

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on July 29, 2024, at 125 E. 11th Street, Austin, Texas 78701. The meeting convened at 11:00 a.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
Brian Barth, P.E. Deputy Executive Director for Program Delivery
Lance Simmons, P.E. Chief Engineer
Mary Anne Griss Chief of Staff
Rich McMonagle Chief Administrative Officer
Stephen Stewart Chief Financial Officer
Alejandro Garcia Director of Communications and Public Affairs
Jessica Buter, P.E. Director of Engineering and Safety Operations
Carl Johnson, P.E. Director of District Operations
Mo Bur, P.E. Director of Project Development
Trent Thomas Director of Government 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 2:17 p.m. on July 19, 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 April 24, 2024, Audit Subcommittee meetings

This item was presented by Robert C. 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 April 24, 2024, Audit Subcommittee meetings by a vote of 2 – 0.

Item 3. 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. Since the last meeting, one Priority 1 and one Priority 2 past due MAPs have been closed. The business continues to work towards completing past

due MAPs. Specifically, the Priority 1 past due MAP for the Management and Oversight of Utility Accounts and Payments is delayed due to the number of actions assigned to mitigate the risk. A new tracking portal for the monitoring of utilities and the third-party vendor, Engie, is being developed with good progress in some of the districts across the state on developing Geographical Information Systems (GIS) locations for utility assets. The various MAPs from this audit are estimated to be completed by FY25, Q2. The Priority 2 MAP for the Grant Management – Aviation audit downgraded from a Priority 1 to a Priority 2 after retesting in FY24, Q3. TxDOT's Aviation Division is still working to procure a grant management software but have begun implementing some interim monitoring procedures for grant management, Buy America, and material testing. Chairman Vaughn asked for an example of why a past due MAP would downgrade from a Priority 1 to a Priority 2. Director Otto explained that when the business completes some of the actions, the Internal Audit Division retests those areas for remaining risk exposure, and if there is no longer enough to warrant a Priority 1, it will downgrade.

b.1. Internal Audit Report: Facilities Construction Project Management

This item was presented by Lindsay Bibeau, Section Director in the Internal Audit Division. Section Director Bibeau presented the Facilities Construction Project Management audit rated at program-level Priority 3. The scope of this audit was to evaluate the effectiveness of the facilities construction management progress and validate that projects are completed in accordance with contractual requirements. TxDOT's facilities construction management process includes the design and execution of division/district capital and facility enhancement projects. Between September 1, 2020 and December 31, 2023, 651 change orders (totally \$31 million) were executed for 158 construction projects worth approximately \$290 million. The first finding in the audit identified that the lessons learned from change order root cause analysis was not communicated or used in the design of on-going or future facility projects. Going forward, the Support Services Division will incorporate this information into their semiannual lessons learned meetings. The second finding in the audit identified that construction project managers were not consistently applying facility construction process procedures (i.e., timely completion, approval, payment accuracy, and document retention) as defined in their facilities manual. The commissioners had no questions.

b.2. Internal Audit Update: Federal Grant Management – Notification and Tracking

This item was presented by Jennifer Stanush, Section Director in the Internal Audit Division. Section Director Stanush presented the Federal Grant Management – Notification and Tracking audit rated at program-level Priority 4. The objective of the audit was to evaluate TxDOT's preparedness for the increase in volume for federal discretionary grant opportunities and monitoring for the status of these grants through completion. The goal of TxDOT's federal grant program is to bring federal dollars to Texas for critical transportation projects throughout the state. As of January 31, 2024, a total of eight Infrastructure Investment and Jobs Act (IIJA) authorized federal discretionary grants totaling \$87 million have been awarded to TxDOT. The first finding in the audit identified opportunities to address variation within operational procedures exists for how the districts determine which grant opportunities to pursue or not pursue, documentation retained for business decisions, and follow-up performed with the grant federal agency to determine the reason a grant was not

awarded to TxDOT. The federal affairs section within TxDOT's Government Affairs Division is already working on developing a workgroup, policies/procedures, and a framework around federal grant management opportunities. The commissioners had no questions.

Item 4. Compliance Division Update

a. Summary of Investigations – Fiscal Year 2024, 3rd Quarter

This item was presented by Cheryl Durkop, Director of the Compliance Division. Director Durkop began by highlighting an overall increase in the number of opened investigations, mainly in part due to an increase in third party allegations focused on third-party failure to maintain insurance and internal misuse of state resource allegations. The Construction Division is implementing more monitoring to address the third-party failure to maintain insurance trend. Despite an increase in open investigation, the substantiations decreased about 5%. In the third quarter, there was a decrease in the supervisor/lead worker investigations; accounting for only 23% of non-third-party investigations. Investigations of significance includes a Rail Division employee who falsified their timesheet, falsified inspection reports, and misused a state vehicle. The employee has since been terminated from the agency. The second investigation of significance found a misappropriation of state resources, involving \$2,996 in TxDOT property due to the employee returning parts to an auto parts retailer in exchange for gift cards. The employee resigned in lieu of termination. The commissioners had no questions.

Director Durkop continued to highlight the allegation totals by category, showing third party violations as the largest category with a total of nine investigations. Out of the six substantiated investigations, two of the third parties were referred to the sanctions committee and resulted in the Texas Asphalt and Pavement Association (TxAPA) indefinitely suspending the licenses of two of their testers. Despite having the highest number of substantiated cases this quarter, the trend is average for this category. The other outcome categories are also in range for what we typically see. Chairman Vaughn asked if the numbers being presented was just relevant to the third quarter, to which Director Durkop affirmed. Chairman Vaughn requested to see year-to-date comparisons, to which Chief Townsend confirmed that it will be provided in future meetings.

b. External Audit Results: Permian Basin Metropolitan Planning Organization

This item was presented by Cheryl Durkop, Director of the Compliance Division. Director Durkop introduced the audit of the Permian Basin Metropolitan Planning Organization (MPO). The Permian Basin MPO covers the cities of Midland and Odessa, and several counties. The City of Odessa serves as the fiscal agent for the Permian Basin MPO who receives funding through the Transportation Planning and Programming Division (TPP) for transportation projects within its jurisdiction. The audit focused on whether the Permian Basin MPO has the financial controls for proper Texas Department of Transportation (TxDOT) grant management and payment compliance for fiscal years 2022 and 2023. Unallowable costs of \$5,705 were identified due to incorrect and unsupported payments and will be paid back to TxDOT. Non-compliance with federal requirements to analyze the cost of procurements, check vendor status and maintain adequate documents were also identified. Additionally, the audit identified

control weaknesses to approving expenses and procurements, inconsistently performing bank reconciliations and financial audits, as well as outdated policies and procedures. TxDOT's external audit section within the Compliance Division provided thirteen recommendations to improve operations and the control environment. The commissioners had no questions.

c. SB312 Sunset Implementation Review:

This item was presented by Cheryl Durkop, Director of the Compliance Division. Director Durkop that the Compliance Division is doing monitoring reviews in preparation for the next Sunset Review cycle set for the 91st Legislative Session (2028-2029). The division is reviewing the Sunset Bill 312 (SB312), which is codified in Texas law and the Management Actions adopted or modified by TxDOT (not codified in Texas law). Monitoring reviews will be performed each quarter through 2029. Each quarter, approximately 25% of SB312 sections and management actions are planned for review. In the latest review, Director Durkop highlighted that two areas were found to be non-compliant. Firstly, the aviation long-range plan did not contain all sections necessary, and the Aviation Division is working with Texas Transportation Institute (TTI) to address. Secondly, we are working with the Civil Rights division on the management action plans needing to be implemented. 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.

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 July 29, 2024, Audit Subcommittee at 11:23 a.m.

APPROVED:



Robert C. Vaughn, Chair, Audit Subcommittee