

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on September 24, 2025, 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:**

Robert C. Vaughn	Commissioner, Audit Subcommittee Chair
Steven Alvis	Commissioner, Audit Subcommittee Member

**Administration Staff:**

Brandye Hendrickson	Deputy Executive Director for Planning and Administration
Parsons Townsend	Chief Audit and Compliance Officer
Jeff Graham	General Counsel
Mary Anne Griss	Chief of Staff
Stephen Stewart	Chief Financial Officer
Jeffrey Davis	Chief Administration 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 12:12 p.m. on September 16, 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 May 20, 2025, Audit Subcommittee meeting**

This item was presented by Robert C. Vaughn, Audit Subcommittee Chair. Commissioner Steven Alvis made a motion to approve, and Chair Vaughn seconded the motion. The Audit Subcommittee approved the minutes of the May 20, 2025, Audit Subcommittee meeting by a vote of 2 – 0.

**Item 3. Financial Management Division Update**

**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. 10 of the 11 key controls tested for effectiveness were found to be appropriately designed and operating effectively. A small portion of one financial control (submodule reconciliations to the general ledger) was determined to have an ineffective design, and a project is underway to enhance the control during fiscal year 2026 (FY26) and will be tested next year to confirm it has improved. This control does not affect the accuracy or reliability of TxDOT's financial statements. All general information technology (I.T.) controls passed. For FY26, 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 2026. FIN will continue to work with the Compliance Division during FY26 to identify opportunities to enhance key controls over financial reporting. The commissioners had no questions.

**Item 4. Audit and Compliance Charter Approval**

This item was presented by Parsons Townsend, Chief Audit and Compliance Officer. Chief Townsend began by stating as outlined in the Audit Subcommittee Charter, the chief audit and compliance officer is required to periodically review and assess the adequacy of the Audit and Compliance Charter and request approval for proposed changes to ensure the purpose, authority, and responsibility continue to be adequate to enable the internal audit and compliance divisions to accomplish their objectives. This minute order seeks approval for revisions to the Audit and Compliance Charter due to recent updates to the Global Internal Auditing Standards issued by the Institute of Internal Auditors (IIA). The Texas Internal Auditing Act mandates that TxDOT's audit and compliance functions adhere to these standards, which are covered within the Audit and Compliance Charter. Some revisions presented for approval include an updated purpose statement for the internal audit function, emphasizing its role in providing the commission and the department with independent risk-based and objective assurance, advice, insight, and foresight. Additionally, a new section on our commitment to adhering to professional standards and ethics, for both the internal audit and compliance functions and an annual confirmation to the commission that the internal audit function remains organizationally independent. The commissioners had no questions. Chief Townsend submitted the Audit and Compliance Charter for approval by the Audit Subcommittee. Commissioner Alvis made a motion to approve, and Chair Vaughn seconded the motion. The Audit Subcommittee approved the Audit and Compliance Charter minute order by a vote of 2 – 0.

**Item 5. Audit and Compliance Strategy**

**a. Discuss Audit and Compliance Strategic Plan**

This item was presented by Parsons Townsend, Chief Audit and Compliance Officer. Chief Townsend began by stating that global internal audit standards and the Audit Subcommittee Charter require the chief audit and compliance officer to review with the Audit Subcommittee the Audit and Compliance Strategy. The Audit and Compliance Strategic Plan for fiscal years 2026 through 2028 outlines a comprehensive approach to meeting our mission of being a trusted partner delivering impactful risk-focused assurance that strengthens trust and supports the department's achievement of goals. The plan outlines the internal audit and compliance mission statements which emphasize providing independent risk-based and objective assurance, advice, insight, and foresight while fostering a culture of ethical conduct, accountability, and organizational integrity to prevent, detect, and respond to serious breaches of fraud, waste, and abuse. Additionally, the strategic plan outlines the core values that will be followed by both divisions which include credibility, objectivity and independence, integrity, transparency, accountability, and continuous improvement. The prior strategic plan (2020) outlined four strategic goals. Internal audit has since established a dedicated data analytic team that has greatly enhanced the ability to complete the projects assigned to us by the commission and also increases the ability for a more effective and efficient risk assessment to

identify areas of the operations to focus our resources. Compliance has created dedicated fraud detection scripts for data analyst purposes to help mitigate and detect fraud, waste, and abuse. Additionally, internal audit has an established and dedicated I.T. authority with the skills and experience to assess the department's I.T. operations. Compliance has implemented its targeted outreach program, performing 70 to 100 outreach efforts with one of its popular programs known as *Coffee With the Crew* with district staff, plus dedicated training sessions with district engineers and their direct reports at both TxDOT and industry conference presentations. These activities will be continued by both internal audit and compliance divisions. Chief Townsend stated it's time to shift focus to the three new strategic goals. The first strategic goal is to advance professional competence and capabilities through certifications and reward systems by focusing on increasing the number of certified internal auditors within the department due to our ever-changing environment of operations, regulations, and security. The second strategic goal is to advance our data analytic programs within both the internal audit and compliance divisions to more sophisticated tools and methods of analysis. It aims to enhance foresight on risk by establishing key risk indicators and risk assessments to support the audit plan and ensure appropriate use of state resources through our fraud detection efforts. Lastly, the third strategic goal is to improve stakeholder communication and storytelling to build trust and visibility with the Texas Transportation Commission and support the executive director. There are performance metrics established to monitor progress towards these goals over the next three years, which include frequency of checkpoints and compliance checkpoints with the business, turnover of key positions, participation in our certification development program, completion of audits, percentage of audits establishing key indicators, how many audits or projects were generated off those key risk indicators and frequency of high exposure risks identified on engagements. This agenda item doesn't require a vote. Chair Vaughn asked if the previous strategic goals are staying in place and will continue to be monitored to which Chief Townsend said yes. Chief Townsend provided an example: the data analytics program was established in 2020 but used more manual processes and the focus was more on training and capabilities back then, and now with the current strategic goals, it is maturing towards more utilization of artificial intelligence and other tools to enhance efficiency. A pilot program on fuel card analysis that formerly was a six-week long process is now generating results in less than an hour. Chair Vaughn acknowledged.

b. Consider approval of Internal Audit and Compliance Performance Measures and External Quality Assessment Plan Minute Order

This item was presented by Parsons Townsend, Chief Audit and Compliance Officer. Chief Townsend began by stating this minute order seeks approval of the Internal Audit and Compliance Performance Measures and External Quality Assessment (EQA) Plan, as required by Global Internal Auditing Standards and the Audit Subcommittee Charter. The purpose of the performance measures are to monitor the internal audit and compliance functions operations effectively and define key performance objectives. Key outcomes from these measurements include sustained excellence and professional competency through continuing education requirements and certification targets, high operational efficiency with audit plans and investigations completed within established timelines and quality benchmarks, dedicated stakeholder engagement including consistent client feedback collection and interagency collaboration, adherence to safety protocols and internal quality assessments reinforcing a

culture of accountability and continuous improvement. If these measures are approved, they will be reported on an annual basis to the Audit Subcommittee and to the executive director. Chair Vaughn asked what percentage of time staff work on continuing education and skills development to which Chief Townsend responded less than ten percent.

Chief Townsend continued to explain that the purpose of the External Quality Assessment (EQA) Plan is to fulfill the requirement for an independent system review of internal and external audit functions and conformance with Global Internal Auditing Standards and Government Auditing Standards. The frequency will be approximately every three years and it will include a review of the adequacy of the internal and external audit functions performed by an independent assessor. The EQA plan outlines the requirements for an independent assessor and the qualifications of that assessor. The results of the EQA will be provided from the independent assessor to the executive director and to the Audit Subcommittee. If there are any deficiencies or opportunities for improvement identified, the chief audit and compliance officer will draft an action plan and request approval. The commissioners had no questions. Chief Townsend submitted the Internal Audit and Compliance Performance Measures and External Quality Assessment Plan minute order for approval by the Audit Subcommittee. Commissioner Alvis made a motion to approve, and Chair Vaughn seconded the motion. The Audit Subcommittee approved the Internal Audit and Compliance Performance Measure and External Quality Assessment Plan minute order by a vote of 2 – 0.

#### **Item 6. Compliance Division Update**

##### **a. Summary of Investigations – Fiscal Year 2025, 4<sup>th</sup> Quarter**

This item was presented by Cheryl Durkop, Director of the Compliance Division. Director Durkop began by highlighting an increase in the number of open investigations. The substantiated investigation rate was 52% for the quarter, which was lower than previous quarters. Significant investigations included a material/process inspector who submitted falsified laboratory equipment calibration results. The employee resigned in lieu of termination. The second investigation of significance involved an equipment operator who was operating a private business building and maintaining gravel driveways and parking lots in TxDOT's Right of Way and with entities who do business with TxDOT. Director Durkop presented the totals for investigation outcomes by category and highlighted that workplace harassment and workplace violence are the most common allegations received during the quarter but a majority of the cases were unsubstantiated. There was an increase in the number of allegations concerning the misuse of state resources; with five cases of vehicle misuse and misuse of portable message signs.

Over the past 18 months, while workplace harassment is still the top reported allegation category, we have seen a substantial decrease over the past six months. Additionally, a decrease in substantiated investigations associated with third parties has also decreased. The number of entities taken to the sanction committee decreased from fifteen in FY24 to eight in FY25. Overall, there are no concerning trends, and the numbers are within the expected figures. Chair Vaughn mentioned to Commissioner Alvis that he is reassured about the trends in comparison to the size of the organization and how the continued focus at the district-level has turned the trend in a positive direction. Commissioner Alvis asked if the agency was able to

publish the consequences so the employees had visibility of them, to which Director Durkop stated yes and that they focus on the consequences at the district *Coffee With the Crew* meetings.

**b. Fiscal Year 2026 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. Additionally, subrecipient grant management, conflicts of interest, and falsification of documentation. Director Durkop highlighted a few planned activities within the FY26 work plan. External audits are planned with the Cameron County Regional Mobility Authority, Public Transportation subrecipients, Union Pacific/Benesch, and an Airport Improvement Program subrecipient. The grant compliance group within external audit will be focused on outreach efforts and the compliance section engagements will focus on legislative reviews, lab equipment reviews, and inspector certification tracking with the focus on the continued development of our continuous detection data analytics. Some focus areas of the data analytics team will be on fuel card activities, project inspections, material duplicated testing, and purchase card transactions. The investigative team will focus on educational campaigns, third party outreach, and investigations. The commissioners had no questions.

**Item 7. Internal Audit Division Update**

**a. Internal Audit Report: District Audits**

This item was presented by Lindsay Bibeau, Division Section Director in the Internal Audit Division. Section Director Bibeau presented a summary of the District Audits, rated at program-level. The scope of this audit was to evaluate common district operations that are performed or have impacts on many locations across each district which include: Organizational Tone, Tagged Asset Inventory, Cycle Counts, Damage Claim Processing, Safety Procedures, IT Bandwidth, Physical Security Walkthroughs, and Privacy Walkthroughs. TxDOT has 108 facilities and ~2K employees across the Amarillo, Atlanta, Brownwood, Childress, Laredo, Lubbock, Pharr, and Wichita Falls districts. All facilities were evaluated to assess if areas for improvement are needed and to convey to the district engineer (DE) the status of these common daily district operations. The internal audit division plans to audit an additional twelve districts in FY26 with the final five in FY27. These audits allow the audit team to work directly with the DE of each district to address any actions needed to improve processes and communicate information directly from the field. The commissioners had no questions.

**b. Fiscal Year 2026 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 FY26 Internal Audit Plan consists of 24 risk-based audit engagements aimed toward providing assurance and/or recommendations regarding the top 37% of risks identified in the completed annual risk assessment. The plan also includes four carryover audits not completed in FY25. One of these audits has recently been issued and the other three should be issued within the first quarter. The 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, and confirms the organizational independence of the internal audit activity. Director Otto highlighted the slide showing the planned audit engagements in the proposed FY26 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. 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 5. 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.

Commissioner Alvis made a motion to adjourn, and Chair Vaughn seconded the motion. Chair Vaughn adjourned the meeting by a vote of 2 – 0 of the September 24, 2025, Audit Subcommittee at 2:36 p.m.

APPROVED:



Robert C. Vaughn, Chair, Audit Subcommittee