

These are the minutes of the Texas Transportation Commission Audit Subcommittee quarterly meeting held May 30, 2012 in Austin, Texas. The meeting opened at 10:00 a.m. with the following members present:

Audit Subcommittee Members:

Fred Underwood Commissioner, Audit Subcommittee Chair
Jeff Austin Commissioner, Audit Subcommittee Member

Administrative Staff:

Benito Ybarra Chief Audit Executive
John Barton, P.E. Deputy Executive Director

Registration sheets listing others in attendance are on file with the Texas Department of Transportation Audit Office.

A public notice of this meeting containing all items on the proposed agenda was filed in the office of the Secretary of State at 2:46 p.m. on May 22, 2012, as required by Chapter 551 of the Government Code, referred to as “The Open Meetings Act”.

Opening remarks were made by Commissioner Underwood. Commissioner Austin had a question about follow-up audits

Item 1. Approval of Minutes from March 28, 2012, Quarterly Meeting

The Minutes from the March 28, 2012, quarterly meeting were presented by Benito Ybarra, Chief Audit Executive (CAE) and approved by Commissioner Underwood and Commissioner Austin.

Commissioner Underwood followed-up on a question about the Disadvantaged Business Enterprise (DBE) and an observation in the construction area that was discussed in the March 28, 2012 Audit Subcommittee Meeting. Mr. Ybarra stated that the DBE would be followed-up in July. He also explained that if there are determinations of “high risk” findings to the agency, the Audit Office would perform a formal follow-up. If it is found to be “low risk,” the office would request evidence that the risks were addressed. However, there would not be a formal engagement on the Audit Office’s schedule.

Item 2. Pilot Audit Progress

Benito Ybarra, Chief Audit Executive, presented the *Pilot Audit Progress*. The Audit Office is working on training and new tools: a) Enterprise Risk Management (ERM) Framework, b) Audit Rating Model; rating the audits and findings, c) Opinion Calculator, and d) Management Action Plan-Risk Rating. These new tools will focus on the department’s internal control structure, high risk, high value functions, utilization of leading internal controls framework to assess internal controls, and provide consistent and methodical approach for measuring audit results.

Mr. Ybarra presented the objectives and goals. The Committee of Sponsoring Organization (COSO) of the Securities and Exchange Commission published the Integrated Control Framework in 1992. This framework outlines risk management principles applicable to

any business entity. The ERM framework is set in four categories: High level strategic goals, operational goals, financial goals, and regulatory compliance.

John Barton, Deputy Executive Director, Commissioner Underwood and Commissioner Austin discussed the risks and past and present procedures with Mr. Ybarra. The discussion went on to include the importance of training district engineers (DEs) about the risk management approach to audits and the importance of the DEs being proactive and having input in their audits so that they would have a better understanding as changes are being made, so they don't feel as if they are a target went audited.

Commissioner Austin stated that members of the Legislature have been pleased with the new procedures going forward.

Benito Ybarra, Chief Audit Executive, continued on with the Opinion Calculator and its use in grading the audits overall. Management Audit Plan (MAP) Risk-Rating, was explained and how the objectives and the results of an audit are determined in the financial, operational and regulatory areas, according to the COSO ERM Framework.

Highlights include: Enhanced knowledge and perspective by teaming auditors from different areas with different expertise; Moving toward developing a consistent audit approach with greater effectiveness and efficiency; Opportunities for staff development and exposure to the audit process and ERM principles.

These new processes were used for the first pilot audit, *Permit Operations Audit*. *Multiple Use Agreements, Purchase of Services, and Delegation of Authority/Budget Compliance Audits* are pilot audits in progress and will be reported on during the next Audit Subcommittee Meeting in August 2012.

There have been challenges such as implementing new processes and tools during the engagements. However, auditor schedules/timelines have been readjusted to accommodate the new process. The auditors have expressed that they need more time with the Chief Audit Executive and Mr. Ybarra stated that he is making more time for auditor meetings.

Andy Keith, Director of Maintenance Contracts/Maintenance Section commented that he felt the pilot audit that was conducted on his division was successful.

Item 3. Internal Audits Completed, 4th Quarter of FY 2012

There was one audit reported this quarter.

Vivian Cohn, Engagement Lead, reported on *Permit Operations Audit*. The audit team included Milan Hawkins.

The objectives of the audit were to determine whether the transfer of permit operations to the Texas Department of Motor Vehicles (TxDMV) is in compliance with Senate Bill 1420, and to identify the oversize/overweight-related programs/functions that will remain with TxDOT, and determine whether there is a plan for managing the programs/functions remaining with TxDOT. The report presents the results of the *Permit Operations Audit* which was conducted as part of the Fiscal Year 2012 Audit Plan.

Senate Bill 1420 in 2011 specifies that permit operations, including personnel, equipment, funding, and other support functions, were to be transferred no later than January 1, 2012. A Memorandum of Understanding which outlined the roles and responsibilities regarding the transfer of permit operations provided for a 30-day continuance for issuing permits at the local level. TxDOT discontinued issuing oversize/overweight (OS/OW) permits on February 1, 2012.

The audit found that there was “No Action Plan Implemented” for Oversize/Overweight-related programs/functions remaining with TxDOT. The rating was determined to be “Needs Improvement.” However, permit operations were sustained during the transfer period, and properly documented and maintained in TxDOT’s repository. The impact of losing mapping coordinators was minimized.

Dee Porter, Chief People Officer, related how she is working on the interagency details with Linda Flores, Interim Executive Director of TxDMV to determine the responsibilities of TxDMV and TxDOT.

Ms. Porter, John Barton, Deputy Executive Director, and Commissioner Underwood, Commissioner Austin, Benito Ybarra, CAE, and Vivian Cohn discussed the details of permit operations, timeliness and emergency situations where overweight loads may or may not have a negative impact on our bridges and roads.

Closing Comments:

Commissioner Underwood stated that the next Audit Subcommittee meeting will be held August 29, 2012. The members thanked all for attending the meeting.

The meeting adjourned at 10:45 a.m.

APPROVED:

Commissioner Fred Underwood, Chair
Texas Transportation Audit Subcommittee