

September 23, 2020

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on September 23, 2020 at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 10:00 a.m. with the following members present:

Texas Transportation Commission Audit Subcommittee:

Laura Ryan	Commissioner, Audit Subcommittee Chair
Alvin New	Commissioner, Audit Subcommittee Member

Staff:

Benito Ybarra	Chief Audit and Compliance Officer
Jeff Graham	General Counsel
Rich McMonagle	Chief Administrative Officer
Anh Selissen	Chief Information Officer
Bill Hale, P.E.	Chief Engineer
Bob Kaufman	Director of Communications & Customer Service
Quincy Allen, P.E.	Director of District Operations
Michael Lee, P.E.	Director of Engineering & Safety 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 10:49 a.m. on September 15, 2020, as required by Government Code, Chapter 551, referred to as "The Open Meetings Act."

ITEM 1. Meeting Guidelines

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

ITEM 2. Consider the approval of the Minutes of the June 24, 2020, Audit Subcommittee meeting

This item was presented by Laura Ryan, Audit Subcommittee Chair. Commissioner New made a motion to approve, Commissioner Ryan seconded the motion. The audit subcommittee approved the minutes of the June 24, 2020 Audit Subcommittee meeting by a vote of 2 – 0.

ITEM 3. External Quality Assessment Report

This item was presented by Neill Masterson, Managing Director, and Robert Brant, Business Consulting Partner; both with Ernst and Young (EY). Mr. Masterson kicked off covering the scope of the External Quality Assessment of the Internal Audit Division and Compliance Division as required by the standards set forth in the Texas Internal Auditing Act, the Generally Accepted Government Auditing Standards, and the Institute of Internal Auditors International Standards for Professional Practice of Internal Auditing and the Code of Ethics. He further detailed the project dates the assessment was performed in, procedures performed during the assessment, including interviews of key stakeholders at TxDOT, brainstorming session with Internal Audit Division and Compliance Division staff that included a ranking of future potential disrupters, and current readiness for those risks. The scope period reviewed by EY was December 1, 2017 through August 7, 2020. Mr. Masterson led into a summary of results from the assessment against each set of standards discussed during the scope, noting that the Internal Audit Division and Compliance Division received ratings of General Conforms and Pass against each standard, the highest rating possible. Mr.

September 23, 2020

Masterson then turned the discussion over Mr. Brant to discuss the key strengths identified both meeting professional standards and cultural in nature within TxDOT; and, improvement opportunities within the auditing function at TxDOT including increasing the number of IT audit activities, continuing to invest in technology and analytics as it continues to be area of focus and acceleration for audit groups. Chief Ybarra joined the conversation confirming the engagement was thorough and thanked both Mr. Masterson and Mr. Brant for their objectivity. Chief Ybarra further detailed that past assessments have been what are considered Peer Reviews, where Internal Auditors from other state agencies with similar focuses and objectives perform the External Quality Assessments. Chief Ybarra has outlined strategies, actions, and deliverables based on the five areas of improvement detailed by Mr. Brant, this document will be provided to EY once it is finalized. Commissioner Ryan asked for additional detail regarding the improvement opportunity focused on risk management activities and asked what EY has seen as best practices with organizations the size of TxDOT. Mr. Masterson answered, first stating the observation of significant coordination between the Internal Audit Division and the Compliance Division, and coordination with the Strategic Planning Division by sharing results. As the audit function evolves, coordination with other divisions would happen through all stages of the risk assessment process, beginning with the taxonomy and criteria of risks bringing several functions together, all the way to action plans. Commissioner Ryan thanked Mr. Masterson for his feedback, and concluded her comments highlighting the key strength that stood out the most to her, the Internal Audit Division and Compliance Division understand their strategies and how they align with TxDOT's mission and objectives. Chief Ybarra ended the item discussion thanking TxDOT staff for their willingness to participate in the process.

ITEM 4. Financial Management Update

This item was presented by Amanda Landry, Accounting Section Director, Financial Management Division. Ms. Landry covered the objective of SOX and a brief overview of its history at TxDOT. Ms. Landry covered an update on the Spirit of Sarbanes-Oxley (SOX) Program; including working with the External Audit and Advisory Services Section of the Compliance Division (CMP) who performed an advisory service engagement for the Financial Management Division in Fiscal Year 2020. For the engagement performed, FIN selected 14 key controls for effectiveness testing on data from the first three quarters of fiscal year 2020. Nine of the controls tested were financial controls, and 5 were Information Technology (IT) controls. The testing results identified that 13 out of the 14 controls were operating effectively. All the financial controls passed control testing, and one general IT control did not pass testing. The one IT control that did not pass has no significant impact on TxDOT financial reporting, for security purposes the IT control was discussed during Executive Session. The commissioners had no questions for Ms. Landry and thanked her for her presentation.

ITEM 5. Fiscal Year 2021 Audit Plan

This item was presented Craig Otto, Director of the Internal Audit Division. Director Otto opened the discussion covering the three components of the audit lifecycle including that per the Texas Internal Audit Act, the audit plan requires approval from the full Texas Transportation Commission. Director Otto then discussed how the risk assessment process helps reaffirm the Internal Audit Division has enough resources to focus in on areas of high risk and impact. Director Otto presented a list of the audits selected for Fiscal Year 2021 categorized by risk theme, including program and third-party monitoring, recurring projects, and 10 audits listed as contingency. Commissioner New asked to review the slide with risk assessment considerations and begun his comments with funding expectations. He requested the Internal Audit team look at funding on hand as part of the process. Commissioner New further touched on TxDOT Risks by addressing Agency Talent Retention,

September 23, 2020

specifically calling out the IT function within Internal Audit Division and number of employees with an IT specialization or education on the audit team. While this population tends to be more difficult to keep with one employer for long, Commissioner New wants Director Otto to work against attrition with coaching opportunities, supervising methods, and helping staff lean-in, encouraging him to find a way to adapt and solve problems. Commissioner New closed his comments reviewing the external risks and trends, touching on technology disruption, advancements, and rapid urbanization. He closed by thanking Director Otto for the reoccurring audits and for ensuring improvements to agency functions. Commissioner Ryan joined the conversation building on Commissioner New's comments regarding external risks and megatrends, asking how the Internal Audit Division sees the upcoming U.S. Elections and Rapid Urbanization impacts as external risks. Director Otto referenced conversations had with TxDOT District Engineers and how these two specific risks could impact federal funding for TxDOT programs, while sustaining an influx of people to the state. Commissioner Ryan's second question was about the 10-point review, that led to the ten contingency audits in the audit plan. Director Otto commented that the contingency audits will continue to have touch-points with the applicable Chiefs throughout the year and if improvement is not seen, or if challenges are identified then they can be moved up in the work plan. Commissioner Ryan concluded that she views the contingency self-audit process along with the Management Action Plans as Internal Audit Division's way to help build continuous improvement culture. Chief Ybarra concluded the conversation with the reminder that the fiscal year 2021 internal audit plan would be on voted on during the September 24, 2020 Commission meeting.

ITEM 6. Compliance Division Update

a. Summary of Investigations

This item was presented by Kristin Alexander, Director of the Compliance Division. Director Alexander first covered the summary of investigations for fiscal year 2020, 4th quarter. Metrics included an increase of allegations from the 3rd quarter, a decrease in substantiation rate due to a number of allegations being management issues that were then referred to the Human Resources Division for handling, and significant investigations including a third-party violation that is being referred through the sanction committee, falsification of records, theft including a vehicle and equipment, and a near miss safety incident. Next, Director Alexander presented the summary of investigations for the entirety of fiscal year 2020 a total of 417 allegations received that led to 103 investigations initiated. Director Alexander also provided metrics for fiscal year 2020 including percentage of investigations by subject, outcome by location, outcome by allegation category, and the vehicle misuse outreach. Commissioner New referenced the Fiscal Year 2020 Employee Investigation Locations slide and would like to also see the substantiation percentage by each location as well, off-line. Director Alexander thanked him for his feedback, she also made him aware that the information is posted monthly on the TxDOT intranet site. Commissioner Ryan asked questions about the substantiation rate relating to management; specifically, is the Compliance Division seeing any changes in the types of complaints due to remote work, or are they still face-to-face daily interactions, or if there have been. Director Alexander stated that most of the workplace complaints are in the Districts where they have not gone to remote work. She also detailed that allegations are up in regard to safety as it relates to the pandemic. Director Alexander further highlighted that allegations trended upward in areas that outreach was happening; whether it be Human Resources training, or campaign, or Compliance Division outreach. This number is seen as a positive, it shows that employees understand they are being heard and taken seriously when they make complaints. Commissioner Ryan continued her questions asking about the near miss to safety incident and asking in those situations where policy needs to be updated, who does the Compliance Division alert.

September 23, 2020

Director Alexander stated that recommendations are provided within the investigation reports that are then submitted to the Division Directors and District Engineers; however, at this time there is not a follow-up process within the Compliance Division on implementation of recommendations. Commissioner Ryan requests a monthly or quarterly Executive Summary to Executive Director James Bass highlighting action items cited in reports. Commissioner Ryan then asked about vehicle misuse clarification and recent policy changes on mileage. The summary of investigations discussion concluded with Commissioner Ryan asking about unsubstantiated cases submitted in good-faith but due to adherence to policy, or lack of clarity in the written policy was unsubstantiated; and how do we use those for coaching or development opportunities to management in the organization. Director Alexander agreed that yes, that is sometimes the case, and they have debriefings with the Division Directors or District Engineers about what the culture should be and provide recommendations to policy updates. Commissioner Ryan again highlighted the opportunity for an Executive Summary to the Human Resources Division on coaching and development opportunities for management learned from unsubstantiated cases.

b. Fiscal Year 2021 Compliance Work Plan

This item was presented by Kristin Alexander, Director of the Compliance Division. The Compliance Division Work Plan is developed by conducting a Fraud Risk Assessment, and incorporates Commission, Administration and Division/District input, industry, investigation trends as well as Internal Audit trends. Director Alexander moved on to discuss the Compliance Work Plan grouped by theme; highlighting projects from the External Audit and Advisory Services Section Compliance Section activities and in response to feedback from Ernst and Young's External Quality Assessment, the Compliance Section will be using Data Analytics to review the CARES Act Payments, and other detection projects. Outreach activities will continue in Fiscal Year 2021 with a focus on supervisor level meetings to help drive workplace culture. Commissioner New inquired if it would be efficient for the External Audit and Advisory Services Section to do an audit of the El Paso Regional Mobility Authority in conjunction with their planned audit of the El Paso Metropolitan Planning Organization. Commissioner New continued his comments asking about Detection Project regarding Senior Leadership Travel, stating that the pandemic should lead to a decrease. Director Alexander agreed and clarified the purpose of the project is to review travel based on new protocols and approvals that have been released due to the pandemic.

ITEM 7. 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 his presentation discussing an update to the Management Action Plan (MAP) reporting status, having removed the partially implemented category and now only focusing on Closed, Not Yet Due, and Past Due MAPs. In addition to the change in the MAP report status, the Internal Audit Division will now begin to focus on aging of MAPs. The uptick in past due MAPs from Fiscal Year 2019 end to the Fiscal Year 2020 end can be attributed to the new MAP Status reporting. For Fiscal Year 2021 there will be a continued focus and prioritization of MAP findings with the highest impact to TxDOT. The Internal Audit Division is also rolling out a MAP Status Tracker available for Senior Leadership to view on the Internal Audit Division intranet site.

b. Internal Audit Report – Campus Consolidation Phase I: Invoice and Vendor Management

This item was presented by Craig Otto, Director of the Internal Audit Division. The Campus Consolidation project is a Capitol Area construction project. Campus Consolidation Phase I audit looked at invoices and vendor management, there were no findings in this audit. The audit team

September 23, 2020

worked closely with Chief McMonagle and the Support Services Division. One recommendation discussed related to requesting clarification of approval for deliverables which should be established and communicated, including Executive Leadership. In addition, establish a process to ensure appropriate approvals are obtained and documented. The second recommendation from this audit is that the Support Services Division invoice review process needs to ensure supporting documentation of all line items on invoices. The Internal Audit Division will continue to monitor the Campus Consolidation project through weekly phone calls and have planned a Fiscal Year 2021 third quarter audit focusing on Construction Payments and Transitional Preparedness. The results of this audit will be reviewed with the Audit Subcommittee in May or June of 2021.

ITEM 8. Executive Session

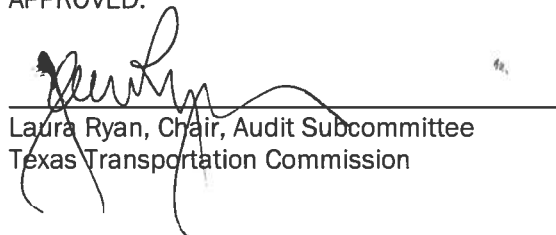
Pursuant to Government Code Section 551.071, consultation with and advice from legal counsel regarding any item on the agenda; and Government Code Section 551.076 and Government Code Section 551.089 discussion concerning department security audits.

The audit subcommittee recessed to executive session at 11:29 a.m., and executive session convened at 12:11 p.m.

The audit subcommittee reconvened in open session at 12:13 p.m.

Commissioner Ryan adjourned the meeting of the September 23, 2020 Audit Subcommittee at 12:14 p.m.

APPROVED:



Laura Ryan, Chair, Audit Subcommittee
Texas Transportation Commission