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AGENDA

**TEXAS TRANSPORTATION COMMISSION
Audit Subcommittee, Quarterly Meeting
125 East 11th Street
Austin, Texas 78701-2483**

**WEDNESDAY
September 23, 2020**

NOTE:

After consultation with the Governor's Office and consideration of the Governor's Proclamation of March 13, 2020, declaring a state of disaster for all counties in Texas from the imminent threat posed by COVID-19 and the Governor's approval of the request from the Office of the Attorney General to temporarily suspend certain open-meeting provisions of Texas law, the Texas Transportation Commission Audit Subcommittee meeting on September 23, 2020, will be conducted as a telephonic/audio meeting. You may listen to the meeting and comment on an agenda item by calling the following toll-free number: 1-800-309-1256, participant access code 635547. The Texas Department of Transportation's computer network is currently recovering from an outage. If the applicable network functions are operational at the time of the meeting you will be able to view an electronic copy of the agenda packet for the meeting at <https://www.txdot.gov/inside-txdot/administration/commission/subcommittee-meetings.html>.

The meeting will be recorded, and the recording will be available at <https://www.txdot.gov/inside-txdot/administration/commission/subcommittee-meetings.html> on the day after the meeting or as soon thereafter as technically possible.

Persons with special needs or disabilities who require auxiliary aids or services are requested to contact the department's Compliance Division at (512) 463-5671 at least five working days prior to the meeting so that appropriate arrangements can be made.

Atención. Si desea recibir asistencia gratuita para traducir esta información, llame al 512-305-9500.

10:00 A.M. CONVENE MEETING

- 1. Meeting Guidelines**
Staff will provide instruction and guidance on procedures for the meeting.
- 2. Consider the approval of the Minutes** of the June 24, 2020, quarterly meeting of the Texas Transportation Commission Audit Subcommittee

3. **External Quality Assessment Report**
Results of the department's Internal Audit and Compliance Divisions' audit functions, in conformance with the Texas Internal Auditing Act (Texas Government Code, Chapter 2102)
4. **Financial Management Division Update**
Annual update on spirit of Sarbanes-Oxley Act compliance
5. **Fiscal Year 2021 Audit Plan**
Review and recommend for Texas Transportation Commission approval
6. **Compliance Division Update**
 - a. Summary of Investigations
 - (1) Fiscal Year 2020, 4th Quarter
 - (2) Fiscal Year 2020
 - b. Fiscal Year 2021 Compliance Work Plan
7. **Internal Audit Division Update**
 - a. Management Action Plans (MAP) follow-up status
 - b. Internal Audit Report - Campus Consolidation Phase I: Invoice and Vendor Management
8. **Executive Session Pursuant to Government Code, Chapter 551**
 - a. **Section 551.071** - Consultation with and advice from legal counsel regarding any item on this agenda, pending or contemplated litigation, or other legal matters
 - b. **Section 551.076 and Section 551.089** - Discussion concerning department security audits

ADJOURN

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Audit Subcommittee Quarterly Meeting

Texas Transportation Commission



**Approval of minutes:
June 24, 2020, Audit Subcommittee meeting**



External Quality Assessment Report





- Scope

- We performed an External Quality Assessment (EQA) of the Internal Audit Division (AUD) and Compliance Division (CMP) from June to September 2020, as required:
 - Every three years by the Texas Internal Auditing Act and Generally Accepted Government Auditing Standards (GAGAS), and
 - Every five years by the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and the Code of Ethics (the IIA Standards)



- Summary of procedures
 - Assessed AUD's and CMP's conformance with the IIA Standards, GAGAS and the Texas Internal Auditing Act
 - Evaluated a sample of audit engagements and supporting documentation, as well as AUD's and CMP's operating policies, practices and procedures
 - Interviewed 19 key stakeholders to assess the extent to which AUD and CMP meet their objectives and add value to TxDOT
 - Facilitated a brainstorming session for AUD and CMP staff, using ThinkTank™ collaborative platform, to evaluate current operating models and to identify impact, opportunity and response related to business disruptions in the future
 - Provided insights on relevant leading practices and AUD's and CMP's efficiency, effectiveness and alignment with evolving stakeholder expectations
 - The period of review was from December 1, 2017 through August 7, 2020

Assessment against standards



- Summary of results from the assessment of AUD's and CMP's activities against each set of Standards:

IIA Standards	GAGAS	Texas Internal Auditing Act
Generally conforms	Pass	Generally conforms

IIA rating legend

- Generally conforms (GC)
- Partially conforms (PC)
- Does not conform (DNC)

GAGAS rating legend

- Pass
- Pass with deficiencies (PD)
- Fail

Texas Internal Auditing Act legend

- Generally conforms (GC)
- Partially conforms (PC)
- Does not conform (DNC)



- AUD and CMP are viewed as independent, objective, professional and competent
- AUD and CMP Division Directors and the Chief Audit and Compliance Officer are well-respected and considered to be knowledgeable of TxDOT's business
- Stakeholders appreciate AUD's and CMP's flexibility with annual audit plans
- AUD and CMP staff understand AUD's and CMP's strategies and how they align with TxDOT's mission and objectives
- AUD and CMP staff believe that they receive effective training, communications, guidance and coaching from their leaders



1. Consider increasing the number of IT audit activities
2. Continue to invest in technology and analytics to drive efficiency, risk coverage and enhanced reporting and communications
3. Promote coordination between risk management activities undertaken by various Divisions, including assessment of roles and responsibilities of the risk and compliance functions
4. Increase visibility of succession planning and long-term career development within AUD and CMP
5. Evaluate whether AUD should add advisory/consulting services to its mandate (currently only in CMP's mandate)



SPIRIT OF SARBANES-OXLEY

Key Financial Controls Testing



An advisory service engagement was conducted by the Compliance Division's (CMP) External Audit & Advisory Services Section per the Financial Management Division's (FIN) direction. Testing was pursuant to revised "Spirit of SOX" methodology approved in March 2014 to provide better financial statement assurance at a reduced cost.

OBJECTIVES OF SOX TESTING:

- Strengthen internal control over financial reporting.
- Improve reporting reliability.
- Meet *Spirit of SOX* requirements as directed by the Commission.



Compliance Division Performed one Advisory Service Engagement for Financial Management during fiscal 2020.

Key Control Testing Engagement

- FIN selected 14 key controls for effectiveness testing performed by CMP.
- Testing was performed on data from the first three quarters of fiscal 2020.
- CMP communicated the operating effectiveness of each control to FIN at the conclusion of the engagement.
- CMP internally distributed a final report on the engagement in August of 2020.



CONCLUSION

- *13 out of 14 controls (93%) were found to be appropriately designed and operating effectively.*
- All Financial Controls passed control testing.
- One General IT Control did not pass testing.
 - No significant impact on TxDOT Financial Reporting.



- ***Spirit of SOX*** FY 2021 Engagement:

- FIN will perform a risk assessment to determine high risk processes that impact Financial Reporting.
- FIN will determine which controls should be tested during fiscal 2021 with additional input from CMP.
- CMP will perform control effectiveness testing after the first three quarters of fiscal 2021.
- FIN will continue to work with CMP during fiscal 2021 to identify opportunities to enhance key controls over financial reporting.



Fiscal Year 2021 Proposed Audit Plan

Craig Otto, Director, Internal Audit Division





- Required by Texas Internal Auditing Act and professional auditing standards, including approval of audit plan by governing body (Texas Transportation Commission)
- Helps affirm and ensure sufficient resource focus on areas of highest risk and impact
- Objective, independent risk assessment by Chief Audit and Compliance Officer and internal audit staff, with additional input:
 - Includes input from Texas Transportation Commission, TxDOT Administration, Division/District leadership, and external stakeholders (i.e., External Quality Assessment recommendations)
 - Also includes industry research and perspectives from public and private sector



Risk Assessment Process

- Conduct objective analysis of risks based on a 12-point criteria comprised of the following categories:
 - Strategy, Safety, Operations, Frequency, Exposure, Technology, Regulatory, Fraud, Prior Audits, Management, Budget, and Employee Engagement Results
- Assess risks identified in prior audits but considered out of scope, submission of risks by Internal Audit Division staff, reviewing relevant legislation, trends and standards, and conducting business process discussions with district and division leadership
- Prioritize risks above to determine potential risk themes, internal audit staffing capabilities and to inform training and recruitment plans

Developing Audit Plan

- Identify audit resources available to determine the number of engagements that can be performed based on resources and past performance trending (i.e., number of hours to complete an engagement)
- Develop draft audit objectives for higher ranking risks and required audits
- Present draft audit plan to Executive Administration and Executive Director for comments and potential requests for audits

Audit Plan Approval

- Chief Audit and Compliance Officer approves final draft of Audit Plan
- Request and obtain formal approval of the Audit Plan from the Texas Transportation Commission

Risk Assessment Considerations



The Internal Audit Plan consists of 37 risk-based audit engagements. The audit engagements are divided into eight areas of focus and aimed toward providing assurances regarding the top twenty percent of risks identified as a part of the annual risk assessment.

TxDOT Risks

- Funding Expectations
- Population Growth
- Agency Talent Retention
- Reliance on Contractors/ Third Parties
- Quality Assurance

External Risks/ Megatrends

- Pandemic – COVID
- U.S. Elections
- Resource/Supply Chain Impacts
- Technology:
Disruption/Advancements
- Rapid Urbanization

Sources: EY, Deloitte., PWC,
BlackRock

FY2021 Risk Themes

- Governance and Program Management
- Recurring
- Program and Third Party Monitoring
- Program Optimization
- Project Development
- Contingency
- Management Action Plans
- Carryovers in Closing Phase



Program and Third Party Monitoring

- Activities designed to ensure quality and promote accountability

Governance and Program Management

- Oversight and validation of frameworks designed to ensure standardization

Project Development

- Processes that contribute to planning and setting expectations for quality

Recurring

- Programs, processes, and/or activities that are evaluated on a routine basis.

Program Optimization

- Programs designed to improve operations, while focusing on efficient and disciplined resource management

Carryovers in Closing Phase

- Engagements not completed in FY 2020

Management Action Plans

- Determination of mitigation activities performed on risks identified in previous audit engagements

Contingency

- Potential areas of coverage to consider based on resource efficiencies

FY 2021 Internal Audit Plan (Grouped by Risk Theme)



Program and Third-Party Monitoring (4)

- Materials Testing – Soils and Aggregate
- Material Maintenance Contracts
- Maintenance Project Payment Review and Approval
- Campus Consolidation Phase II: Construction Payments and Transitional Preparedness

Governance and Program Management (5)

- User Access Management
- Security Categorization
- Title VI Goal Setting and Reporting Process
- Lease Accounting Implementation
- Facilities and Asset Management System (FAMIS)

Project Development (2)

- Local Government Projects Pre-award
- Plan Review and Bid Estimation Effectiveness

Recurring (6)

- Ferry Operations and Maintenance
- Toll Facilities – Federal Reporting
- Public Funds Investment Act
- Accounts Receivable – Damage Claims
- Information Security Program (TAC 202)
- Policy Governance

Program Optimization (4)

- Post Implementation – Toll Operations Back Office System
- Facility Management – Improvement Assessment, Selection, and Oversight
- TxDOT Business Impact Analysis
- Professional Engineering Procurement Services: Consultant Performance

Carryover Audit (6)

- Campus Consolidation Phase I: Invoice and Vendor Management
- Lease Accounting Inventory Assessment
- Media Campaign Management
- Non-Contracted Bridge Inspections
- Reporting Integrity: Maintenance Management System
- Tuition Assistance Program

Management Action Plan (MAP) Follow-Up Evaluations

- Evaluation of completeness of high and low risk MAPs

Contingency (10)

- Construction Project Payment Review and Approval
- Grant Reimbursement - Public Transportation (Section 5311)
- Disaster Recovery
- Incident Response
- Human Resources Operations: Performance Assessments
- Peer Review Program Effectiveness
- Performance Measures: Construction Projects
- Rail Safety Inspection Program
- Accounts Payable: Operations
- PCard Support Evaluation



Compliance Division Update

Kristin Alexander, Director, Compliance Division



Investigation Totals :

• Opened	26
• Closed	24

Q4 / Q3

↑ 30%
↓ 8%

Closed Investigation Dispositions:

• Substantiated	9 (38%)
• Unsubstantiated	15



Closed Investigation Locations:

• Districts	14
• Divisions	6
• Third Party	4



Highlights

- Allegations increased from 3rd quarter
 - Majority of allegations related to management issues
- Substantiation rate below 40%, but remains high for year
- Significant investigations:
 - Third Party violation
 - Falsification of records
 - Theft
 - Near miss safety incident

Summary of Investigations – Fiscal Year 2020



Allegations:

	<u>FY20</u>	<u>FY19</u>	<u>FY20/FY19</u>
• Received	417	387	↑ 8%
• Investigations initiated	103	113	↓ 9%

Closed Investigation Dispositions:

• Substantiated	54 (50%)	60 (53%)	↓
• Unsubstantiated	53	53	

Closed Investigation Locations:

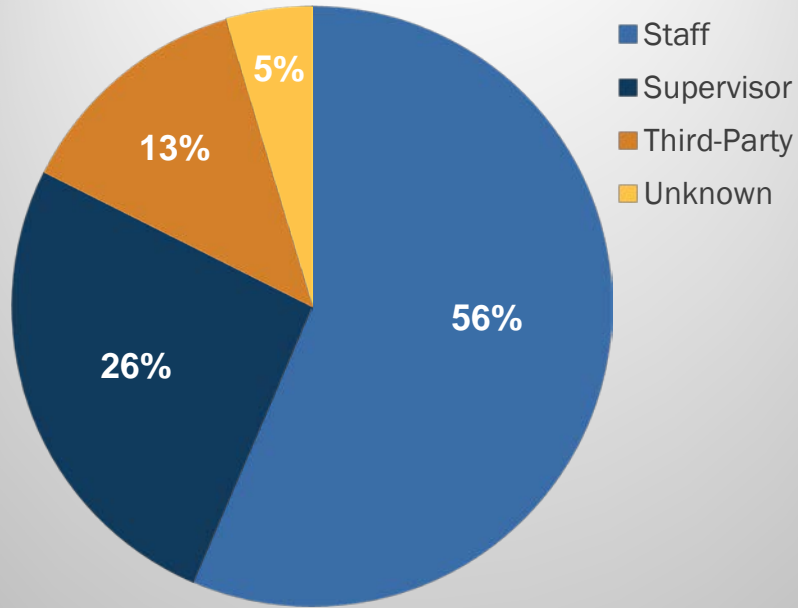
• Districts	70	63	↑
• Divisions	18	28	↓
• Third-Party	19	22	↓

Highlights

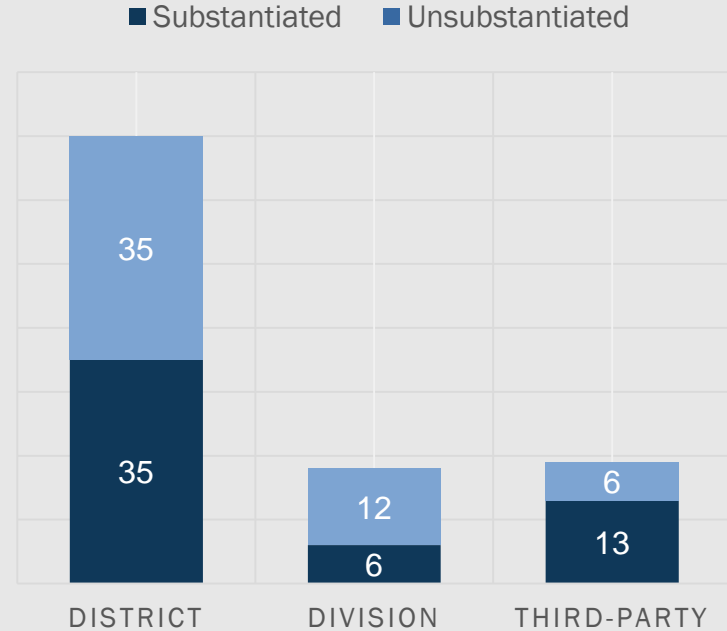
- Number of allegations increased
 - Overall increase despite lull in April/May
 - Increase in complaints regarding personnel issues
 - 25% of allegations referred for investigation, a decrease from FY19
- Substantiation rate decreased but remains above industry norm
 - Continue monitoring impact of remote investigations
- District investigations increased and made up a larger percentage of all investigations (65%)



SUBJECT OF INVESTIGATION

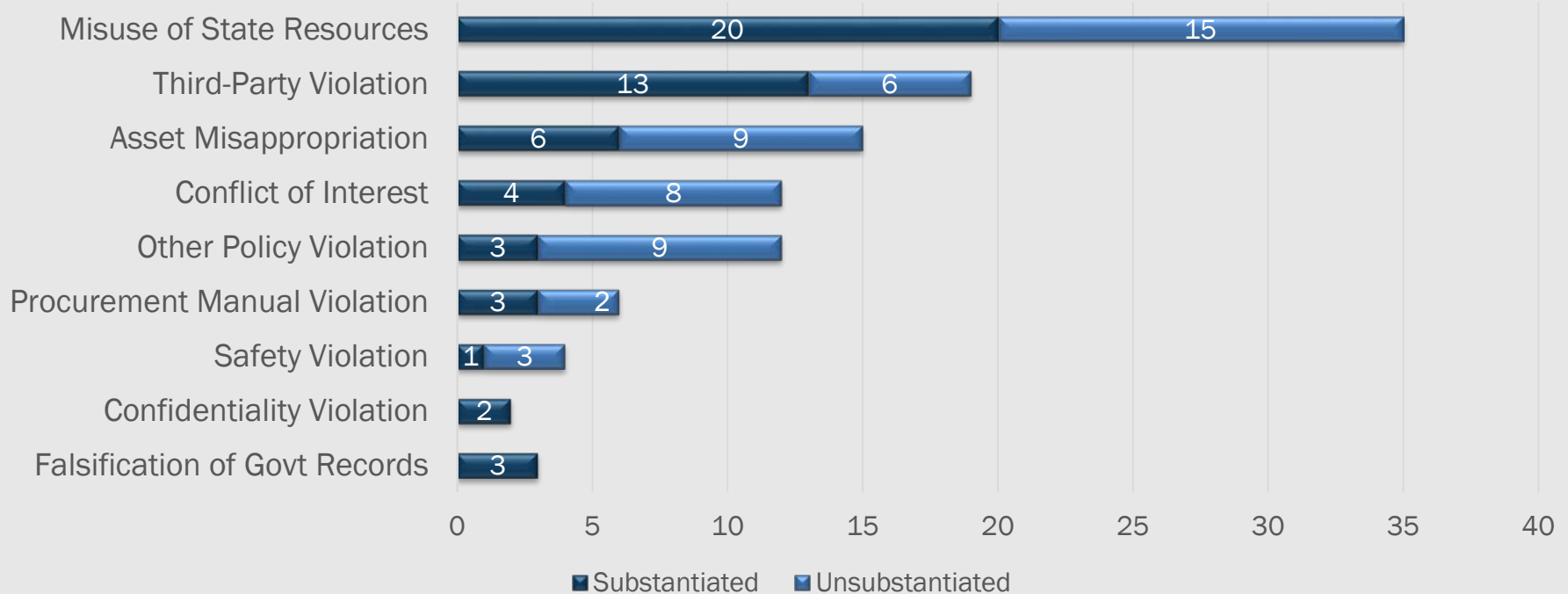


OUTCOME BY LOCATION





OUTCOMES BY ALLEGATION CATEGORY



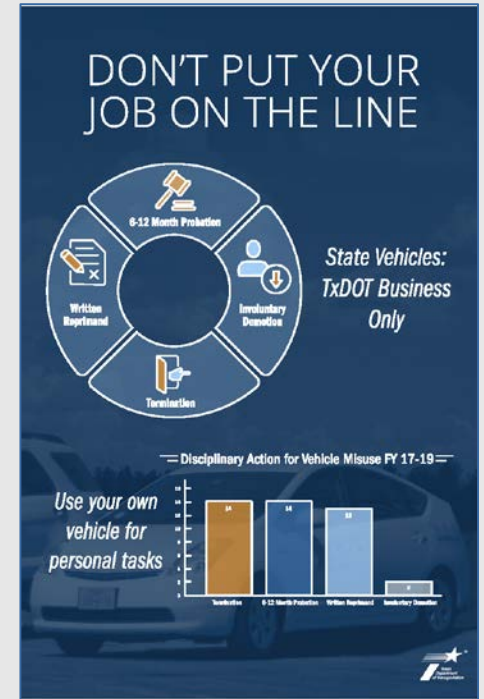
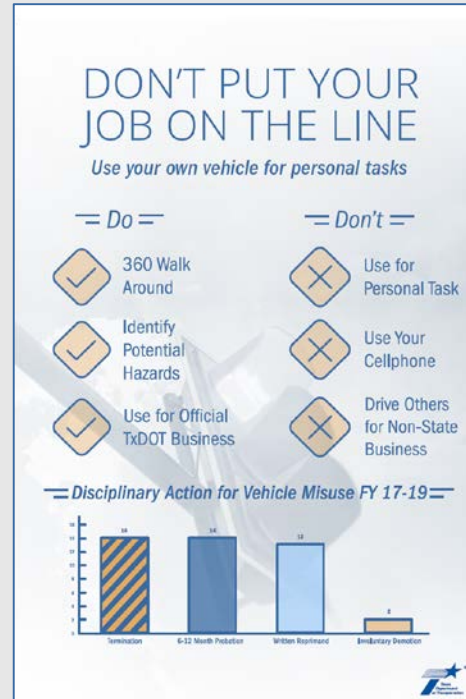


■ Vehicle Misuse

- Posters distributed to all districts and divisions
- Annual Ethics training updated to provide additional guidance

Outcome

- Increase in allegations and substantiated investigations following information campaign
- Increase in misuse events identified by supervisors



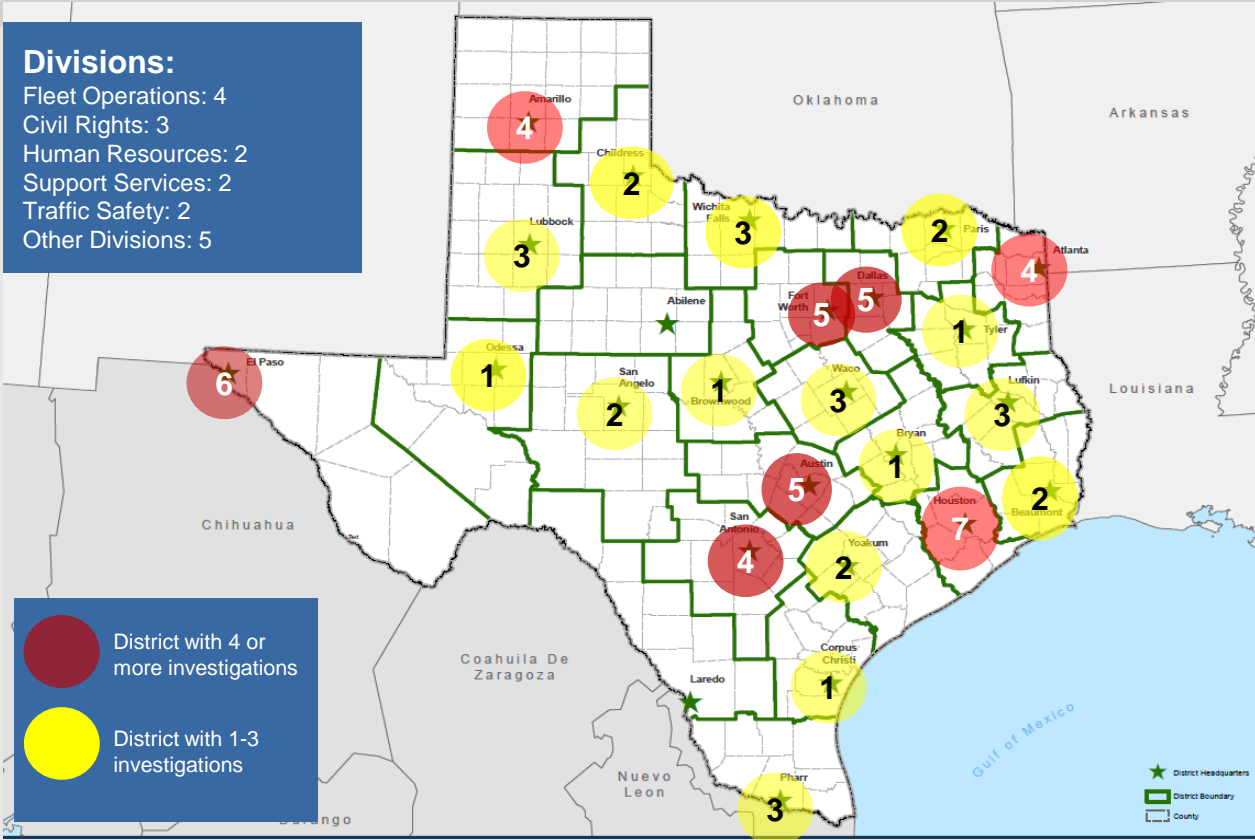
More Outreach Needed on High Risk/High Impact Areas

Fiscal Year 2020 Employee Investigation Locations



Divisions:

- Fleet Operations: 4
- Civil Rights: 3
- Human Resources: 2
- Support Services: 2
- Traffic Safety: 2
- Other Divisions: 5

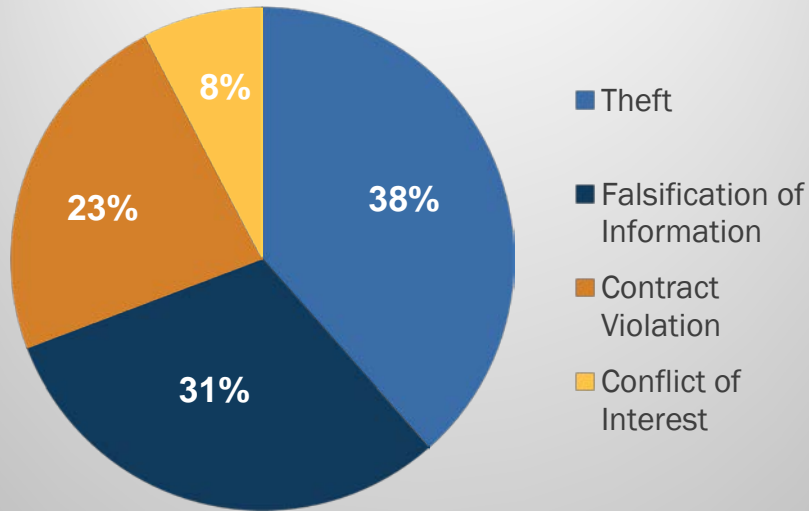


Highlights

- No employee investigations in two districts
 - Abilene
 - Laredo
- Continue focus of virtual outreach and compliance presence in South and West Texas
 - 21 Coffees with the Crew in FY20
 - Supervisor meetings held in Abilene, Fort Worth and San Antonio Districts



SUBSTANTIATED THIRD-PARTY INVESTIGATIONS



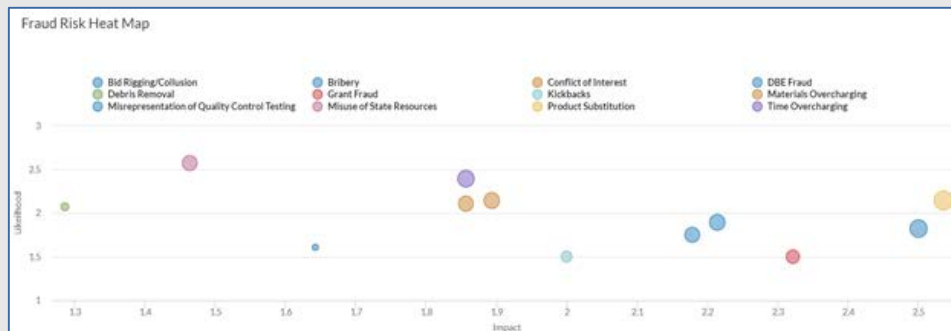
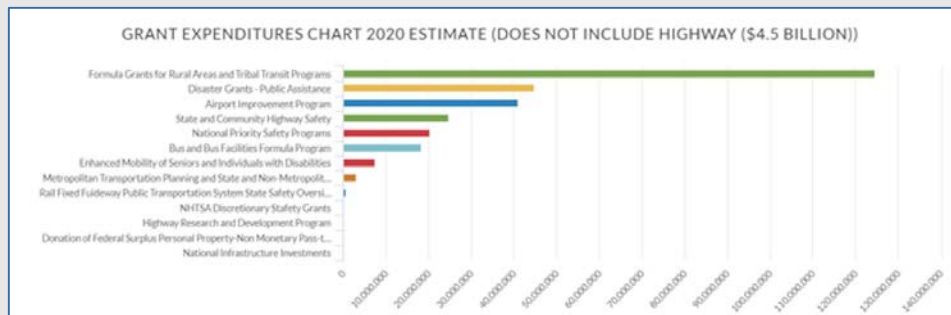
Third-Party Investigation Outcomes

- 6 - Violation Referred for Sanction
 - 2 debarments
 - 1 reduction in bidding capacity
 - 2 formal reprimands
 - 1 pending sanction
- 5 - Police Report Filed
 - Items recovered in 3 investigations
- 2 - Other Contract Remedy Imposed



Fraud and compliance risk assessment:

- Based on the COSO and ACFE Fraud Risk Management Guide
 - Considering the ACFE’s Fraud Risk Tree, identified fraud risks applicable to TxDOT
 - Identified Division and District specific fraud risks
 - Considering TxDOT’s Stewardship Agreement with FHWA, identified key compliance risks
- Incorporated Commission/Administration input, Division/District input, objective risk factors, and Department, Industry, Investigation and Internal Audit trends
- For each fraud and compliance risk, assessed the likelihood, significance, and effectiveness of existing controls



FY 2021 Compliance Division Work Plan (Grouped by Risk Theme)



External Audit & Advisory Services (8)

External Audits

- Select Traffic Enforcement Program Grant Recipients
- BNSF Railroad 2019 Additive Rates
- El Paso Metropolitan Planning Organization
- Information Technology Security Contract

Advisory Services

- SOX 2020 Key Control Testing
- Texas Municipal Police Association 2019 Indirect Cost Rates
- County Transportation Infrastructure (CTIF) Program Monitoring (T)
- Traffic Safety Grant Pre-Award Review

Investigations & Outreach Activities (135 estimated)

- TxDOT Watch Allegation Triage and Fraud, Waste Abuse Investigations
- District (Coffee with the Crew) and Division Outreach Presentations
- Contractor Outreach and Training
- Compliance Newsletter

Compliance Section (10)

FHWA Stewardship Monitoring

- Plans, Specifications and Estimates Consultant Standards and Documentation
- Construction Contract Dispute Resolution
- Liquidated Damages

Allowable Payment Reviews

- CARE Act Payments

Detection Program

- Senior Leadership Travel
- Payment Cards
- Prohibited Vendors
- Special Projects

Government and Transportation Code Compliance

- TxDOT Watch hotline and case management system upgrade
- Contractor Information Security Compliance

Contingency (8)

- Change Orders (Allowable Payment Reviews and Detection Program)
- Excessive Expenditures (Detection Program)
- Ghost Employees (Detection Program)
- ROW Public Interest Findings (FHWA Stewardship Monitoring)
- Financial Management Plans <\$500M (FHWA Stewardship Monitoring)
- Safety Incentive Program (FHWA Stewardship Monitoring)
- Conflict of Interest Disclosure Program Implementation (Special Project)
- Disaster Grants – Presidentially Declared Disasters Payments

FY2021 Compliance Division Outreach Activities



All Employees

- Continuation of the Compliance Corner Newsletter, development of additional content formats
- Compliance and fraud awareness videos posted on TxDOT YouTube page
- Bi-monthly Compliance Division podcast

Senior Leadership

- Quarterly Compliance Council
- Compliance and fraud awareness presentation at Senior Leadership meeting

Managers and Supervisors

- Presentations at District Supervisors meetings, Engineering Operations meetings and Area Engineers meetings
- Supervisor virtual brownbag lunch

Frontline Employees

- Virtual Coffee with the Crew (CwC)
- Presentations during safety meetings and at beginning of compliance engagements

Third Parties

- Presentations during TxDOT and industry conferences
- Presentations to industry trade associations and local governments
- Compliance and fraud awareness training to large contractors

With travel restrictions and social distancing limitations, CMP will develop new methods of outreach.

Continue to present to external stakeholders such as AGC and local governments through virtual conferences and external events.

Outreach will be targeted to address trends and risks specific to audience

- Districts and Divisions that oversee 3rd party grant recipients
- Material Testing
- Fleet Operations
- Financial Management
- Procurement and Contract Services



Internal Audit Division Update

Craig Otto, Director, Internal Audit Division

Management Action Plan (MAP) Follow-Up Overview



MAP Status	FY 19 End	FY 20 End
Closed	126	100
Not Yet Due	165	67
Past Due	4	48



FY 21 Outlook

- Continued focus and priority to be on findings and MAPs with highest impacts to TxDOT.
 - Prioritization will remain on high risk findings and associated MAPs.
 - Lower risk will also be reviewed.
- MAP Status Tracker, including past due MAP aging, will be available on Internal Audit Division website.



Internal Audit report issued:

Overall Engagement Assessment

Satisfactory

Campus Consolidation Phase I: Invoice and Vendor Management No Findings, 2 Observations

TxDOT has approved over \$43M of invoices for planning, design, and construction contractual project spend of \$327.2M. Project deliverables from the vendor contracts are being monitored adequately for timely progress and financial accuracy by Campus Consolidation project team members.

Recommendations

- a) Inconsistent Deliverable Approval Process
 - Clarity of approval of Guidehouse deliverables should be established and communicated, including Executive Leadership, where appropriate.
 - Establish process to ensure appropriate approvals are obtained and documented.

- b) Subconsultant Charge Was Not Supported (de-minimis)
 - The Support Services Division (SSD) invoice review process needs to ensure supporting documentation of all line items on invoices.
 - 1 of 13 (8%) consultant/subconsultant charge of \$2,649 from Freese and Nichols on the February 2020 invoice (from total invoice value of \$72,544) was not supported.



- FY2021 Audit (Q3): Campus Consolidation Phase II: Construction Payments and Transitional Preparedness
 - Construction Payments
 - Continued review of construction invoices and change orders, if applicable, for proper levels of review, approvals, and supporting documentation.
 - Transitional Preparedness
 - Assess TxDOT's management of surplus inventory and move-in readiness procedures.
 - Engage with the new vendor hired to understand their steps and timing of inventory procedures.

- Ongoing involvement in the campus consolidation project
 - Attend weekly construction status meetings to keep apprised of any issues or challenges with the on-going invoice reviews and project work.
 - Review change orders, if applicable, for proper authorization.

- Next update will occur by May/June 2021 Audit Sub-Committee meeting



Executive Session



Adjourn