

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on February 22, 2022 at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 10:01 a.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:

Marc Williams, P.E.	Executive Director
Benito Ybarra	Chief Audit and Compliance Officer
Jeff Graham	General Counsel
Rich McMonagle	Chief Administrative Officer
Bill Hale, P.E.	Chief Engineer
Quincy Allen, P.E.	Director of District Operations
Lance Simmons, P.E.	Director of Engineering and Safety Operations
Mary Anne Griss	Chief of Staff
Stephen Stewart	Chief Financial Officer
Bob Kaufman	Director of Communications and Customer Service
Anh Selissen	Chief Information Officer

A public notice of this meeting containing all items on the proposed agenda was filed in the Office of the Secretary of State at 4:10 p.m. on February 14, 2022, as required by Government Code, Chapter 551, referred to as “The Open Meetings Act.”

Item 1. Safety Briefing

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

Item 2. Consider approval of the Minutes of the December 8, 2021, Audit Subcommittee meeting

This item was presented by Laura Ryan, Audit Subcommittee Chair. Commissioner Robert Vaughn made a motion to approve, Chair Ryan seconded the motion. The audit subcommittee approved the minutes of the December 8, 2021 Audit Subcommittee meeting by a vote of 2 – 0.

Item 3. 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 began the discussion covering mitigation rollout efforts for enterprise level MAPs with a focus on past-due MAPs. Director Otto highlighted an increase in closed MAPs (253) and some partial mitigation within the priority one (enterprise level) category. Some of the statewide implementations related to information technology systems are moving slower than anticipated due to a change in business priorities. While working with the business to understand risk appetite and navigate changing priorities, full mitigation is the goal. Statewide coordination is needed to drive consistency of implementation across all TxDOT districts. The slide presented shows fiscal year 2022 (FY22) progress, focusing on 14 MAP follow-up engagements from prior fiscal years, eight of which have been completed. The commissioners had no questions.

b. Internal Audit Report – Letting Management Effectiveness

This item was presented by Craig Otto, Director of the Internal Audit Division. Director Otto began the presentation illustrating the focus and responsibilities for divisions and districts in the letting process. The first finding in the Letting Management Effectiveness audit determined multiple stakeholders are

performing their portion of the letting process without full coordination and collaboration with all participants. In response to this finding, in December 2021, a TxDOT committee was established to govern the overall process, improve the volume of lettings, and establish contingency plans. The TxDOT committee will also focus on changes to Letting Schedule Modification (LSM) processes like reason code selection, review, and approval. The second finding identified that performance metrics developed to track monthly letting delays were incomplete. This impacts the ability to learn and plan and ensure more stable lettings. To reduce errors and manual input, the Financial Management Division (FIN) created a dashboard and interface using TxDOTConnect data to track key performance metrics. Commissioner Vaughn asked if the audit found only loss of process efficiency with no direct financial loss, and Director Otto confirmed that was correct. Chair Ryan asked if the audit only focused on getting projects let within the two-month window and mentioned there was a difference between that process and the planning process to fill the pipe with a volume of projects ready to let. Director Otto confirmed the intent of the audit was to understand more about the overall letting process and if monthly level lettings can be achieved. Chair Ryan asked about the audit follow-up plan; Director Otto mentioned the team will continue to engage with the TxDOT committee aiming to achieve a more level fiscal year 2023-2024 letting schedule. Executive Director Marc Williams shared some potential indirect costs associated with unlevel lettings, the volume of projects being let at one time or in a specific geographical area, and an update on funding from the Infrastructure Investment and Jobs Act (IIJA). Chair Ryan asked if geography is taken into consideration when a project is pulled and how TxDOT is engaging the contracting community? Executive Director Williams clarified most projects are pulled due to a problem with it not being ready to let, but in the future, if an abundance of projects are ready to let, then considerations on geographical distribution and engaging local contractors could factor into the determination of which projects to defer. Chair Ryan suggested a smooth process may consider statewide breadth with regional depth and asked if TxDOT was working on those determinations or if they were already determined? Chief Engineer Bill Hale confirmed it is being worked on with a focus on replacing projects during the same time period to ensure adequate coverage, like replacing a large project with two smaller projects. Chief Ybarra described the follow-up expectations for this engagement will focus on measuring the performance of those involved in the letting process and their abilities to achieve letting expectations. Additional oversight was considered; however, was not recommended at this time. Additional oversight will be reconsidered if currently planned efforts do not result in expected outcomes.

Item 4. Compliance Division Update

a. Summary of Investigations – FY22 Q2

This item was presented by Kristin Alexander, Director of the Compliance Division. Director Alexander began by highlighting new investigations in the second quarter of FY22 have increased 21% from the fourth quarter of fiscal year 2021 (FY21). There are 27 closed cases, with 56% substantiated. Third-party allegations and the identification of higher risk transactions through detection engagements led to an increase in opened and closed cases. Substantial improvements in district ownership of vehicle misuse through more timely and thorough reviews led to early identification of issues. One significant investigation identified \$29,000 in overpayments from a third-party contract violation and another contract violation related to hazardous waste; both are being addressed. An additional investigation of significance included a third-party imposter employee who was identified by a TxDOT division and promptly investigated through a full forensic workup to determine what systems the individual accessed. The third investigation of significance identified several employee leave issues identified through the Compliance Division's detection program; highlighting opportunities to increase controls in the timekeeping system to prevent identification delays. Planned actions include emphasis on third-party outreach and accountability through presentations to industry stakeholders at conferences. Internal outreach efforts with districts and divisions continue to yield good engagement and reporting. Leveraging data analysis tools in the detection projects for fuel cards, purchase cards, and vendor payments helps to promptly identify transactions for further investigation. Chair Ryan mentioned third-party violations continue to increase and asked how TxDOT can engage the Association of General Contractors (AGC)

and other industry partners proactively so as not to rely solely on the districts to report violations. Director Alexander mentioned her team frequently presents at conferences with internal and external attendees on this topic and is exploring additional opportunities to increase their presence for further outreach and education. Specific measures to address this concern may include adding an anti-collusion statement in TxDOT contracts; requiring contractor signature prior to submitting a bid. In response to the updated Texas Administrative Code (TAC) rules governing sanction processes, the AGC developed an internal compliance program for their partners which improved adoption of proactive compliance measures within their membership. Chief Ybarra highlighted a previous successful engagement with AGC leadership and the opportunity to use data trends from the past year to have another discussion with them on this topic, to which Executive Director Williams agreed. Chair Ryan asked if a tool kit or other materials can be provided to the districts to assist in spreading awareness on this topic for local lettings. Director Alexander mentioned the Compliance Division is partnering with the Construction Division in determining necessary support for the district lettings, as a first step.

b. Audit of the Texas Municipal Courts Education Center

This item was presented by Kristin Alexander, Director of the Compliance Division. Director Alexander introduced the audit of the Texas Municipal Courts Education Center (TMCEC), an entity that receives traffic safety grant funding. TMCEC's controls over TxDOT grant funding were not operating effectively to ensure funds are managed in accordance with applicable funding agreements and federal requirements. Specifically, TMCEC overallocated grant costs to TxDOT, resulting in unallowable costs of \$48,686. Payments to TMCEC were not always supported by sufficient documentation required by TxDOT agreements, resulting in questioned costs of \$2,541. Additionally, TMCEC did not calculate local matching funds in accordance with TxDOT agreements and federal regulations, resulting in an overstatement of \$63,223. Gaps in TMCEC's training program due to a virtual work environment show additional opportunities to improve consistency while maintaining focus on modernizing processes to reduce paper costs and ensure grant money is more efficiently used towards traffic safety education and outreach objectives. Internally, it is recommended the Traffic Safety Division implement a grant matching policy aligned with federal regulations across all their grant programs. The commissioners had no questions.

c. Action Plan Follow-Up

This item was presented by Kristin Alexander, Director of the Compliance Division. Director Alexander outlined the action plan follow-up progress from external audit findings. The slide presented shows a total of 22 recommendations with 16 fully implemented. The NTT Data external audit report issued on August 31, 2021 shows no progress has been made on the two recommendations. Chair Ryan asked if TxDOT is working with Chief Information Officer Anh Selissen regarding the NTT Data recommendations. Chief Ybarra confirmed Chief Selissen is fully engaged and is considering addressing this concern in the vendor's performance evaluation. Chief Selissen assured substantial actions are being investigated which may include resoliciting portions of the contract. Commissioner Vaughn asked if the report is up to date and highlighted audit issuance dates going back to 2020, and Director Alexander said yes. Director Alexander moved on to the Legislative Implementation follow-ups. Outstanding Bills & Riders requiring TAC updates from the 86th (2019) Legislative Session were communicated. Significant progress has been made in quarter two of FY22 with 72 (63%) implemented, leaving 42 outstanding. For outstanding Bills & Riders requiring TAC updates from the 87th (2021) Legislative Session, 16 (21%) have been implemented, leaving 60 outstanding. Commissioner Vaughn asked for clarification on line items currently being addressed and if the item falls off after completion, Director Alexander confirmed.

Item 5. Executive Session

Pursuant to Government Code Section 551.071, consultation with and advice from legal counsel regarding any item on the agenda; and Government Code Section 551.074 - Discussion concerning the evaluation and duties of the Chief Audit and Compliance Officer.

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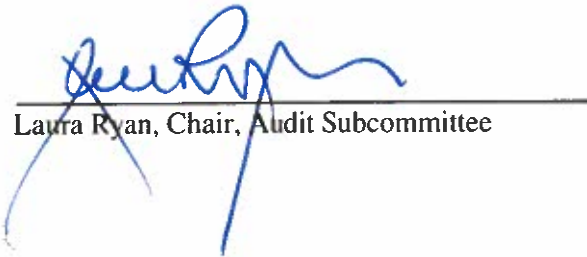
The audit subcommittee recessed to executive session at 10:44 a.m., and open session reconvened at 11:03 a.m.

Item 6. Promotion and Compensation Approval

Minute Order 116197 was presented by Laura Ryan, Audit Subcommittee Chair. Commissioner Vaughn made a motion to approve, Chair Ryan seconded the motion. The audit subcommittee approved Minute Order 116197 for the promotion and annual compensation of the Chief Audit and Compliance Officer by a vote of 2 – 0.

Chair Ryan adjourned the meeting of the February 22, 2022 Audit Subcommittee at 11:04 a.m.

APPROVED:



Laura Ryan, Chair, Audit Subcommittee