

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on January 25, 2023 at 125 E. 11<sup>th</sup> Street, Austin, Texas 78701. The meeting convened at 2:00 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
Jeff Graham	General Counsel
Marc Williams, P.E.	Executive Director
Rich McMonagle	Chief Administrative Officer
Stephen Stewart	Chief Financial Officer
Anh Selissen	Chief Information Officer
Jessica Buter, P.E.	Director of Engineering and Safety Operations
Carl Johnson, P.E.	Director of District Operations
Mo Bur, P.E.	Director of Project Development
Alejandro Garcia	Director of Communications and Public Affairs

A public notice of this meeting containing all items on the proposed agenda was filed in the Office of the Secretary of State at 12:29 p.m. on January 17, 2023, 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 October 26, 2022, 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 October 26, 2022, Audit Subcommittee meeting by a vote of 2 – 0.

**Item 3. Independent Auditor's Report**

This item was presented by Kevin Smith, Audit Partner, Crowe LLP. Mr. Smith reviewed the process and standards used in the fiscal year 2022 (FY22) financial reporting audit. Crowe LLP issued the independent auditor report on internal control over financial reporting, compliance and other matters based on the audit of financial statements performed in accordance with Government Auditing Standards (GAS). Mr. Smith explained the definitions of opinions in governmental accounting, and how the opinions are determined. He then described internal control and the requirements of reporting any material weakness or significant deficiencies, according to GAS. No material weaknesses or significant deficiencies were noted in the FY22 audit. TxDOT's management has gone above and beyond responding to the material weaknesses and significant deficiencies found in the previous audit. One of the previous findings has been partially remediated and the other has been fully remediated. Mr. Smith expressed concerns about the sustainability of manual work required to manage the toll operations back-office system. Commissioner Vaughn suggested the independent audit report from Crowe LLP be provided for discussion during the meeting next time. Mr. Smith will work with Melinda Gildart, Deputy Director of the Financial Management Division (FIN) to touch base on the report after the meeting and answer any questions. Commissioner Ryan shared concern about how accurate financial statements can be sustained. Executive Director Marc Williams explained the substantial efforts being taken to manage the back-office toll system and the likelihood of a complete system replacement of transition to another provider.

Commissioner Ryan acknowledged the support and involvement of Anh Selissen, Chief Information Officer in achieving the positive results. Director Gildart acknowledged the involvement and dedication of Megan Lowary in FIN and Jamal Abdulkader in the information technology division to reach these positive outcomes.

#### **Item 4. Compliance Division Update**

##### **a. Summary of Investigations – Fiscal Year 2023, 1st Quarter**

This item was presented by Parsons Townsend, Director of the Compliance Division. Director Townsend began by highlighting 15 new investigations during the first quarter of fiscal year 2023 (FY23): a 62.5% increase from the fourth quarter of fiscal year 2022 (FY22). A total of 31 cases were closed in the first quarter with 52% substantiated. Third-party allegations continue to drive investigation numbers. Significant investigations during the first quarter of FY23 involved employee acceptance of Houston Astros tickets and an information technology vendor not properly decommissioning TxDOT network equipment prior to surplus. The compliance division conducted a cooperative investigation into TTEC Holdings, Inc. mailroom employees shredding toll payment checks received. Commissioner Ryan asked if the significant investigations were mostly from a lack of knowledge and education those actions were wrong or because of conscious choices to do wrong. Chief Ybarra expressed that education would assist in these specific cases, but also expressed the enforcement actions taken send a message to deter them. Compliance division plans to travel to the districts to educate district leaders and staff on compliance topics. The goal of these outreach efforts is to reduce the likelihood of these incidents. Commissioner Ryan stated when it comes to compliance culture, what management tolerates matters more than what is preached. Modeling compliance actions as leaders is great needed, but if follow through is lacking to enforce what is preached, it undermines leadership, causing the culture of the organization to die and compliance violates to perpetuate.

##### **b. Action Plan follow-up**

This item was presented by Parsons Townsend, Director of the Compliance Division. Director Townsend began by highlighting the 31 outstanding action item follow-ups issued by the external audit section within the compliance division. The external audit section within the compliance division will soon be auditing the Houston-Galveston Area Council Metropolitan Planning Organization with a focus on the outstanding actions from 2018. Director Townsend noted significant progress with follow-up items from audit findings issued by other entities to TxDOT. All recommendations relating to the annual financial audit and federal portion of the statewide single audit have been fully implemented. The last finding from the Comptroller of Public Accounts audit on post payments has a target implementation of March 31, 2023. The commissioners had no questions.

##### **c. Compliance Program Effectiveness**

This item was presented by Parsons Townsend, Director of the Compliance Division. Director Townsend began by presenting the areas used to assess the effectiveness of the compliance program annually. The eight elements identified in the U.S. Sentencing Commission Guidelines are the cornerstones of building an effective program and include (1) Standards, Policies, & Procedures, (2) Reporting & Response, (3) Risk Assessment Evaluation, (4) Communication & Training, (5) Oversight, Structure, & Leadership, (6) Auditing & Monitoring, (7) Alignment with HR Practices, and (8) Culture. TxDOT senior leaders are supportive and engaged to exercise their responsibility to create and maintain a culture that supports compliance to the law and ethical conduct. The compliance program evaluates significant risk areas with detection projects, continuous monitoring evaluations, and external audits. The program identifies improvements and educates agency staff and third parties on key regulations and fraud awareness. The existing confidential reporting structure and investigation process supports a 'speak up' culture without fear of retaliation. Director Townsend highlighted the opportunities for improvement within the compliance division include the way third-party risk management processes correspond to the nature and level of the enterprise risk identified and continued development of training to third parties. Additionally,

Director Townsend presented the results of the FY22 Quality Assurance and Improvement Program (QAIP) based on quality standards from: Office of Inspector General, U.S. Sentencing Commission Guidelines for Effective Compliance and Ethics Program, Institute of Internal Auditors International Professional Practices Framework, and U.S. Government Accountability Office Governmental Auditing Standards. The compliance division scored 'Pass/Generally Conforms' which is the highest score and has an upcoming peer review tentatively scheduled for June 2023 to objectively assess the operations of the program. The commissioners had no questions.

#### **Item 5. 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 an update on Management Action Plans (MAPs). Director Otto reported continued mitigation efforts for the two enterprise-level (priority 1) MAPs currently pending closure related to material testing procedures. The typical timeline of MAP completion ranges between three to six months based on the complexity of the action. The internal audit division regularly reviews and tests MAP actions to ensure the risks identified are being appropriately mitigated. Additionally, 25 MAPs have been self-certified by the respective MAP Owner district engineer and/or division director for lower risks. Commissioner Vaughn asked if the 21 priority 2 past-due actions are the same amount as the 21 priority 2 past-due actions reported in September 2022. Director Otto replied even though the numbers are the same, a few of them shift as the division continues to develop MAPs as a part of audit engagements in addition to MAP actions being completed. Commissioner Vaughn highlighted the need to see aggressive progress towards the completion of MAP actions. Director Otto explained that MAPs with some remediation are downgraded to a different color until they are fully completed. Commissioner Ryan asked how the agency is handling the past due action from the materials testing audit finding due to the safety aspect. Carl Johnson, Director of District Operations stated he has discussed this need with district leadership to address the closing of the MAP actions and stressed the need for sustainability and consistency in the processes to address risks. Commissioner Ryan asked if appropriate resources were available, and Director Johnson responded yes.

##### **b. Internal Audit Report: Policy Governance**

This item was presented by Lindsay Bibeau, Section Manager in the Internal Audit Division. Section Manager Bibeau presented the Policy Governance audit rated an enterprise-level priority 3. Performance auditing focuses on the effectiveness, efficiency, and sustainability of a program. The Enterprise Policy Governance program in the Strategic Planning Division (STR) ensures a complete, updated, and centralized location of policies is available to guide district and division operations. Ownership of policy governance has been with three different programs since 2013. Benchmarking comparisons with three other state departments of transportation show policy run rates of approximately 100 enterprise policies compared to TxDOT's 13 over a similar timeframe. The first finding in the Policy Governance audit identified performance measures and expectations have not been defined for the program. The current strategy presents a suboptimal intake and completion process that does not fully consider prioritization of agency-wide operational policies. Without performance standards and consideration of key priorities across the agency, TxDOT has not established a sustainable method to identify and timely communicate enterprise policy for its employees. The second finding in the Policy Governance audit identified that standard operating procedures for the policy governance program have not been fully developed or documented. Without definition of program steps to outline its operational approach, program sustainability could be hindered. Commissioner Ryan asked about next steps and Section Manager Bibeau replied that the program leadership in STR has developed some management action plans. Related to the second audit finding, STR has already established timelines and processed for escalation. Commissioner Vaughn asked how long policy governance has been suboptimal. Section Manager Bibeau answered 10 years due to the policy governance responsibilities being overseen by three different programs during that timeframe. Commissioner Ryan expressed the need to provide appropriate

resources and establish accountability towards policy governance since it was highlighted in TxDOT's last Sunset Commission Report. Executive Director Williams explained progress is being made especially the identification and prioritization of performance across all agency programs. Often, programs are inundated with performance targets and goals from varying sources (i.e., federal, state, agency) which can cloud the prioritization of the most important objectives. Commissioner Ryan asked if appropriate resources were available to reach better performance towards policy governance. Darran Anderson, Director of Strategy and Innovation responded yes. Director Anderson confirmed that STR took an in extended amount of time in 2020 to develop the process of how enterprise policy would be identified, written, and approved, and there is a need to prioritize the identification of policies that exist across the department. Commissioner Vaughn asked about the approach to review and prioritize potentially hundreds of policies. Executive Director Williams expressed one benefit of this policy governance program is the increased awareness of the need for cross-functional coordination to develop enterprise policies effectively and determine that prioritization.

**c. Internal Audit Division Self-Assessment**

This item was presented by Craig Otto, Director of the Internal Audit Division. Director Otto began by presenting results of the FY22 Quality Assurance Improvement Program (QAIP) based on standards from: Institute of Internal Auditors Professional Practices Framework, U.S. Government Accountability Office Governmental Auditing Standards, and the Texas Internal Auditing Act. Two opportunities were identified for improvement related to the completion of an annual independence statement for the Chief Audit and Compliance Officer and documentation to support communication with annual report and interim changes to the audit plan with the Executive Director. The internal audit division scored 'Pass/Generally Conforms' which is the highest score and has an upcoming peer review tentatively scheduled for June 2023 to objectively assess the operations of the program. Director Otto highlighted the self-established internal metrics for the internal audit division performance focused on productivity and competency. The division did not meet internal expectations on issuing final audit reports by the end of the fiscal year, closing out the audit project within 25 business days of final audit report internal issuance, and the number of division employees with a professional certification. Attrition impacts the metrics for professional certification due to the time it takes entry level auditors to obtain the certification. Additional competency metrics were met that focused on the satisfaction of required continued education credits, completing annual ethics training, and the overall opinion of the QAIP peer review.

**Item 6. Executive Session**

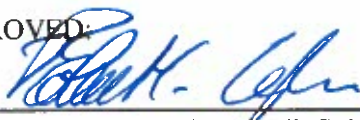
Pursuant to Government Code Section 551.071, 551.074, 551.076 discussions are limited to consultation and advice from legal counsel regarding any item on the agenda, pending or contemplated litigation, or other legal matters. Limitations also include deliberations concerning the evaluation, assignment, and duties of the Chief Audit and Compliance Officer and the annual department security audit.

**Item 7. Compensation Approval**

Minute Order 116405 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 116405 for the annual compensation of the Chief Audit and Compliance Officer by a vote of 2 – 0.

Chair Ryan adjourned the meeting of the January 25, 2023, Audit Subcommittee at 3:46 p.m.

APPROVED:



Robert Vaughn, Member, Audit Subcommittee