

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on July 28, 2021 at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 2:00 p.m. with the following members present:

Texas Transportation Commission Audit Subcommittee:

Laura Ryan Commissioner, Audit Subcommittee Chair
Robert Vaughn Commissioner, Audit Subcommittee Member

Administration Staff:

Benito Ybarra Chief Audit and Compliance Officer
Brandye Hendrickson Deputy Executive Director
William L. Hale, P.E. Chief Engineer
Jeff Graham General Counsel
Darran Anderson Director of Strategy and Innovation
Quincy Allen 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 4:52 p.m. on July 20, 2021, as required by Government Code, Chapter 551, referred to as "The Open Meetings Act."

ITEM 1. Meeting Guidelines

The meeting began with the Greer Building safety video.

ITEM 2. Consider the approval of the Minutes of the February 24, 2021, Audit Subcommittee meeting

This item was presented by Laura Ryan, Audit Subcommittee Chair. Commissioner Vaughn made a motion to approve, Commissioner Ryan seconded the motion. The Audit Subcommittee approved the minutes of the February 24, 2021 Audit Subcommittee meeting by a vote of 2 – 0.

ITEM 3. Compliance Division Update

a. Summary of Investigations – Fiscal Year 2021, 3rd Quarter

This item was presented by Kristin Alexander, Director of the Compliance Division. The summary of investigations covered the statistics of investigations; including, opened investigations 34, up 127% from last quarter following a rise in investigations likely attributable to the returns to office, a total of 28 closed investigations. Substantiated Investigations 15, 54% of the total closed investigations; and of the closed investigations: 15 were in the Districts, 5 in Divisions and 8 involved third-parties. The investigations that Director Alexander spoke about included one conflict of interest in which a supervisor used contractor information to share with a family member, multiple Texas Workforce Unemployment claims including false claims, and one related to a former contractor selling a TxDOT laptop to the public. 51% of investigations have been at staff level, 20% of investigations are at the supervisor level; Director Alexander emphasized the need for supervisor training on policies and reinforcement of policies; these trainings would include "Brown Bag" in-person sessions at the supervisor level. Within the categories of allegations, asset misappropriation continues to be the highest, most of which is vehicle misuse. Commissioner Vaughn requested clarification on what types of training is given to employees. Director Alexander responded that these topics are included in required new employee training, annual training, and supervisor training. There are many outreach programs one of which is "Coffees with the Crew", in which the Compliance staff meet with maintenance crews without supervisor present. Additionally, targeted trainings are done for specific issues at Districts or Divisions.

Commissioner Ryan suggested to hold skip-level meetings to open communication between different levels of staff. Chief Audit & Compliance Officer Benito Ybarra responded that there has been engagement at the Executive Level regarding these issues and the amount of money spent to investigate small issues. Commissioner Ryan pointed out that in regards asset misappropriation, we need to be clear that any amount of theft is not to be tolerated. Commissioner Ryan asked if fraudulent Texas Workforce unemployment benefits get paid back to TxDOT. Director Alexander confirmed that the employee does have to repay the funds.

b. Audit of the El Paso Metropolitan Planning Organization

This item was presented by Kristin Alexander, Director of the Compliance Division. This audit examined a two-year period of the El Paso Metropolitan Planning Organization (MPO) and whether they have implemented financial controls in compliance with TxDOT requirements and appropriate funding management. The audit involved El Paso MPO & the City of El Paso, as they are the fiscal agent for the MPO. Findings showed that overall the El Paso MPO had implemented controls, although there were some that should be strengthened. Particularly time sheets of Executive Director, indirect cost rates and allocating costs between Texas and New Mexico, which are both served by the MPO. Overall a strong audit, the payments made to the MPO were sufficiently supported with documentation and procurements were in accordance with federal and state requirements. Commissioner Ryan asked if this was a random audit. Director Alexander clarified that they were selected after a Risk Assessment process.

c. External Audit Findings follow-up status

This item was presented by Kristin Alexander, Director of the Compliance Division. This item covered audits of TxDOT by outside entities & implementing those findings. First is the Audit of Contract Change Management by the State Auditor's Office, related to construction and maintenance change orders, all of the findings have all been fully implemented. The two items outstanding are related to IT functionality, but they have a plan set to complete this. An Audit Report on the Facilities-related Contracts at TxDOT also executed by State Auditor's Office, 12 of the 13 recommendations have been fully implemented. The one outstanding recommendation is pending testing of a new system expected to be complete in September. All other findings have been fully implemented, including IT Contract Oversight, and the Federal portion of Statewide Single Audit for Fiscal Year 2019. Commissioner Vaughn asked how frequently these updates are done, Chief Ybarra clarified that they are updated quarterly.

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 the process of the Management Action Plan (MAP) and the highlights, including as of July 20, 2021, a total of 215 closed MAPs, 51 not yet due MAPs, and 26 currently past due MAPs. The 26 past due MAPs are a decrease from the 34 that were reported during the February 24, 2021 meeting of the Audit Subcommittee. Focus is on 49 MAP Follow-up engagements, 42 of which are completed, and 7 of which are in progress. 17 MAPs are being tested for closure. Director Otto responded that the Internal Audit Division has included a MAP tracker on the website, to make it readily available to those in need of their status. Additionally, Internal Audit Division is actively working with District Engineers to get them a link they use to see if their staff has submitted information in a timely manner. Commissioner Ryan asked how many of the longer-term MAPs would be considered high risk, and asked that we determine a risk threshold, and present an update of those over the threshold. Chief Benito Ybarra replied that he reviews past due MAPs quarterly and often monthly and determines the risk level. He then will engage

the appropriate Chief, Deputy or Executive Director if needed. In addition, he engages the Audit Subcommittee when risks and/or impacts merit the escalation, in his professional judgment. Director Otto then clarified the Audit and MAP process to Commissioner Vaughn.

b. Internal Audit Report – Plan Review and Bid Estimation Effectiveness

This item was presented by Craig Otto, Director of the Internal Audit Division. Director Otto began by presenting the audit of Plan Review and Bid Estimation Effectiveness. The scope of this audit was to evaluate the effectiveness of District review of all project plans, specifications and estimate (PS&E) packages. The overall engagement assessment is Needs Improvement with four findings. First were the gaps between the engineer's estimate and the low bid amount awarded. Eight districts were picked with over 800 completed projects. They ranged from 42% to 53% compared to the national goal of 50% of projects within a variance of +/- 10% and 5 of the 8 districts were not meeting the goal.

336 of the 842 projects had change orders coded as PS&E error or omission accounting to \$23.6M of \$116M total executed change orders. Out of 80 projects further reviewed 56 had 8.3M in change ordered executed for PS&E error & omission. The second finding was the Variability of the PS&E review; the Internal Audit Division reviewed 80 completed construction projects to evaluate each district's review process. 58% of projects did not have evidence to support completion of a 30% or 90% review, and 47% of projects did not have evidence to support a 60% review. 68% of projects had no evidence to support review of pricing and 31% did not have evidence to support review of quantities in the engineers estimate. Director Otto stressed the importance that key variables of information are being supported and retained. The third finding is Bid Variance Analysis Documentation. Out of 52 projects, 20 exceeded the established letting overrun/underrun threshold and did not include the reason for the variance.

The fourth finding is the Accuracy of Estimated Construction Project Cost Data. The Internal Audit Division looked at a comparison of CST letting data obtained from legacy systems and TxDOTCONNECT data for 842 completed construction projects. Identified were differences in 40% of the projects engineer's estimate amount and 10% of the project's low bid amount. Director Otto identified what caused this and included this in the MAPs. Commissioner Vaughn questioned how much fraud is likely in these large projects. Director Otto replied there are opportunities for fraud, but the audit was able to get into many of the spectrums of the review, and the Districts have been open to making changes. Chief Benito Ybarra pointed out that we have goals in place to track and ensure that the bid estimate is fair, and mechanisms in place to review the details, and recommendations and actions to improve the program were established as part of this audit. Commissioner Ryan asked in regard to PS&E errors and omissions, that it be clarified and reported how much TxDOT takes responsibility for, how much the contractor is responsible for, and of that amount, how much is paid back by the contractor.

c. Internal Control Assessment Update

This item was presented by Craig Otto, Director of the Internal Audit Division. This agenda item covered the incorporation of the contingency engagements through the business owners performing internal control assessments for risks identified during the creation of the Fiscal Year 2021 Audit Plan. Director Otto highlighted two completed assessments; first, Grant Reimbursement in the Public Transportation (PTN) Division, 287 requests for reimbursements totaling \$49.8M were selected for review, covering 74% Public Transportation Coordinators and 64% grant subrecipients. Anything over \$250K should be processed with a second reviewer approval, the audit found that one was not. PTN did rectified the issue and then increased their scope to include review of all RFRs over \$250M and no impact was found. The second assessment was in regard to Construction Project Payment review & approval in the Construction (CST) Division. This was based on active projects, ensuring that

construction contract payments are supported and calculated accurately. Reviewed were items totaling \$13.8M from 21 construction projects across 7 districts. \$10M resulted in no or partial verification of the line item could be performed due to missing supporting documentation. Also found were inconsistencies in district practices. CST will work with districts to understand root causes, to consistently document line items reviewed, and will work with leadership on the possibility of a TxDOT universal filing system for construction project documentation.

d. Audit Ratings Updates

This item was presented by Craig Otto, Director of the Internal Audit Division. This agenda item is to present an updated Audit Ratings System. Director Otto explained the new ratings Priorities 1 through 4 (P1 through P4), and pointed out that the new descriptions of the ratings will be more clear to the business owner and should communicate the right message. Commissioner Vaughn asked for clarity on the retiring rating system versus the new rating system. Director Otto explained that the new ratings system will help focus on different levels of risk; specifically, to identify issues that impact the enterprise versus issues that impact programmatic areas. This will further strengthen communication and ensure that the right resource-investment is considered when addressing control gaps and weaknesses identified as part of audits.

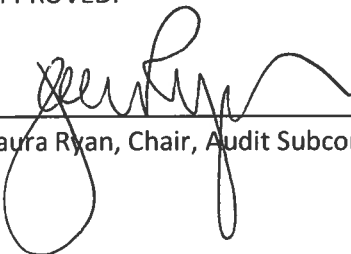
ITEM 5. Executive Session

Pursuant to Government Code Section 551.071, consultation with and advice from legal counsel regarding any item on the agenda; Government Code Section 551.076 and Government Code Section 551.089 discussion concerning department security audits.

The audit subcommittee recessed to executive session at 3:07 p.m., and executive session convened at 3:26 p.m.

Commissioner Ryan adjourned the meeting of the July 28, 2021 Audit Subcommittee at 3:27 p.m.

APPROVED:



Laura Ryan, Chair, Audit Subcommittee