

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on September 25, 2024, 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
Rich McMonagle Chief Administrative Officer
Stephen Stewart Chief Financial Officer
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 3:19 p.m. on September 17, 2024, 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 July 29, 2024, Audit Subcommittee meetings

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 July 29, 2024, Audit Subcommittee meetings 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 that 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 meet the Spirit of SOX requirements as directed by the Texas Transportation Commission. 16 of the 17 key controls tested for effectiveness were found to be appropriately designed and operating effectively. The one failed control was related to an overstated contractor bid capacity and had no significant impact on TxDOT financial reporting. Follow up testing of the one failed control resulted in 100% accuracy. All general information technology (I.T.) controls passed. For fiscal year 2025 (FY25), 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 2025. FIN will continue to work with the Compliance Division during FY25 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 2024, 4th Quarter

This item was presented by Cheryl Durkop, Director of the Compliance Division. Director Durkop began by highlighting a decrease in the number of opened investigations. Additionally, there was an increase in both allegations and substantiated investigations related to employee misconduct, with a significant decrease in third party investigations. Significant investigations include a maintenance supervisor who sold heavy-equipment maintainer tires, allowed a private citizen to haul away a 10-yard dump truck full of Reclaimed Asphalt Pavement (RAP), used racial slurs toward employees, and used a TxDOT vehicle for personal use. The employee has been terminated from the agency. The second investigation of significance include a transportation engineer who failed to disclose outside employment which created the appearance of a conflict of interest and conducted private business on state time. The employee has been terminated from the agency. Chair Vaughn asked for an explanation on how there is both an increase in allegations and a decrease in investigations. Director Durkop stated that employee misconduct went up while another type of allegation went down.

a.2. Summary of Investigations – Fiscal Year 2024, Overall

This item was presented by Cheryl Durkop, Director of the Compliance Division. Director Durkop continued to highlight the allegation totals by category, showing a total substantiation rate of 71% for the fiscal year, which is higher than previous years. This increase is likely attributed to the triage work the compliance group completes prior to investigations. 13 entities were recommended to sanctions which resulted in four written reprimands and six debarments. Overall, there was a significant decrease in third party investigations. Fewer supervisors and lead workers were involved in investigations in FY24. Executive Director Marc Williams stated that the decrease in supervisor and lead worker investigations is a good sign of the work being done to hold these positions accountable to a higher standard.

Director Durkop presented the totals for investigation outcomes by category and highlighted that workplace harassment, third party, and employee misconduct investigations were the top three in FY24. The commissioners had no questions.

b. Action Plan Follow-Up

This item was presented by Cheryl Durkop, Director of the Compliance Division. Director Durkop began by highlighting the 44 outstanding action items (out of a total of 85) issued by the external audit section within the Compliance Division. The Permian Basin, Lubbock, Killeen-Temple Metropolitan Planning Organizations (MPOs) account for the majority of the open recommendations and are still within their corrective action plan period. The Port Authority Oversize and Overweight Operations (both HCRMA and Harlingen) and NTT Data have fully implemented all actions. A recurring theme with MPO audits is poor communication between the fiscal agent and the recipient. Additionally, the cities are not completing the appropriate audits or reconciliations as fiscal agents should. Commissioner Meade asked if

fiscal agents are typically Council of Governments to which Director Durkop answered yes or sometimes the Council of Governments is a city, like in the case of Odessa. Executive Director Williams stated that this gives the Transportation Planning and Programming Division (TPP) an opportunity to educate all 24 MPOs. Chairman Vaughn expressed concerns about the action items issued one to three years ago, and how they need to be elevated for completion. Executive Director Williams agreed and mentioned these could impact a MPO's ability to operate independently in the future.

c. Fiscal Year 2025 Compliance Work Plan

This item was presented by Cheryl Durkop, Director of the Compliance Division. Director Durkop 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 Durkop explained that department third-party risk management and subrecipient grant management continue to be a large area of third-party risks. Subrecipient grant management, conflicts of interest, collusion, and product substitution are top fraud related risks. Director Durkop highlighted a few planned activities within the FY25 work plan. External audits are planned with two Regional Mobility Authorities: Hidalgo County and Cameron County. Additionally, compliance engagements are heavily focused on third-party risk management program maturity reviews and FHWA Stewardship Agreement monitoring. Engagements of SB 312 Sunset reviews, allowable payment review (consultant supplemental agreements and IJJA), Fleet Operations Division employee engagement, Hurricane Beryl after action review, material and testing lab safety review, and detections activities (change orders, purchase cards, senior leader travel) 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, right of way utilities, and a review of TxDOT conference management. Director Durkop concluded that investigations and outreach activities will continue to be a focus. The commissioners had no questions.

Item 5. Internal Audit Division Update

a. Internal Audit Report: Fleet Preventative Maintenance

This item was presented by Craig Otto, Division Director in the Internal Audit Division. Director Otto presented the Fleet Preventative Maintenance audit, rated at program-level Priority 2. The scope of this audit was to evaluate the effectiveness and efficiency of fleet vehicle preventative maintenance (PM) practices. TxDOT's equipment and vehicle PM program is managed by the Fleet Operations Division (FOD) for approximately 13,822 assets across the state. During FY20 - FY23, TxDOT spent \$38.7M for preventative maintenance inspections and repairs. The first finding in the audit identified that pre-trip inspection supervisory reviews and pre-trip inspection forms were not always performed or retained. The second finding in the audit identified FOD did not have a framework to utilize and track vehicle and part warranties. The third finding in the audit identified that FOD did not have a process to assess PM job completion timeliness and costs that drive PM efficiencies. The Internal Audit Division

is working with FOD to look for opportunities to drive down cost and time associated with these repairs. Chairman Vaughn asked if there was continuous education in the districts since it is reactive to address these concerns through an audit to which Director Otto answered he was not aware of anything. Chairman Vaughn stated that if it's not a training issue, it may be a cultural thing. Executive Director Williams stated the agency has an opportunity to build a warranty framework to both understand what is under warranty or whether to use it versus another approach if time or other reason is justifiable. Executive Director expressed the value of the internal audit team and how they are there to provide assurance and help the department. Commissioner Meade asked if there are times where utilization of the warranty is not justified due to time constraints to which Director Otto shared the need to work with our vendors to understand time and other details that help make that decision, because it is challenging to take a vehicle out of commission.

b. Highlights – 2024 AASHTO Internal & External Audit Meeting

This item was presented by Craig Otto, Director of the Internal Audit Division. Director Otto began the presentation by highlighting that TxDOT hosted the annual AASHTO Internal and External Audit Meeting in Fort Worth, TX in August. Over 300 attendees representing 42 states attended sessions and round table discussions relating to ethics, critical thinking, I.T. auditing, fraud risk and investigations, and federal grant programs. Key federal partners in attendance included: U.S. DOT Office of Inspector General and Office of the Secretary and Federal Highway Administration Railroad, Transit, Highway Traffic Safety, Motor Carrier Safety, Highway, and Aviation Divisions. TxDOT's Commissioner Meade was a speaker among other leaders from Utah DOT, FHWA, and AASHTO. The commissioners had no questions.

c. Fiscal Year 2025 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 FY25 Internal Audit Plan consists of 23 risk-based audit engagements aimed toward providing assurance and/or recommendations regarding the top 20% of risks identified in the completed annual risk assessment. The plan also includes seven carryover audits not completed in FY24. Parsons Townsend, 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. Chief Townsend also confirmed organizational independence of the internal audit activity. Director Otto highlighted the slide showing the planned audit engagements in the proposed FY25 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. New this year, three and four districts will be on a rotating audit schedule to focus on physical security, bandwidth, I.T. security, privacy, and other key areas. The objective is to provide the District Engineer with a list of priority areas for them to focus on. Prioritized audits will be kicked off as soon as the plan is approved by the Texas Transportation Commission. 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. Executive

September 25, 2024

Director Williams said the goal is to be proactive instead of waiting for problems to arise. 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, pending or contemplated litigation, or other legal matters. Chair Vaughn noted there will be no Executive Session at this time.

Alex Meade made a motion to adjourn, Chair Vaughn seconded the motion. Chair Vaughn adjourned the meeting by a vote of 2 – 0 of the September 25, 2024, Audit Subcommittee at 2:44 p.m.

APPROVED



Robert C. Vaughn, Chair, Audit Subcommittee

