunities for employees; an Ethics Champions Program; to combine data from OCE, Audit-Investigations, OCR and HRD into TeamMate software programs, and continued partnership of disciplines to recognize trends, cooperate in investigations/review actions as appropriate and activate mitigation plans to prevent future occurrences.

Commissioners Underwood and Austin, and Ms. West discussed using TxDOT employees that are suited to be counselors or mentors to help with issues and new information from OCE.

#### **Item 5. Audit Office Investigations Overview**

Anthony Thomas, Investigations Manager, presented his Status Update.

Mr. Thomas reviewed the creation of the Audit Investigations Unit Team since March 2012. Since that time, he has hired three staff members (Jack Kelley, Doug Field, and Don Lawson), giving the team over 84 years of investigative experience.

Since this report there have been 58 investigations assigned; 21 resulted in management action which led to 12 terminations and nine led to procedural changes and verbal reprimands. Two of the 12 terminations have also led to criminal referrals.

Asset misappropriation and corruption comprised the highest number of cases. Trends include Misuse of State Equipment, Purchasing Violations, Conflict Interests, and Contract Monitoring.

Mr. Thomas explained that in the next six months he will have a decade-long trend analysis of investigations (Management Directed Reviews). Mr. Thomas also pointed out that there will be proactive detection projects conducted this fiscal year.

Commissioner Austin questioned why some of the numbers were so high. Mr. Thomas explained that TxDOT hasn't had robust checks in place and did not have an investigations unit in the past, but he is confident the numbers will go down to industry levels.

#### **Item 6. Approval of Audit Plan Modifications**

Craig Otto, Audit Section Director, proposed the addition of the following audit engagements to the 2013 Audit Plan:

- Ferry Operations (Full Scope) – to determine that ferry operations are working as intended to maximize safe and efficient operation of the Galveston and Port Aransas ferries. This will include a review of performance management of personnel, vendors and property and equipment.
- ProCard (Risk Response) – to determine appropriate distribution and use of the TxDOT ProCard (Purchasing Card).

The following engagements were also proposed to be placed on the contingency list to accommodate the addition of the above:

- Strategic Project Office (Full Scope) activities being covered through two Comprehensive Development Agreements (CDA) Audits.

- Grant Monitoring (Risk Response) – coverage is provided via another engagement on the plan.

Commissioner Austin moved that the modification to the 2012 Audit Plan be approved. Commissioners Underwood and Austin approved.

**Item 7. Executive Session**

Commissioners Underwood and Austin recessed at 11:21 a.m. for an Executive Session.

**Item 8. Vote to concur with Executive Director's annual compensation and salary adjustment to the Chief Audit Executive.**

Commissioner Underwood called the meeting of the Audit Subcommittee back to order at 12:01 p.m.

Commissioner Austin moved to concur with the Executive Director's annual compensation and salary adjustment of the Chief Audit Executive.

Commissioner Underwood seconded the motion.

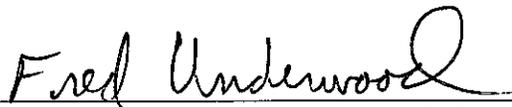
**Closing Comments:**

The members thanked all for attending the meeting.

The next Audit Subcommittee Meeting will be held on February 27, 2013.

The meeting was adjourned at 12:02 p.m.

APPROVED:



Commissioner Fred Underwood, Chair  
Texas Transportation Audit Subcommittee