

December 12, 2018

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on December 12, 2018 at 125 E. 11<sup>th</sup> Street, Austin, Texas 78701. The meeting convened at 2:02 p.m. with the following members present:

**Texas Transportation Commission Audit Subcommittee:**

Jeff Austin, III	Commissioner, Audit Subcommittee Chair
Alvin New	Commissioner, Audit Subcommittee Member

**Staff:**

Benito Ybarra	Chief Audit and Compliance Officer
Jeff Graham	General Counsel
Brian Ragland	Chief Financial Officer
Rich McMonagle	Chief Administrative Officer
Bill Hale	Chief Engineer
Bob Kaufman	Director of Communications & Customer Service
Darran Anderson	Director of Strategy & Innovation
Randy Hopmann	Director of District Operations
Brian Barth	Director of Project Planning and Development

A public notice of this meeting containing all items on the proposed agenda was filed in the Office of the Secretary of State at 2:47 p.m. on December 4, 2018, 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.

**ITEM 2. Consider the approval of the Minutes of the August 29, 2018, Audit Subcommittee meeting**

This item was presented by Benito Ybarra, Chief Audit and Compliance Officer. Commissioner Austin made a motion to approve, which was seconded by Commissioner New. The audit subcommittee approved the minutes of the August 29, 2018, Audit Subcommittee meeting by a vote of 2 - 0.

**ITEM 3. Legislative Implementation Update**

**a. Federal**

This item was presented by Robin Ayers, Federal Affairs Section Representative. Ms. Ayers provided implementation updates on the FAST Act of 2015, MAP-21 of 2012, Water Resources Reform & Development Act (WRRDA) of 2014, and Water Resources Development Act (WRDA) Act of 2016. She also provided information on the recently passed bills Water Resources Development Act (WRDA) Act of 2018 and Federal Aviation Administration (FAA) Reauthorization of 2018.

**b. State**

This item was presented by Trent Thomas, State Legislative Affairs Section Director. Mr. Thomas provided implementation updates on legislation passed during the 85<sup>th</sup> Regular Legislative Session, including the Sunset legislation (SB 312) and General Appropriations Act (SB 1), Mr. Thomas also provided information about the upcoming 86<sup>th</sup> Texas Legislative Session, stating as of the date of this meeting there were 26 days until the Session began and 739 bills had already been filed - of which about 11% affected the Texas Department of Transportation (TxDOT),

December 12, 2018

### **ITEM 3. Independent Auditor's Report**

This item was presented by Mr. Kevin Smith, Partner, Crowe LLP; Stephen Stewart, Director, Financial Management Division; and Amanda Landry, Accounting Section Director. As the independent auditor, Mr. Smith stated the audit was 90-95% complete and in position to meet the State Auditor's Office deadline. Reports would be issued on the Texas Department of Transportation, Texas Mobility Fund, Central Texas Turnpike System, and Grand Parkway Transportation Corporation. Each entity received an unmodified opinion, which is the highest level of assurance the independent auditor can provide by the *Government Auditing Standards*. The report emphasized "the financial statements of TxDOT are intended to present the financial information of the State that is attributable to the transactions of TxDOT. They do not present fairly the position of the State." Mr. Smith noted the restatement from the Governmental Accounting Standards Board (GASB) that is reflected in the adjustment in the report. Commissioner Austin asked how the number will be adjusted each year, and Ms. Landry replied that it is an actuarial calculation based upon an annual valuation the Employee Retirement System of Texas (ERS) provides to TxDOT. Mr. Smith confirmed to Commissioner Austin that every government agency nationally was implementing this new process from GASB. The Independent Auditor's Report tested for internal controls and found no material weaknesses and no significant deficiencies. Commissioner Austin asked when the report would be reported to the full Commission; Chief Ybarra answered that would happen at the regular January Texas Transportation Commission meeting.

### **ITEM 5. 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 noted the number of open MAPs had reduced since the last Subcommittee meeting, demonstrating the division's progress in working with the respective entities to open and close a MAP in a quicker timeframe. As of November 30, 2018, there were 97 open Management Action Plans (MAPs) and none of those MAPs were overdue. Progress has been made towards 41 MAP follow-up engagements from the FY 2019 audit plan; currently of those 41 MAPs, 15 are completed, 1 is in progress, and 4 are being tested for closure. Additionally, 25 follow-up engagements for FY 2018 are being completed. Commissioner Austin asked if there were any entities not responding well or quickly enough in the MAP process; Director Otto answered that things looked good and there were no outstanding difficult entities.

#### **b. Internal Audit Report – Contract Risk Assessment and Management Audit**

This item was presented by Craig Otto, Director of the Internal Audit Division. This FY 2018 Audit focused on contracting practices that ensure adequate assessment and management of risk, and the audit resulted in 3 findings and 1 observation. The findings were: (1) Contract Risk Analysis Form (CRAF) – Initial Completion, (2) Contract Risk Analysis Form – Specific Events, and (3) Contract Risk Analysis Form – Management Review. The observation found that contract risk analysis and management processes are not integrated with other risk management processes. All 3 findings were rated as needing improvement. Commissioner New asked if, in the finding of 40% of CRAFs rated as high risk had no evidence of further review, the lack of further review was because divisions were complying with their own guidelines or because the audit was comparing to a standard. Director Otto answered it was because divisions were following the Internal Procurement Manual. Commissioner Austin asked whose overall responsibility (division, group, etc.) was this process. Chief Ybarra answered, in referencing a previous audit, that contracting at TxDOT is decentralized;

December 12, 2018

however there are elements of this program that have required oversight by Contract Services Division and Procurement Division. Commissioner Austin asked how this could be fixed and requested Chief Rich McMonagle, Chief Bill Hale, and Director Darran Anderson to address the Audit Subcommittee. Chief McMonagle stated that he does not think the process is necessarily broken, as a centralized process would create a large bureaucracy, and the process is still relatively new. Commissioner Austin asked Chief Hale if the District Engineers were responsible for following up; Chief Hale answered affirmatively, stating there was a program set up for the local districts to communicate with the Professional Engineering Procurement Services Division (PEPS) and emphasizing the benefit to this arrangement. Director Anderson echoed that a centralized process may not achieve efficiency, but that training and oversight is the better path to reducing risk. Commissioner New asked for clarification on the 40% high risk CRAFs that did not have evidence of review. Chief McMonagle explained many contracts reviewed had already been operating under the previous process, and Director Otto added the audit report shows the difference in progress that was made from those under the previous process to those in the current system. Commissioner Austin asked when the expectation might be for a follow up audit to see where things have progressed further; Director Otto referenced the current FY 2019 audit plan as demonstrating the Commissioners' desire for follow up, and the follow up timeframe for this audit was still being considered.

#### **ITEM 7. Compliance Division Update**

##### **a. Compliance Program Update**

This item was presented by Kristin Alexander, Director of the Compliance Division. Director Alexander provided information on the annual Compliance Program Effectiveness Self-Assessment, as designated by the Texas Transportation Code, which showed several areas of leading practices. The 2018 Compliance Division Plan refocuses the program on developing ongoing monitoring processes for high fraud risk areas. Other areas for improvement include: approved policy by the governance board identifying tolerance for specific fraud risks and how to manage those fraud risks, increase outreach and training of second line managers' fraud prevention and detection responsibilities, and develop a more formal employee grievance process to improve culture and alignment with human resources practices. Director Alexander also noted two of the biggest accomplishments for the 2018 Compliance Program were the development of the contractor performance process rules passed by the Commission, and the improved and unified sanction process.

##### **b. Summary of Investigations for FY 2018 and FY 2019, Q1**

This item was presented by Kristin Alexander, Director of the Compliance Division. For FY 2018, the Compliance Division received 301 allegations and initiated 117 investigations, both of which were increases from FY 2017. She reported the Division was able to substantiate 45% of investigations for the second year in a row. The percent of allegations received from hotline was 48% and 43% were received by internal referral. The most common investigation category remains misuse of state resources (58% of closed investigations). Director Alexander also noted 100 allegations had already been received for the first quarter of FY 2019 with 29 investigations opened of which 12 have been substantiated so far. She reported an increase in allegations across all locations and stated the Equal Employment Opportunity (EEO) section was reporting similar trend increases.

#### **ITEM 7. Executive Session**

**Pursuant to Government Code Section 551.074 – Discussion concerning the evaluation and duties of the Chief Audit and Compliance Officer.**

December 12, 2018

The Audit Subcommittee convened in executive session at 3:05 p.m. and adjourned at 3:20 p.m.

The Audit Subcommittee reconvened in general session at 3:22 p.m.

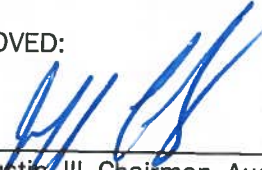
**ITEM 8. Compensation Approval**

Commissioner New made a motion, which was seconded by Commissioner Austin, and the audit subcommittee members unanimously approved the Minute Order setting the annual compensation of the Chief Audit and Compliance Officer to \$225,000 annually, beginning in January 2019.

Commissioner Austin announced the next meeting of the Audit Subcommittee to be in March 2019.

Commissioner New made a motion to adjourn the meeting, which was seconded by Commissioner Austin. The meeting of the December 12, 2018 Audit Subcommittee was adjourned at 3:23 p.m.

APPROVED:



---

Jeff Austin, III, Chairman, Audit Subcommittee  
Texas Transportation Commission