

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on December 8, 2021 at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 1:00p.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	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
Mary Anne Griss	Chief of Staff
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 1:52 p.m. on November 30, 2021, 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 the approval of the Minutes of the September 29, 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 September 29, 2021 Audit Subcommittee meeting by a vote of 2 – 0.

ITEM 3. Consider the approval to correct 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 corrected minutes of the July 28, 2021 Audit Subcommittee meeting by a vote of 2 – 0.

ITEM 4. Independent Auditor's Report

This item was presented by Kevin Smith, Audit Partner, Crowe LLP. Mr. Smith reviewed a preliminary summary for fiscal year 2021 audit. Mr. Smith covered the deliverables of the audit, due by December 20, 2021 to the Texas State Auditor's Office. Crowe LLP will be issuing independent auditor reports on internal control over financial reporting, compliance and other matters based on the audit of financial statements performed in accordance to Government Auditing Standards. The audit report will contain reports on Texas Department of Transportation, Texas Mobility Fund, Central Texas Turnpike System and Grand Parkway Transportation Corporation. Mr. Smith discussed the definition of opinions in Governmental Accounting, and how the opinions are determined. He then described internal control and the requirements of reporting of any material weakness or significant deficiencies, according to

Government Auditing Standards. Two material weaknesses were noted in the Central Texas Turnpike report. The first is a material weakness in internal control over implementation of toll road back office system (TxBOS). The second is a material weakness in internal control over user access to development and production environments. TxDOT management has reviewed these material weaknesses and planned corrective action plans are in place with anticipated completion date of August 31, 2022. Chairman Laura Ryan asked if the deficiencies in the system were considered control deficiencies vs financial reporting deficiencies. Mr. Smith noted that it was not a quantification of loss of revenue, it is purely about the internal controls over financial reporting. Melinda Gildart, Accounting Section Director Financial Management Division, noted that finance is evaluating any impact the deficiencies and any risks associated. Commissioner Ryan asked Mr. Smith to identify the future impact of the deficiencies. Executive Director Marc Williams noted that the preliminary report showed areas of improvement that they continue to evaluate and work towards making progress. Commissioner Robert Vaughn asked how the Audit Subcommittee can track the progress and assure that progress is being made. Executive Director Williams replied that after the full report comes out, and is reviewed by administration, an effective reporting structure for the committee will be implemented.

ITEM 5. Compliance Division Update

a. Summary of Investigations

This item was presented by Kristin Alexander, Director of the Compliance Division. The first quarter of fiscal year 2022 showed an increase of 22% in new investigations from fiscal year 2021 fourth quarter. There were 26 cases closed, with 58% substantiated, which was also an increase from the previous quarter. Third Party investigations accounted for approximately one-third of the investigations closed, which Director Alexander noted has been a trend from previous quarters, likely from an increase in reporting by TxDOT employees. Significant investigations include a fuel card theft, resulting in Compliance creating a detection program to follow up and identify processes that should be in place to prevent this in the future. Three Third-party investigations were referred to the Sanction Committee, and a fourth was referred to the Performance Review Committee. Another significant investigation included cell phone misuse which resulted in Information Technology Division (ITD) changing policy regarding international calling. There were also several COVID leave abuse investigations highlighted this quarter, which resulted in policy change in COVID leave. Executive Director Williams asked for clarification on the numbers reported for Third Party investigations; and Director Alexander answered his questions. Chairman Ryan asked how we are communicating the rules and regulations to Third Parties, and if an ethics handbook is provided to vendors. Director Alexander responded the Compliance Division is providing ethics presentations at industry conferences that include third party contractors as attendees. In regard to an ethics handbook, Director Alexander stated ethics expectations and violations are included in contracts. Chief Audit and Compliance Officer Benito Ybarra joined the discussion highlighting the maturation needed with the risk management program regarding developing a third-party ethics handbook for contractors. Director Alexander closed the discussion describing various detection programs in development by the Compliance Division to resolve some of the issues.

b. Compliance Program Effectiveness

This item was presented by Kristin Alexander, Director of the Compliance Division. Director Alexander began the discussion covering the fiscal year 2021 compliance program assessment, noting the TxDOT compliance program contains all elements identified in the U.S. Sentencing Commission Guidelines. It was determined that the program meets all elements and is forward focused. Director Alexander noted there was dedicated commitment from TxDOT Senior Leadership to the compliance programs. There is a greater focus on data analytics, as there have been issues identified through this system. She next discussed planned actions, with a focus on positive culture, including consistent disciplinary actions for

violations. Also planned are road shows to districts with new leadership to do presentations. Director Alexander went on to highlight the numerous fiscal year 2021 Compliance Program Accomplishments, including implementing a single reporting hotline for Human Resources and Compliance Division reporting, and working with Diversity, Equity and Inclusion section to develop Employee Resource Groups.

c. Action Plan Follow-Up

This item was presented by Kristin Alexander, Director of the Compliance Division. Director Alexander discussed the follow up of External Audit and Legislative implementation findings from the 86th Legislature (2019) and 87th Legislature (2021), which she noted will also be provided to the State Auditor's Office as requested. Regarding the External Audit findings, out of 38 recommendations, 35 have been fully implemented. The remaining three recommendations have estimated completion dates in the 2nd and 3rd quarter of fiscal year 2022. Director Alexander noted that in terms of the Legislative Implementation, there are 5 bills that require administrative rule changes that have not been made from the 86th legislature. On the 87th legislature, of the 9 bills that required rule changes, 3 were adopted in the November meeting, while the rest are on track to be implemented in the next two quarters.

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 began by describing the changes made to the MAP Follow Up process and rating system. The slide presented showed a slight up-tick in closed MAPs (240 closed), as well a slight decrease in past-due MAPs. Of the higher enterprise Past Due MAPs, 3 of the 4 are associated with IT and the procurement process. Director Otto highlighted the FY22 progress, focusing on 15 MAP follow-up engagements from prior fiscal years, 9 of which have been completed and 6 are in progress.

b. Internal Audit Report

Material Testing – Soils and Aggregate

This item was presented by Craig Otto, Director of the Internal Audit Division. This audit reviewed the Materials Testing, Soils and Aggregate program. This audit was to determine if monitoring of the design-build material quality assurance program pertaining to soil and aggregate materials are effective across the state. The risk considerations in conducting this audit included quality assurance and COVID related supply chain impacts. Director Otto pointed out how they worked with the Material Testing Division closely to identify five findings, two of which were high priority. In the first high priority finding, soils and aggregate material tests were not cleared timely and/or did not have sufficient documentation to support resolution. In the second, documentation to support district, area office, and third-party commercial lab test was unavailable, incomplete or inaccurate. Commissioner Vaughn asked how often Internal Audit Division follows-up with findings, Director Otto replied that for high priority items, they check in after the Management Action Plans are completed and continue to follow up when not closed. Chairman Ryan asked for clarification between items that were not completed, and items that were completed but not documented. Director Otto described the documentation process in the audit reports.

ITEM 7. Chief Audit and Compliance Officer Update

a. Fiscal Year 2021 Recap

This item was presented by Chief Audit and Compliance Officer, Benito Ybarra. Chief Ybarra began by describing the focus of Internal Audit Division and Compliance Division on stewardship, strategic

alignment, connectivity, risk management, and talent management. He continued with details of output and outcome, which included 71 internal audit engagements, 400 compliance engagements, over 300 requests for assistance or advice, 100 presentation or outreach engagements and eight staff certifications. Chief Ybarra then pointed out the outcomes resulting in Audit Subcommittee focus, management action, and areas for additional follow up in fiscal year 2021.

b. Fiscal Year 2022 Focus

This item was presented by Chief Audit and Compliance Officer, Benito Ybarra. Chief Ybarra pointed out that prioritization, performance management, and supportable reporting are a high-level focus. Next, he pointed out the risks identified for FY 2022, which included the effects of the pandemic on the supply chain, increased reliance on third parties, over-reliance on telework, the rise of social and environmental politics, and organizational changes. Chief Ybarra then described the focus and priorities for the next 6 months. These included several Internal Audit engagements such as Construction Project Payment Review and Approval, and Toll Operations, along with several Compliance engagements such as County Regional Mobility Authorities and Area Metropolitan Planning Organizations. Chief Ybarra ended with initiatives planned, including Enterprise Risk Management collaboration, industry engagement on third-party compliance and human trafficking, and talent management.

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 551.074 - Discussion concerning the evaluation and duties of the Chief Audit and Compliance Officer

The audit subcommittee recessed to executive session at 2:18 p.m., and executive session convened at 3:18 p.m.

ITEM 9. Performance Evaluation of Chief Audit and Compliance Officer

This item was deferred.

Commissioner Ryan adjourned the meeting of the December 8, 2021 Audit Subcommittee at 3:20 p.m.

APPROVED:



Laura Ryan, Chair, Audit Subcommittee