

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on March 26, 2025, at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 2:00 p.m. with the following members present:

Texas Transportation Commission Audit Subcommittee:

Robert C. Vaughn	Commissioner, Audit Subcommittee Chair
Alex Meade	Commissioner, Audit Subcommittee Member

Administration Staff:

Marc Williams, P.E.	Executive Director
Parsons Townsend	Chief Audit and Compliance Officer
Jeff Graham	General Counsel
Mary Anne Griss	Chief of Staff
Stephen Stewart	Chief Financial Officer
Anh Selissen	Chief Information Officer
Rich McMonagle	Chief Administration Officer
Jessica Butler, 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 12:43 p.m. on March 18, 2025, 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 Parsons Townsend providing instruction and guidance on procedures for the meeting.

Item 2. Consider approval of the Minutes of the December 16, 2024, Audit Subcommittee meeting

This item was presented by Robert C. Vaughn, Audit Subcommittee Chair. Commissioner Alex Meade made a motion to approve, and Chair Vaughn seconded the motion. The Audit Subcommittee approved the minutes of the December 16, 2024, Audit Subcommittee meeting by a vote of 2 – 0.

Item 3. New Global Internal Audit Standards

This item was presented by Parsons Townsend, Chief Audit and Compliance Officer. Mr. Townsend reviewed the updated Global Internal Audit Standards (GIAS). The Institute of Internal Auditors (IIA), an international professional association, has recently updated their professional standards for internal audit practices. State agency internal audit functions are required by Texas Government Code 2102, The Texas Internal Auditing Act, to follow these professional standards. Currently the internal audit and compliance advisory services teams follow these standards. These standards help auditors to achieve the principles and fulfill the purpose of Internal Audit to strengthen the Texas Department of Transportation's (TxDOT) ability to create, protect, and sustain value by providing the Texas Transportation Commission and TxDOT's Executive Director with independent, risk-based, and objective assurance,

advice, insight and foresight. The new standards are organized into five domains, with 15 principles, 52 standards, and with newly established essential conditions, and topical requirements. The 15 principles are broad descriptions of a related group of requirements within each domain while the 52 standards include mandatory practices for internal auditing, considerations for implementation and example of conformance. Topical requirements are mandatory requirements to be followed for when the subject of that topical requirement is the focus of an internal audit engagement. For example, if the internal audit team were to complete an engagement related to a topical requirement, like cybersecurity, the team would have to follow the specific activities required. We plan to apply it to the entire audit plan to show conformance with the standards and the essential conditions dictate how we will operate. 44 actions were identified, covering 25 of the 52 standards that needed to be taken to ensure conformance with the new standards. Actions include changes to the Audit and Compliance Charter, changes to the Texas Transportation Commission Audit Subcommittee Charter. Examples of some actions we have taken with our Standard Operating Procedures include requirements to report any such violations of legal or regulatory issues, declaring impairments to independence to all appropriate parties, updating job descriptions for auditors, exercise of due professional care, confirming to the Executive Director and to the Commission our organizational independence, and updating quarterly reports. The essential conditions cover key areas – are we authorized by the Commission, are we positioned independently, and are we overseen by the Commission? TxDOT has been carrying out these essential conditions for many years. TxDOT's Internal Audit program is one of the more mature in the state. The additions to the essential conditions focus on the performance of the audit function itself. TxDOT will have performance measures approved by the Audit Subcommittee – input from the Executive Director – will be updated annually to ensure we meet that purpose and mandate for the Internal Audit function. Also, formal approval of the Audit and Compliance strategy, and how we continue to grow with continuous improvement. With the changes in the standards and possibly with a change to the Texas Internal Auditing Act, we could switch our external peer review from three years to five years for the Internal Audit division and advisory services in the Compliance division. Compliance division's external audit team will still require a three-year peer review rotation. The commissioners had no questions.

Item 4. Compliance Division Update

a. Summary of Investigations – Fiscal Year 2025, 2nd Quarter

This item was presented by Cheryl Durkop, Director of the Compliance Division. Director Durkop began by explaining that quarter 2 (Q2) includes both compliance and EEO investigations. For the second quarter, 194 allegations were received, 41 investigations were initiated, 36 investigations were closed, and 29 investigations were substantiated (substantiation rate of 81%). An investigation of significance involved multiple investigations for misuse of TxDOT vehicles. Also, this quarter we had multiple investigations relating to falsification of medical information as it related to medical notes or FMLA documentation. An additional investigation of significance involved illegal dumping in the Fort Worth District by members of the public and a third party. The TxDOT investigations section setup cameras in the TxDOT material staging areas and monitored the individuals responsible over several weeks; successfully monitoring license plates, material information, and identities. The individuals were turned over to Texas Commission on Environmental Quality (TCEQ) and the

sheriff's office for further enforcement. Chair Vaughn asked if TxDOT followed up on these cases, to which Director Durkop responded that TxDOT is a member of the South-Central Texas Regional Environmental Task Force along with TCEQ and other law enforcement bodies.

Director Durkop then presented a graph of the first quarter summary of investigations, showing workplace harassment and vehicle misuse as the highest allegation category, and stated that it is on par with the trends on a national level for organizations similar in size to TxDOT. The goal is to have zero investigations, but with TxDOT's 12,000+ employees, benchmarking our trends against those of other institutions on a national or global level will help put things into perspective. Chair Vaughn stated that he knows the agency is working hard to address these trends. Executive Director Marc Williams stated that the agency does not want to become complacent about these trends but there is good perspective in benchmarking ourselves against others similar in size. He added that the agency is reflecting better trends than the national average (~1 per 100 employees) and highlighted that the expectation is to set a high standard, to which Director Durkop responded that TxDOT's average is ~0.05 per 100 employees.

b. Advisory Services Report – Right of Way Utilities Audit Process Review

This item was presented by Cheryl Durkop, Director of the Compliance Division. Director Durkop began by summarizing the Advisory Service review of the Right of Way division's Utilities Audit Process. Several opportunities were identified to improve efficiencies and to reduce the audit backlog in the utility audit process. The opportunities identified have helped reduce duplicative efforts in the audit process. As of September 2024, the backlog contained \$25.6 million in unpaid retainage. The Right of Way division is considering a reduction in the threshold requiring and audit to reduce the backlog. The external audit team in compliance will be following up with them to see and assess the progress they have made in increasing efficiencies in their process. 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). MAPs are the remediation plans for audit findings that contain both the action and date for the responsible business area to complete. There was one past due Priority 1 MAP since the last meeting relating to the identification/location of all TxDOT meters using global positioning from the Management and Oversight of Utility Accounts and Payments audit. The Internal Audit division tested three pilot districts in FY25 Q1, and some of the meters had not been logged yet in addition to the remaining 22 districts still working to identify and locate all TxDOT meters. The Director of District Operations, Carl Johnson, is involved to continue driving this MAP to completion. Three Priority 2 MAPs were closed. The commissioners had no questions.

b. Internal Audit Report: District Local Letting

This item was presented by Craig Otto, Director of the Internal Audit Division. Director Otto presented the District Local Letting audit rated at a program-level Priority 2. The scope of the audit was to evaluate the effectiveness of the district's local letting process. Letting is the official receipt and opening of bids on a specified date/time and determination of the apparent

low bidder. In fiscal years 2023 and 2024, a total of 971 and 973 projects, respectively, were locally let across TxDOT's 25 districts. With the implementation of the new \$1M threshold in August 2024, an additional 169 projects were locally let through November 2024. The only finding in the audit identified that district personnel did not always perform all letting procedures required to ensure a uniform and consistent statewide letting process. To highlight a few examples: 14 out of 17 (82%) districts did not have a secure drop box for contractors to submit paper bid proposals when an electronic bid was not submitted. 11 out of 17 (65%) districts did not check all designated drop-off locations for paper bid proposals. 13 out of 17 (76%) districts did not have at least two personnel conducting the letting. These letting procedures are key to ensure the integrity of the bid letting process. Director Otto explained the Maintenance division responded to these results quickly to address corrective actions. Chair Vaughn asked when to expect an update on this because it sounds concerning, to which Director Otto responded the internal audit team will be back in the field to observe towards the end of the fiscal year. Executive Director Williams stated that he had made it clear to the districts that these results are not acceptable and if districts are not able to maintain the appropriate processes, then their lettings will be handled in Austin at the state lettings and that has been communicated to the Chief Engineer, Lance Simmons and the Director of Engineering and Safety Operations, Jessica Butler. Director Otto stated that his team will help support Administration on this effort.

Item 6. Executive Session

Pursuant to Government Code Section 551.071 and 551.074 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 and duties of the Chief Audit and Compliance Officer.

Item 7. Compensation Approval

Minute Order 116907 was presented by Robert C. Vaughn, Audit Subcommittee Chair. Commissioner Meade made a motion to approve, Chair Vaughn seconded the motion. The audit subcommittee approved Minute Order 116907 for the annual compensation of the Chief Audit and Compliance Officer by a vote of 2 – 0.

Commissioner Meade made a motion to adjourn, and Chair Vaughn seconded the motion. Chair Vaughn adjourned the meeting by a vote of 2 – 0 of the March 26, 2025, Audit Subcommittee at 2:45 p.m.

APPROVED:



Robert C. Vaughn, Chair, Audit Subcommittee