

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held March 27, 2013, in Austin, Texas. The meeting convened at 10:04 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 filed in the office of the Secretary of State at 12:21 a.m., March 19, 2013, as required by Chapter 551 of the Government Code, referred to as “The Open Meetings Act”.

Opening remarks were made by Commissioner Underwood and Commissioner Austin thanking Benito Ybarra for his leadership in promoting a best practices forum to include other state agencies.

**Item 1. Approval of Minutes from the December 12, 2012, Quarterly Meeting**

The Minutes were presented by Benito Ybarra, Chief Audit Executive, and approved by Commissioner Underwood and Commissioner Austin.

**Item 2. Internal Audits Completed**

There were two audit reports issued and a consulting engagement this quarter. Benito Ybarra, Chief Audit Executive (CAE), summarized the Internal Audits that were completed during the past quarter; *General controls Review – IT, Construction Maintenance Inspection, and Comprehensive Development Agreements (CDAs) – Consulting Assignment of the Development of Future CDA's*.

Craig Otto, Audit Section Director, presented the *General Controls Review, IT Audit Report*. The objective was to perform an evaluation of the organization and administrative structure of the Information Technology (IT) function, including the existence of policies and procedures for operations, availability of staff and their skills, and the overall control environment.

The key findings and improvements were needed in these areas:

- 1) A process to ensure software is properly licensed and approved.
- 2) Documented and approved information resources security program.
- 3) Terminated employee access to Mainframe System.
- 4) Verification of Novell and/or Windows password resets.
- 5) Un-sanitized hard drives in surplus equipment.

Follow-ups will either take place in the last quarter of FY 2013 or early FY 2014.

Commissioners Underwood and Austin discussed each finding with Mr. Otto, Benito Ybarra, CAE, and Lisa Gregg, IT Operations Director. Ms. Gregg explained safeguards when using passwords, password resets, lockouts, software installations, and the ability to turn off devices if lost.

Craig Otto, Audit Section Director, presented the *Construction/Maintenance Inspection Audit*.

The objective of the audit was to determine the scope of TxDOT construction and maintenance inspection performance and resource allocations.

The rating for this audit was “needs improvement” and the key findings on the *Construction/Maintenance Inspection Audit* include:

- 1) Lacking proper security approval process (segregation of duties) (
- 2) Inaccurate Daily Work Reports (DWRs) Commissioners Underwood and Austin questioned Mr. Otto on different aspects of the consequences of inaccurate/incomplete reporting increases the risk of erroneous and/or unsupported payment to contractors.
- 3) Mandatory training for inspectors was not consistently completed.

Mr. Otto also stated that follow-up audits will be conducted in 3<sup>rd</sup> and 4<sup>th</sup> quarters of FY 2013.

Commissioner Austin asked Mr. Otto if training was job specific and if training is properly linked to the employee performance reviews and job descriptions. Jill Emery, Lead Internal Auditor, commented on mandatory training for TxDOT inspectors and Darren Hazlet, Deputy Director, Construction Division, also commented. Benito Ybarra, CAE, discussed this further with Commissioners Underwood and Austin, and Jeff Graham, General Counsel.

Craig Otto, Audit Section Director, presented the *Comprehensive Development Agreements (CDAs) – Consulting Assignment of the Development of Future CDA's*. (A non-rated audit.)

The objective for this consulting engagement was to review the Dallas-Fort Worth (DFW) Connector and North Tarrant Express Comprehensive Development Agreement programs to ensure controls are documented, functioning as designed, and consistent with Department business needs and purposes.

A monitoring activity matrix, outlining contractual and procedural obligations under the CDA program, was completed and provided to Maribel Chavez, District Engineer, Fort Worth District, and Randy Redmond, DFW CDA Project Manager.

Some deviations were noted and communicated; monitor expired documents, provide appropriate financial statements by the contractor, and an assignment of a safety point of contact.

No additional follow-ups are planned.

Commissioners Underwood and Austin, and Benito Ybarra, CAE, discussed additional points of the consultant engagement with Mr. Otto.

Commissioner Austin revisited the *General Controls Review, IT Audit* with questions directed at Mr. Ybarra. Commissioner Austin asked about IT threats and protecting TxDOT, and safeguarding the integrity of the data. Mr. Ybarra responded that there will be an engagement to help IT to classify data according to its sensitivity. In addition, an agency-wide privacy audit will be conducted to determine safeguarding, destruction and transmission of confidential data. These two engagements will be completed in the upcoming fiscal year.

### **Item 3. Office of Compliance and Ethics Update**

Beverly West, Compliance & Ethics Specialist, presented the update for the Office of Compliance and Ethics (OCE).

Ms. West reported on the complaints received for the 1<sup>st</sup> and 2<sup>nd</sup> quarters in the FY 2013 and the Categories of Allegations. The top categories and numbers of allegations include: Misuse of State Property (19), Hiring/Interviewing (13), Unprofessional Conduct (11), Conflict of Interest (9), False Information (9), Time Issues (8), Supervisor Management (8), Retaliation (3), Contract Decision (2), Employee Gifts, Benefits, Favors (2), Sexual Harassment(2), and Contract Violations (2).

For the same time during FY 2012 there were 107 closed cases and currently in FY 2013 there are 141 closed cases. The number of closed cases increased 24%. Commissioner Underwood noted on the number of TxDOT employees, which at this time there is over 11,000 employees.

Ms. West went on to report on 34 substantiated cases with management action in the 1<sup>st</sup> and 2<sup>nd</sup> quarters of FY 2013: Misuse of State Property (10), Conflict of Interest (5), Supervisor Management (3), Misuse of State Resources (2), Unprofessional Behavior (2), Sexual Harassment (2), Gifts, Benefits, Favors (2), Contractor/Misuse of State Property (1), Theft (1), Employee Relations (1), Hiring/Interviewing (1), Discrimination (1), False Information (1), roadway Safety (1), and Violation of Procedures (1).

Commissioner Underwood and Austin asked questions of Ms. West and Suzanne Latimer, Director, OCE, about ethics training programs available. They also discussed utilizing other TxDOT employees for traveling in the districts for training.

Management Actions on substantiated cases were reported to be: Terminations (8), Written Discipline (15), Resignation (3), Reassignment (1), Contractor employee disciplined (1), and Coaching/Training (7). There was one case that was referred to law enforcement.

**Item 4. Executive Session**

Commissioners Underwood and Austin recessed for an Executive Session at 10:55 a.m. Benito Ybarra, Chief Audit Executive, and Jeff Graham, General Counsel, were also in attendance.

Personnel matters relating to evaluation, assignment and duties of individual TxDOT Administration and employees involved in the Audit Office functions was discussed.

Commissioner Underwood called the meeting of the Audit Subcommittee back to order at 11:05 a.m.

**Closing Comments:**

Commissioner Underwood stated that the next Audit Subcommittee Meeting would be held May 29, 2013. The members thanked all for attending the meeting.

The meeting was adjourned at 11:05 a.m.

APPROVED:



Commissioner Fred Underwood, Chair  
Texas Transportation Audit Subcommittee