

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held on December 16, 2024, at 125 E. 11<sup>th</sup> Street, Austin, Texas 78701. The meeting convened at 10:00 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  
Mary Anne Griss        Chief of Staff  
Stephen Stewart        Chief Financial Officer  
Anh Selissen            Chief Information Officer  
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  
Alejandro Garcia       Director of Communications and Public Affairs  
Darran Anderson       Director, Strategy & Innovation

A public notice of this meeting containing all items on the proposed agenda was filed in the Office of the Secretary of State at 3:36 p.m. on December 6, 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 September 25, 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 September 25, 2024, Audit Subcommittee meeting by a vote of 2 – 0.

**Item 3. Independent Auditor's Report**

This item was presented by Kevin Smith, Audit Partner, Crowe LLP. Mr. Smith reviewed the process and standards used in the fiscal year 2024 (FY24) financial reporting audit. Crowe LLP issued the independent auditor report on internal control over financial reporting, compliance and other matters based on the audit of financial statements performed in accordance with Government Auditing Standards (GAS). Mr. Smith explained the definitions of opinions in governmental accounting, and how the opinions are determined. He then described internal control and the requirements of reporting any material weakness or significant deficiencies, according to GAS. No material weaknesses or significant deficiencies were noted in the FY24

audit. Four audit reports were issued on December 13th to include the agency wide financial report for the Texas Department of Transportation, as well as individual opinions of The Texas Mobility Fund, The Central Texas Turnpike System, and The Grand Parkway Transportation Corporation. Mr. Smith explained that the corrected and uncorrected misstatements were deemed to be qualitatively immaterial. Additionally, while there were no significant or unusual transactions during the audit period ending on August 31, 2024, there were two significant or unusual transactions that happened subsequent to year-end. They are mentioned in the subsequent footnotes on the financial statements. Chair Vaughn asked for more information on the two significant subsequent transactions to which Mr. Smith responded that they were (1) the Tolling Service Agreement (TSA) change with Harris County Toll Road Authority (HCTRA), and (2) the reversal of the public private partnership on State Highway 288. He further explained that those transactions will be a focal point in the FY25 engagement.

#### **Item 4. 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. All past due Priority 1 MAPs have been closed. Past due Priority 2 MAPs increased by seven, since the Audit Subcommittee meeting update in July 2024. The internal audit team will focus on these in Q2. Director Otto reported that the business is making progress on turning in required information, relating to Priority 1 and 2 MAPs, timely. The Internal Audit team plans to work closely with the Chiefs over each past due MAP to get them closed as quickly as possible. The commissioners had no questions.

##### **b. 1. Internal Audit Report: Construction Project Development – Engineer’s Estimate**

This item was presented by Craig Otto, Director of the Internal Audit Division. Director Otto presented the Construction Project Development – Engineer’s Estimate audit rated at an enterprise-level Priority 3. The scope of the audit was to evaluate the effectiveness of the estimated project bid item quantities and unit price for construction projects. The engineer’s estimate is a determination of the total estimated construction costs which is necessary to ensure appropriate funding is available at project letting and quantity/unit price related change orders are limited during construction. Between September 2020 and April 2024, a total of 3,038 construction projects were let with a total net variance of \$965.7M between the engineer’s estimate and the low bid amount. The first finding in the audit identified that documentation was not retained to support bid item estimates to include: (1) unit price assumptions, (2) award justification for unit price variances, and (3) unit price review. Director Otto explained the finding primarily centered around the lack of document retention needed to show support and substantiate the pricing for corresponding line items. The design and construction divisions are working together to create a training that will focus on the information required for retention. Chair Vaughn asked if Executive Director Marc Williams had any comments to which Executive Director Williams shared his questions about the significance of the line-items discovered during the audit that lacked justification and how they impacted the engineer’s estimate to understand the scale of the issue. Director Otto acknowledged the need for this specification and clarified that most of the cases found during

the audit were not significant in nature.

**b.2. Internal Audit Report: Procurement of Temporary Employment Services Contracts**

This item was presented by Craig Otto, Director of the Internal Audit Division. Director Otto presented the Procurement of Temporary Employment Services (TES) Contracts audit rated at a program-level Priority 3. The scope of the audit was to assess the process used to manage the purchase of services contracts to determine (1) the need for service, (2) the length of the contract, and (3) the monitoring of services being provided. The purchase of services is used by the agency to complete short-term projects when employee resources are not available. The first finding in the audit identified that procurement's routine reviews are not considered an operational metric. This may impact the decisions to continuously procure temporary employment services/augmented services. The second finding in the audit identified that the inspection and evaluation of TES are not consistently completed at the time of receipt for the service; thus, it creates a reliance on the subsequent inspections of services at the end of the contract and a delayed review of assurance that the TES is meeting the contracted time frame. Director Otto explained the \$10.7M variance between renewing TES/AS and the State Auditor's Office median salary cost to bring on each position from CY21 to CY23 stems from the operational metrics (i.e., the reasoning or cost of renewal(s) vs. a full-time employee) not being considered. The commissioners had no questions.

**Item 5. Compliance Division Update**

**Summary of Investigations – Fiscal Year 2025, 1<sup>st</sup> Quarter**

This item was presented by Cheryl Durkop, Director of the Compliance Division. Director Durkop began by explaining that quarter 1 (Q1) includes both compliance and EEO investigations. For the first quarter, 175 allegations were received, 40 investigations were initiated, 45 investigations were closed, and 29 investigations were substantiated (substantiation rate of 64%). There was an increase in both allegations and substantiated investigations relating to workplace harassment; the majority of which were sexual in nature. Substantiated third party investigations also increased with four of seven substantiated investigations being related to failure to maintain workers compensation, general liability, and/or automobile insurance. These have been referred to the sanctions committee. Some investigations of significance involve multiple investigations for misuse of TxDOT vehicles. These incidences also included additional behaviors of employee misconduct, including excessive speeding, not recording time accurately, and falsifying daily work reports. In each instance, the employee involved was terminated. The commissioners had no questions.

Director Durkop then presented a graph of the 1<sup>st</sup> quarter summary of investigations, showing workplace harassment was the most common allegation investigated. Sexual harassment or harassment of a sexual nature accounted for more than 70% of the EEO workplace investigations. Third party violations also remain one of the top allegation categories, with a high number of substantiated investigations, but are still in line with what is typically seen each quarter. Chair Vaughn asked for clarification if workplace harassment is increasing over time or just for this quarter, to which Director Durkop explained that while it is up for Q1, it fluctuates up and down as shown in the 18-month summary of investigation trends. Director Durkop emphasized the need for continued outreach and education on workplace harassment. The

Human Resources Division issued guidance to TxDOT management on how to manage workplace violence situations. They continue outreach, with an emphasis on TxDOT's standard of conduct and professionalism in the workplace. Executive Director Williams commented that even with some fluctuation, the number of workplace harassment investigations is steady, and noted that the increase might be from the compliance division's ability to identify issues and address them in a timely manner. Chair Vaughn stated that while he would like to see zero cases of workplace harassment, it is important to keep in perspective that these numbers are reasonable for an organization with over 13,500 employees. He reiterated that if the team is continuing to build a better culture, that overall, it appears the agency is doing well. Executive Director Williams agreed with these statements and emphasized the importance of having action against contractors who fail to comply with our requirements, which puts their employees at risk. He highlighted the work that the compliance division is doing with the construction division to define those policies and corrective action measures.

**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.

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 December 16, 2024, Audit Subcommittee at 10:30 a.m.

APPROVED:



Robert C. Vaughn, Chair, Audit Subcommittee