

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on September 27, 2023, at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 4:04 p.m. with the following members present:

Texas Transportation Commission Audit Subcommittee:

Robert Vaughn Commissioner, Audit Subcommittee Chair
Alex Meade 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
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 3:14 p.m. on September 19, 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 June 28, 2023, Audit Subcommittee meeting

This item was presented by Robert Vaughn, Audit Subcommittee Chair. Commissioner Alex Meade made a motion to approve, Chair Vaughn seconded the motion. The audit subcommittee approved the minutes of the June 28, 2023, Audit Subcommittee meeting by a vote of 2 – 0.

Item 3. Financial Management Division Update

a. Annual Update on the Spirit of Sarbanes-Oxley Act Compliance

This item was presented by Megan Lowary, Accounting Section Director of the Financial Management Division (FIN). Section Director Lowary began by highlighting since 2014, the Sarbanes-Oxley (SOX) testing has been conducted by TxDOT’s Compliance Division to provide better financial statement assurance at a reduced cost. The objectives of the SOX testing are to strengthen controls over financial reporting, improve reporting reliability, and to meet the Spirit of SOX requirements as directed by the Texas Transportation Commission. Eleven out of the twelve key controls tested for effectiveness were found to be appropriately designed and operating effectively. All financial controls passed, and one general information technology control did not pass but had no significant impact on TxDOT financial reporting. For fiscal year 2024 (FY24), FIN will perform a risk assessment to identify high risk processes that impact financial reporting and determine controls that should be tested during the next SOX testing beginning in 2024. FIN will continue to work with the Compliance Division during FY24 to identify opportunities to enhance key controls over financial reporting. The commissioners had no questions.

Item 4. Compliance Division Update

a.1. Summary of Investigations – Fiscal Year 2023, 4th Quarter

This item was presented by Parsons Townsend, Director of the Compliance Division. Director Townsend began by highlighting an increase in the number of opened investigations. Supervisors or lead workers were the subject of 43% of the investigations in the fourth quarter; one was substantiated. The current

substantiation rate (55%) of investigations is around the average (52% - 55%) each quarter. Significant investigations involved multiple roadside dumping incidents (i.e., tires, trash) in the San Antonio district. Findings were turned over to the Bexar County Sheriff's Office and Texas Commission on Environmental Quality. Another highlighted investigation involved multiple thefts by a former contracted security officer at the Houston district headquarters. The security contractor has terminated the employee and have offered to reimburse TxDOT. They have been referred to the sanctions committee.

a.2. Summary of Investigations – Fiscal Year 2023, Overall

This item was presented by Parsons Townsend, Director of the Compliance Division. Director Townsend began by highlighting the 31% increase in investigations initiated from the previous fiscal year with a 44% increase in supervisor related allegations. An average of 52% of allegations were substantiated in FY23 which was the same as the previous fiscal year. District identification of vehicle misuse and timesheet falsification increased. The Compliance Division meets with District Engineers regularly and is planning some educational campaigns for distribution soon. Third-party investigations remained consistent compared to last fiscal year but trended downward in the second quarter and remained consistent for the remainder of the fiscal year. Sanctions remained similar at 14 compared to the previous fiscal year. Districts continue to report any falsification of timesheet or vehicle misuse. Six districts had no allegations for the entire fiscal year. Chair Vaughn noted the positive trend from both the number of investigations and the percentage confirmed dropping. Director Townsend affirmed. Marc Williams, Executive Director of TxDOT confirmed that an education campaign with discussion forums and a video message was distributed last year to reiterate expectations on conduct, but more is needed as the trend continues. He stated that stronger enforcement is being considered for supervisors that violate harassment and other personnel policies. Director Townsend continued to highlight the allegation totals by category, showing an increase in the asset misappropriation and conflict of interest categories for FY23. The Compliance Division provides oversight of the Employee Conduct Section in the Human Resources Division that focuses on Equal Employment Opportunity (EEO) investigations. Overall, they had similar themes, with 92% of EEO allegations in FY23 being harassment, and supervisors accounting for 27% of the employee conduct investigations. The EEO investigations are also showing an average substantiation rate of 51%. The Compliance Division conducted various outreach activities during FY23, which include 61 separate 'Coffee with the Crew' meetings that reached over 1,200 district employees, seven supervisor meetings, and other internal outreach at conferences, engineering meetings, and inspector bootcamp training. External stakeholders were engaged through various conferences which include the 2022 Professional Engineering Procurement Services Conference, 2022 AASHTO Audit Conference, and 2023 Blue Cross Blue Shield Audit, Compliance, and Law Annual Conference.

b. External Audit Report: Houston-Galveston Area Council

This item was presented by Parsons Townsend, Director of the Compliance Division. Director Townsend introduced the audit of the Houston-Galveston Area Council (H-GAC). The audit is to determine whether the H-GAC has implemented necessary controls to ensure appropriate grant management and determining whether payments to H-GAC are supported by sufficient documentation and allowable per applicable agreements. The audit determined the H-GAC has implemented the controls to ensure grant funds are managed in accordance with applicable funding agreements. The external audit section provided eight recommendations to improve their operations and control environment. Additionally, the H-GAC has fully implemented four and partially implemented two of the six outstanding actions from their last audit. The commissioners had no questions.

c. Fiscal Year 2024 Compliance Work Plan

This item was presented by Parsons Townsend, Director of the Compliance Division. Director Townsend explained the annual risk assessment is based on guides and frameworks by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Association of Certified Fraud Examiners (ACFE) with a focus on fraud, compliance, and third-party risks. Another focus of the annual risk

assessment is on TxDOT's commitments within the Federal Highway Administration (FHWA) Stewardship Agreement and what controls are in place to ensure follow through with those commitments. Director Townsend explained that department third-party risk management and subrecipient grant management continue to be a large area of third-party risks. Conflicts of interest, collusion, and product substitution are top fraud related risks. The Infrastructure Investment and Jobs Act (IIJA) compliance was the top identified compliance risk. Director Townsend highlighted a few planned activities within the FY24 work plan. The Compliance Division will finish the two current reviews of port oversize/overweight permit audits in addition to the annually required BNSF railroad 2022 additive rates review. External audits are planned with two Metropolitan Planning Organizations. Additionally, compliance engagements are heavily focused on third-party risk management program maturity reviews; specifically, the due diligence of contractors in letting processes. Engagements of SB 312 Sunset reviews, approval of requests for proposals & addenda compliance, fleet operations replacement of assets, preventative maintenance & reactive repairs, detections activities (change orders, purchase cards, senior leader travel), legislature actions, and IIJA allowable payments are planned. The Compliance Division advisory engagements include SOX key control testing, South Padre Island indirect cost rate review, continued pre-award review of Traffic Safety grants, and grant management/subrecipient training for districts and divisions. Director Townsend concluded that investigations and outreach activities will continue to be a focus. 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 explaining the process for Management Action Plans (MAPs). The MAPs are the remediation plans for audit findings that contain both the action and date for the responsible business area to complete. The internal audit team re-tests the area of risk to ensure the actions are completed and addressing the risks. Director Otto reported all enterprise-level (priority 1) MAPs were closed, while twelve program-level (priority 2) MAPs remain past due. The internal audit team closely monitors MAPs nearing their completion dates and works with the business to ensure they continue to be a priority for completion. Testing has concluded on eleven of the twelve priority 2 past due MAPs, and the results are being reviewed for closure. The commissioners had no questions.

b. Internal Audit Report: Management and Oversight of Utility Accounts and Payments

This item was presented by Craig Otto, Director of the Internal Audit Division. Director Otto presented Management and Oversight of Utility Accounts and Payments audit rated at program-level priority 2. TxDOT utilizes a third-party vendor to help facilitate payments for TxDOT's statewide utility operations. Utility operations impact both facilities and roadways, consisting of 30,000 accounts in fiscal year 2022, with a total annual spend of approximately \$36M. The first finding in the audit identified the Support Services Division (SSD), in conjunction with the districts, have not established general oversight and invoice review protocols to prevent TxDOT from incurring unnecessary expenditures for utility accounts across the state. The second finding identified that SSD and the districts have not established procedures to monitor the third-party vendor to help ensure all reporting is provided as per the contract and billing or operation discrepancy reporting is accurate and complete. The contractor should have provided the agency with vital usage/cost reporting; SSD will be working with the vendor to ensure the reports are produced. Holistically, the portal and key reports will assist the districts in the early identification of any issues. Two additional findings were identified for improvement relating to payment terms and accounting classification. Chair Vaughn stated no matter how small each invoice is, it all adds up to the substantial amount we pay for these services. For example, even a \$50,000-\$100,000 allocation for monitoring would still be quite a return on investment. Chair Vaughn continued to stress that aggressive monitoring of this should be a priority to ensure we are paying for valid services.

c. Fiscal Year 2024 Audit Plan

This item was presented by Craig Otto, Director of the Internal Audit Division. Director Otto began the presentation explaining the Texas Internal Auditing Act, Government Code, Chapter 2102, requires the internal auditor to create an annual Internal Audit plan that is prepared using risk assessment techniques to determine the individual audits to be conducted during the year. The proposed FY24 Internal Audit Plan consists of 24 risk-based audit engagements aimed toward providing assurance and/or recommendations regarding the top 23% of risks identified in the completed annual risk assessment. The plan also includes nine carryover audits not completed in FY23. Benito Ybarra, Chief Audit and Compliance Officer, determined adequate resources exist to ensure that risks identified in the annual risk assessment are adequately addressed within a reasonable time frame. Director Otto stated attrition continues to challenge the Internal Audit Division as competition for talent has been high. Two positions were open as of August 31, 2023, which are currently posted to fill. Hiring challenges remain at senior staff positions either due to candidates not having the required professional certifications or having higher salary expectations. Strategies planned to address these challenges include spontaneous monetary reward or performance leave for work performance. Additionally, incorporating certification training from outside vendors and providing further study material assistance helps. Recently, the Texas Legislature approved increases to all salary groups by 5% with another 5% increase at the beginning of FY25 which substantially helped the internal audit personnel. Director Otto highlighted the slide showing the planned audit engagements in the proposed FY24 Internal Audit Plan based on the following risk themes: project delivery, financial management & asset recovery, program optimization, information technology & cyber security, and governance & third-party monitoring. Prioritized audits will be kicked off as soon as the plan is approved by the Texas Transportation Commission. The list of prioritized audits for quarter 1 and 2 of FY24 include: Material Maintenance Contracts – Item 10, Facilities Construction Project Management, Federal Grant Management – Notification and Tracking, TxDOT Hiring Process, Fleet Preventative Maintenance, Regional Distribution Center – Inventory Management, Data Management and Security Controls (Enterprise Data Platform), User Access – Non-Active Directory Access, Construction Project Management – Inspector Development, Construction Project Management – Pre-Qualification, Public Funds Investment Act, Toll-Facilities – Federal Reporting, and MAP Evaluation of Priority 1 and Priority 2 activities to determine risk mitigation. Director Otto explained the additional contingency audits listed in the plan were identified in advance to serve as backups in case of any delays or issues with the other audits. The commissioners had no questions.

Item 6. Executive Session

Pursuant to Government Code Section 551.071, consultation with and advice from legal counsel regarding any item on the agenda. Chair Vaughn noted there will be no Executive Session at this time.

Chair Vaughn adjourned the meeting of the September 27, 2023, Audit Subcommittee at 4:41 p.m.

APPROVED:



Robert Vaughn, Chair, Audit Subcommittee