

Division Directors or Region Directors (DE/DD/RD), however all performance evaluations are conducted by the Audit Director. An automated system has been put in place to allow Mr. Whitworth to review and approve the DDOR audit products. Mr. Whitworth feels the structure will provide the independence desired by the subcommittee. Regional auditors, assisted by the district auditors, will visit DE/DD/RD's out of their region to review compliance issues.

The next restructuring tasks include developing a plan to transfer the DDOR administrative functions to AUD, and revising the Audit Manual to encompass the restructuring activities as well as the expanded role of OGC in the audit process.

Commissioner Underwood inquired about the sufficiency of support available to the DDOR auditors. Mr. Whitworth stated that he usually answers questions from the auditors directly; if he is out of the office one of the AUD senior auditors is available.

Current auditor job vacancies exist in the South and East Regions, and the Bryan District; with two upcoming vacancies in the Childress and Fort Worth Districts due to retirements.

Item 4. Peer Review Update

The Peer Review Report has not been received, but is expected to be received by the next scheduled subcommittee meeting, (November 17, 2010). Results will be communicated to the subcommittee as soon as received. This Peer Review was conducted using a remote process, which had its own set of hurdles. There is a work group through AASHTO looking at developing a set of tools, guidelines for conducting remote peer reviews. Donna Roberts, Senior Auditor in AUD, and Johnny Alexander, the team lead on the TxDOT peer review, are both on the AASHTO work group. Mr. Whitworth commented that the AASHTO peer review process, via reciprocity agreement, is still the best process for TxDOT peer review.

Item 5. Internal Audits Completed during the Quarter

There have been five audit reports issued this quarter. Each Auditor-in-Charge (AIC) presented information from their respective audits(s).

Donna Roberts, AIC, reported on two audits completed this quarter.

Appropriation Bill Reporting Follow-up. The objective of the follow-up was to determine if appropriate action had been taken on the original audit findings. The results show that the Government and Public Affairs (GPA) division has initiated corrective action on all findings. The Commissioners requested AUD provide a monthly progress report.

Transportation Development Credits (TDC) Audit was requested by James Bass, TxDOT Chief Financial Officer. The purpose was to review the method for calculating the transportation development credits earned and used. There was a minor data-entry error, which the Finance Division corrected; the TDC balance was verified and accurate.

Mr. Steve Simmons commented that the audit found Harris County Toll Road Authority (HCTRA) had not regularly reported credits earned to the department. Commissioner Underwood requested AUD follow-up with Finance Division and provide a progress update.

Raymond Martinez, AIC, reported on the following three audits:

Traffic Data Collections Audit. The objective of this audit was to determine if the department's data collection function is in compliance. TxDOT collects, reports and analyzes highway data for planning, construction, operations and maintenance of roadways, and this information also impacts the state of Texas for the federal apportionment. The AIC stated that

the traffic data collection function is effectively being managed and is performing in compliance with requirements. There were no findings or recommendations.

Purchasing and Contracting Audit. This audit was added to 2010 Audit Plan by the request of the Audit Subcommittee Chair. The audit's objective was to determine if services and contracts with Durable Specialties, Paradigm Traffic Systems and related companies were procured in compliance and applicable requirements, and that additional changes and costs were reasonable. Mr. Martinez stated that nothing in the records appeared out of the ordinary; procurements, changes and additional costs were in compliance with requirements. There were no findings or recommendations.

Debt Management Function Audit. The audit objective was to determine if the debt management function is being performed in compliance with applicable requirements and if there are any opportunities for improvements. The audit focused on the following bond programs: Texas Mobility Fund bonds, State Highway Fund bonds, Central Texas Turnpike System (CTTS) bonds, and other debt programs; commercial paper notes and Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for CTTS. The audit found that the debt management function is being performed in compliance with the applicable requirements and the department is doing a good job managing its bond programs and other debt programs. The audit identified five items for improvement: 1) develop written investment procedures, 2) update the signature authority for commercial paper, 3) share the plan for using state highway fund bond proceeds, 4) review the accounting transactions for obligation amounts and, 5) update the records retention schedule. Most of the recommendations have already been addressed; developing a written investment procedure is still being worked on and is to be completed by November, 2010.

The audit identified a best practice. The Debt Management Section analyzes the bond market and reviews post-evaluations of bond transactions and was able to achieve a large cost savings for the department by issuing some non-callable bonds instead of callable bonds.

The audit also found that the current staffing level of six full time equivalent employees for the Debt Management Section is adequate to perform the necessary functions associated with the programs that were reviewed.

Mr. Whitworth, Audit Director, stated that the person who ran the bond program left the department recently and the position needs to be filled.

In conclusion, the Commissioner Underwood requested a follow up in November on the completion of the development of written investment procedures.

Item 6. Internal Compliance Program Update

Mr. Steve Simmons, Deputy Executive Director and Interim Internal Compliance Program (ICP) Director of the Texas Department of Transportation, stated that the Commissioners receive a report from ICP twice a year; however, he felt the Audit Subcommittee should be updated more frequently.

TxDOT Watch Hotline. From June 1 to August 15, 2010, the hotline has received thirty-six reports. Seventeen have been investigated and closed out. Others are under investigation and those that were not related to TxDOT were moved over to the responsible department (i.e. Department of Motor Vehicles or the Department of Public Safety). Allegations of note that include the contractor community include a contractor using materials without authority, another

contractor violated the Buy American Program contract clause by purchasing foreign materials, and another contractor involved in a revolving door issue.

Mr. Simmons noted the TxDOT Watch program is being used appropriately in identifying areas where problems might not otherwise be discovered.

Some of the Minute Orders that will be before the Commission in the August 26, 2010, meeting were discussed. These include the need to bring contractors, consultants and other providers inline with ethics training and possible sanctions if they do not comply; also require them to provide training in-house or reduce their capacity, assuring compliance with conflict of interest and other ethics issues as the TxDOT employees are required to do.

In January 2010, rules passed for Transportation Corporations and Toll Facilities organizations providing them with ethics requirements and in March 2010, passed rules regarding ethics requirements for entities receiving transit funds.

The online Increasing Departmental Ethical Awareness (IDEA 102) refresher course is in its 2nd year. This class is mandatory for all employees and includes a test. 6,701 employees have completed the course as of August 15, 2010.

Additional discussion:

Commissioner Underwood inquired on the district contract change order process. Mr. Simmons commented that all change orders are tracked and are factored in the total cost for a project. Managing change orders is now a performance measure for the district engineers.

The certification process of the Disadvantaged Business Enterprise (DBE) was questioned. The process is being addressed but not complete. Mr. Simmons stated that meetings were held with DBE partners and the Federal Highway Administration (FHWA) on ways to improve. Some restructuring may take place. Recent training conducted for internal employees as well as the DBE community. Commissioner Underwood requested a monthly progress update.

Closing Comments:

Commissioner Underwood stated that the next Audit Subcommittee meeting will be held November 17, 2010. The members thanked all for attending the meeting.

The meeting adjourned at 10:56 a.m.

APPROVED:

Commissioner Fred Underwood, Chair
Texas Transportation Audit Subcommittee