

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on September 29, 2021 at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 1:03 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, Planning and Administration
Brian Barth, P.E. Deputy Executive Director, Program Delivery
William L. Hale, P.E. Chief Engineer
Jeff Graham General Counsel
Darran Anderson Director of Strategy and Innovation
Quincy Allen Director of District Operations
Anh Selissen Chief Information Officer
Rich McMonagle Chief Administrative Officer
Stephen Stewart Chief Financial Officer
Mary Anne Griss Chief of Staff
Bob Kaufman Director of Communications and Customer Service

A public notice of this meeting containing all items on the proposed agenda was filed in the Office of the Secretary of State at 10:28 a.m. on September 21, 2021, 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 July 28, 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 July 28, 2021 Audit Subcommittee meeting by a vote of 2 – 0.

ITEM 3. State Legislative Implementation Update

This item was presented by Trent Thomas, State Legislative Section Director. Section Director Thomas covered the updates of the 86th and 87th legislative session & implementation process. He described the process including working with the divisions to draft implementation plans after the completion of the session. The plans are then approved by State Legislative Affairs (SLA), Compliance Division (CMP) and General Counsel Division to enforce efficiencies and to make sure the plans are implemented. SLA also performs quarterly update reviews. He noted CMP also reviews the accuracy of the implementations. Section Director Thomas provided an update to the 86th and 87th legislative session. In the 86th, he noted there were 90 bills and 19 budget riders requiring the agency's attention. In August 2021, there were 15 TxDOT operations & government bills needing implementation & 7 riders remain in process. Five of the 15 bills remaining require 3rd party actions. For the 87th session update, Section Director Thomas stated that the Texas Department of Transportation (TxDOT) is still finalizing review of all implementation

plans. He indicated that in the 5 and 8 bills remain that require rule making, from the 86th and 87th legislative sessions, respectively. In response to Commissioner Ryan's inquiry into who owns the process for implementation, Section Director Thomas stated that it is up to the divisions to implement plans & follow through. Moving forward, Commissioner Ryan would like to see a list of bills that require rule making and which division it would apply to, along with the timeframe for implementation. Chief Audit and Compliance Officer Benito Ybarra stated that this can be included in the Compliance Plan as a structured report as requested by Commissioner Ryan, to which all parties agreed.

ITEM 4. Financial Management Division Update

This item was presented by Amanda Landry, Director of Financial Management Division along with Melinda Gildart, Accounting Section Director. Ms. Gildart covered the objective of Spirit of Sarbanes-Oxley (SOX) and a brief overview of its history at TxDOT, Ms. Gildart covered an update on the 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 (FIN) in Fiscal Year 2021. For the engagement performed, FIN selected 13 key controls for effectiveness of financial reporting. Eight of the controls tested were financial controls, and 5 were Information Technology (IT) controls. The testing results identified that 12 out of the 13 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 did not impact TxDOT financial reporting. Commissioner Vaughn asked the appropriateness of this analysis in current day. Ms. Gildart confirmed that this deeper analysis is just as much needed in 2021 as in previous years. Commissioner Ryan asked for confirmation on the one outstanding IT finding, and when it will be resolved. Anh Selissen assured the Commissioners that the control would be remediated by end of calendar year 2021.

ITEM 5. Fiscal Year 2022 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 the external and internal risk themes and megatrends, such as the pandemic and how it affects TxDOT. Director Otto presented a list of the audits selected for Fiscal Year 2022 categorized by risk theme, including program and third-party monitoring, recurring projects, and audits listed as contingency. Commissioner Vaughn discussed prioritizing the risks to help them understand internal audit's priorities. Director Otto explained the 12-point criteria that helps audit take an objective approach. Commissioner Ryan noted that she would like an audit calendar by quarter. Commissioner Ryan's last question focused on newer trends, such as rapid urbanization and social politics, and what would be audited. Director Otto gave examples of how items might be added to a scope. Commissioner Ryan noted that the audit team continues to make TxDOT a better organization.

ITEM 6. 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 the end of Fiscal Year 2021, a total of 226 closed MAPs, 83 not yet due MAPs, and 25 currently past due MAPs. The 25 past due MAPs are a decrease from the 48 that were reported at end of Fiscal Year 2020. Director Otto pointed out there is a continued focus and priority on findings and MAPs with highest impact to TxDOT. Lower risk MAP completions will be confirmed through MAP Owner self-report certification. Audit has included a MAP tracker on the website, to make it readily available to those in need of their status. Director Otto then presented a 3-year MAPs status for Fiscal Years 2019 through 2021. Commissioner

Ryan requested an update of any MAPs that are higher risk to the agency, and to understand what resources are needed to address the risk.

b. Internal Audit Report – Business Impact Analysis Audit

This item was presented by Craig Otto, Director of the Internal Audit Division. This audit focused on Business Impact Analysis. The scope of this audit was to assess if Business Impact Analyses in TxDOT's Continuity of Operations program are effective in helping prevent or reduce the impact during a business interruption event. A Business Impact Analysis facilitates the identification and mitigation of exposures that may occur to a business during a disruption. There were a few improvement areas noted, including that a department-wide analysis has not been created that would help set department-wide expectations for statewide events. Although districts and divisions (D/Ds) create their own BIA, more wide coverage events could arise where actions may need to be taken uniformly by the agency through possible Administration efforts. Also, further improvements are needed in the administration and monitoring for completeness in Continuity of Operation Plans (COOPs) and corresponding Business Impact Analysis (BIA) submitted by the districts and divisions (D/Ds). Commissioner Ryan asked where the plans would be stored. Darran Anderson, Director of Strategy and Innovation, replied that the COOPs are on SharePoint but also the districts are encouraged to have paper copies.

ITEM 7. Compliance Division Update

a. Summary of Investigations

This item was presented by Kristin Alexander, Director of Compliance.

(1) The summary of investigations covered investigation statistics, including 23 opened investigations, down 32% from last quarter following a rise in investigations due to the returns to office, a total of 26 closed investigations. Substantiated Investigations 12, 46% of the total closed investigations; and of the closed investigations: 6 were in the Districts, 8 in Divisions and 12 involved third-parties. The investigations Director Alexander highlighted included a third party that falsified Historically Underutilized Business (HUB) reporting, and two third-parties that lost their AASHTO accreditations but continued doing work for TxDOT, an incident in which a member of the public assaulted a TxDOT employee, and one in which an employee falsified contracts.

(2) In fiscal year 2021 the TxDOT Compliance Division received 489 allegations, an increase. The substantiation rate was 49%. Director Alexander noted that within the categories of allegations, asset misappropriation continues to be the highest, most of which is vehicle misuse. Nineteen percent of the investigations were at supervisor level, suggesting we need additional focus on training supervisors. Director Alexander discussed themes amongst third party violations, that included falsification of documents and conflict of interest, and noted a key plan for the coming year is training staff to recognize third party violations. Alexander discussed focusing outreach to districts that did not have any allegations, including events like Coffees with the Crew, virtually or in-person. Commissioner Vaughn asked what the legal options would be for contract fraud. Jeff Graham, General Counsel, described legal options that can be taken. Commissioner Ryan asked if we have engaged with third party associations to make them aware of concerns in the increase in investigations. Chief Ybarra noted that it has been 3 years and it is time to execute a communication package for third parties.

b. Fiscal Year 2022 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 the Texas Transportation 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, the Advisory Engagements, and the Compliance Engagements. Outreach activities will continue in Fiscal Year 2022 with a focus on meetings with all levels of staff and targeted outreach to address the big trends such as large grant oversight. Director Alexander pointed out that the plan will also include working with Diversity, Equity & Inclusion (DE&I). Dr. Tina LeBlanc, Section Director for DE&I, along with Tapiwa Girton, Employee Diversity Equity and Inclusion Program Specialist, presented the core elements of their strategic initiatives and the time frames for implementation. Section Director LeBlanc highlighted accomplishments made by DE&I. Finalizing their presentation, Ms. Girton described the Human Trafficking initiative and the workgroups involved in the mission to end Human Trafficking.

c. NTT Data Subcontractor Management Audit

This item was presented by Kristin Alexander, Director of the Compliance Division. This item is regarding audit of NTT Data Subcontractor Management to determine whether NTT Data manages subcontractors in accordance with the current TxDOT Master Services Agreement (MSA). Director Alexander stated the audit identified that NTT Data has not implemented sufficient controls to select, onboard, and monitor subcontractors to comply with the MSA and subcontracts. Specifically, NTT Data was not in compliance with requirements related to TxDOT subcontractor approval and background checks. In addition, NTT Data did not adequately monitor its subcontractors to ensure they performed services in accordance with the MSA and subcontract provisions and did not have sufficient controls over subcontractor invoices and reporting. Director Alexander discussed the required actions NTT must take to resolve the issues and noted that NTT did remediate some issues immediately. Commissioner Ryan asked what recourse there is to ensure the concerns are remedied. Chief Ybarra replied that the Compliance Division will follow up to ensure the actions have been employed, and that Anh Selissen, Chief Information Officer, has agreed to take the findings under consideration at time of evaluation.

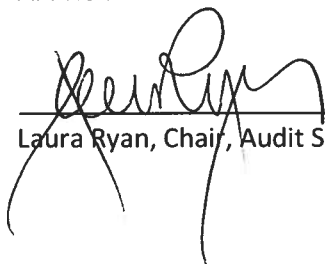
ITEM 8. Executive Session

Pursuant to Government Code, Chapter 551.071, consultation with and advice from legal counsel regarding any item on the agenda.

Commissioner Ryan noted that there will be no Executive Session at this time.

Commissioner Ryan adjourned the meeting of the September 29, 2021 Audit Subcommittee at 2:40 p.m.

APPROVED:



Laura Ryan, Chair, Audit Subcommittee