

TEXAS DEPARTMENT OF MOTOR VEHICLES
FINANCE AND AUDIT COMMITTEE
MEETING

OPEN MEETING VIA TELEPHONE CONFERENCE CALL
PURSUANT TO GOVERNOR'S MARCH 16, 2020,
TEMPORARY SUSPENSION OF CERTAIN
OPEN MEETING PROVISIONS

Wednesday,
August 5, 2020

COMMITTEE MEMBERS:

Brett Graham, Chair
Charles Bacarisse
Stacey Gillman
John Prewitt

ON THE RECORD REPORTING
(512) 450-0342

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6. The Committee may enter into closed session under one or more of the following provisions of the Texas Open Meetings Act, Government Code, Chapter 551:	none
• Section 551.071	
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P R O C E E D I N G S

1
2 MR. GRAHAM: Good afternoon. My name is Brett
3 Graham, and I am pleased to open the Finance and Audit
4 Committee of the Board of the Texas Department of Motor
5 Vehicles.

6 It is 2:02 p.m., and I am now calling the
7 committee meeting for August 5, 2020 to order. I want to
8 note for the record that the public notice of this
9 meeting, containing all items on the agenda, was filed
10 with the Office of the Secretary of State on July 28,
11 2020.

12 Before we begin today's meeting, please place
13 all cell phones and other communication devices in silent
14 mode, and please, as a courtesy to others, do not carry on
15 side conversations or other activities if any of you are
16 in a room where you could do that.

17 This meeting is being held by telephone
18 conference call in accordance with Texas Government Code
19 551, as temporarily modified under Governor Greg Abbott's
20 authority to suspend certain statutes due to COVID-19.
21 Governor Abbott suspended various provisions of the Texas
22 Open Meetings Act that require government officials and
23 members of the public to be physically present at
24 specified meeting locations.

25 Under that suspension, the public will not be

1 able to physically attend this meeting in person. Instead
2 the public may attend this meeting by using the link or by
3 calling the toll-free telephone number, which are both
4 posted in our agenda which was filed with the Office of
5 the Secretary of State on July 28, 2020. All committee
6 members, including myself, will be participating remotely
7 via WebEx.

8 At this time please mute your phone for the
9 entire duration of this meeting. I'm asking our WebEx
10 media host to make sure all participants' phones are muted
11 and their videos turned off except for committee members
12 and those who are presenting. Callers will be removed for
13 any disruptions, including background noise.

14 I would like to remind all participants that
15 this is a telephone conference call meeting. Because this
16 meeting is being held by telephone conference call, there
17 are a few things that will assist in making the meeting
18 run smoother and should assist the court reporter in
19 getting an accurate record.

20 First, department staff and any commenters
21 should identify themselves before speaking. Second, speak
22 clearly and remember that there might be a slight delay
23 due to the telephone conference call meeting, so please
24 wait a bit longer than usual before responding to
25 participants. Do not speak over others, and speakers

1 should ask the committee chair permission to proceed and
2 be sure to get recognized before speaking.

3 If you wish to address the board or speak on an
4 agenda item during today's meeting, please send an email
5 to GCO_General@txdmv.gov. Again, that is
6 GCO_General@txdmv.gov.

7 Please identify in your email the specific item
8 you're interested in commenting on, your name and address,
9 whether you are representing anyone or speaking for
10 yourself. If your comment does not pertain to a specific
11 agenda item, we will take your comment during the general
12 public comment portion of the meeting.

13 In accordance with the department's
14 administrative rule, comments to the board will be limited
15 to three minutes, then the call will be muted. Comments
16 should be pertinent to the issue stated in your email.
17 When addressing the board, please state your name and
18 affiliation for the record.

19 With that, I will proceed to agenda item number
20 1, roll call and establishment of quorum, and I'd now like
21 to have a roll call.

22 Member Bacarisse?

23 MR. BACARISSE: Here.

24 MR. GRAHAM: Member Gillman?

25 MS. GILLMAN: Present.

1 MR. GRAHAM: Member Prewitt?

2 (No response.)

3 MR. GRAHAM: I do know Member Prewitt is
4 working thorough some technology challenges, but we do
5 have a quorum, so we will proceed and make note once
6 Member Prewitt has made it.

7 I also ask each of the committee members, if
8 you would, to make sure that your video is turned on.

9 And let the record reflect that I, Brett
10 Graham, am here as well, and we have a quorum.

11 The posted agenda stated that a quorum of the
12 board may be present at this meeting; however, board
13 members who are not members of the Finance and Audit
14 Committee, should they be present, will not vote on any
15 committee agenda items today, nor will any board action be
16 taken.

17 I would now like to see if we have any of our
18 fellow board members present. I understand that Chairman
19 Treviño would possibly be on the call.

20 Tracey, are we aware that Chairman Treviño is
21 present?

22 MS. BEAVER: Tracey Beaver, general counsel,
23 for the record.

24 Chairman Treviño might be listening in to some
25 portion of the committee meeting today. Thank you.

1 MR. GRAHAM: Okay. Very good. We welcome the
2 chairman and any other board members that may be listening
3 in. As I stated before, they will take no action but are
4 always welcome to attend.

5 All right. With that, we will move to agenda
6 item 2, pledges of allegiance to the U.S. and Texas flags.
7 We're very fortunate today to have Mr. Conner Kuntz,
8 member of Boy Scout Troop 157 and son of Jeremiah Kuntz,
9 to lead us in the pledges of allegiance. I would ask each
10 of you to stand and honor our country and state with the
11 pledges of allegiance.

12 And with that, Conner and Jeremiah, will you
13 please lead us in the pledges.

14 (The Pledges of Allegiance - U.S. and Texas
15 were recited.)

16 MR. GRAHAM: All right. Thank you.

17 CONNER KUNTZ: Thank you.

18 MR. GRAHAM: Thank you, Conner. What a
19 pleasure to have you. You always do a marvelous job, and
20 once again, you did not disappoint. We appreciate you
21 taking the time today to join us and lead us in those
22 pledges.

23 All right. With that, we will move on to --
24 let me make sure everybody makes it back here. All right.
25 I see Member Bacarisse and just make sure Member Gillman

1 makes it. You there, Member Gillman? Yep, I got you.
2 Excellent.

3 All right. With that, there are no comments or
4 announcements, unless somebody wants to jump in on agenda
5 item 3. If there are no announcements, we will move on to
6 agenda item 4, consideration and possible recommendation
7 for action to the full board 2022-2023 Legislative
8 Appropriations Request baseline and exceptional items. We
9 will hear from Linda Flores and Sergio Rey.

10 There you go, the floor is yours.

11 MS. FLORES: Thank you very much. For the
12 record, my name is Linda Flores. I'm the chief financial
13 officer for the Department of Motor Vehicles.

14 We are discussing agenda item 4.A, which is an
15 action item for the full board to approve the department's
16 recommended Legislative Appropriations Request for the
17 87th Legislative Session for fiscal years 2022 and 2023.
18 This material begins on page 6 of your board book.

19 Next slide, please.

20 This is the second presentation of the
21 departments FY22-23 appropriations request. I would like
22 to mention that budget instructions from the Legislative
23 Budget Board have not been received as of today. The
24 department's recommended appropriations request may be
25 modified to adhere to guidance from state leadership once

1 instructions are distributed that include guidance and
2 perhaps policy changes that affect all state agencies.

3 I will now turn it over to Sergio Rey to
4 discuss the next three slides in this presentation.

5 MR. REY: Good afternoon. For the record, my
6 name is Sergio Rey. I am the assistant chief financial
7 officer.

8 The Legislative Appropriations Request is a
9 compilation of the data gathering and planning for all
10 levels of management to address our future program needs,
11 specifically for the fiscal years 2022 and 2023.

12 This process began in May, we provided a
13 preliminary in June, and as Ms. Flores mentioned,
14 typically in the month of August we would be presenting
15 the recommended Legislative Appropriations Request,
16 however, we are pending the leadership's guidance on any
17 policy changes or instructions as it relates to the next
18 biennium.

19 This recommendation again lists the baseline,
20 or the funding necessary to maintain our existing
21 operations and our capital projects, as well as the
22 exceptional items or the desired services in addition to
23 the baseline request.

24 Next slide.

25 The recommended appropriations request is,

1 again, similar to the preliminary we presented to you in
2 June. We continue to expect sufficient collections in the
3 Texas DMV Fund to support the agency's operations,
4 including the staffing of our 802 full-time equivalent
5 employees.

6 We will continue our capital budgets for
7 automation, county technology, growth and enhancement,
8 cybersecurity, and our regional service maintenance. We
9 continue to recommend our six exceptional items presented
10 in June, which includes the Building 5, the accounts
11 receivable system, the complaint management system, the
12 Dallas and Houston substations, and the Motor Vehicle
13 Crime Prevention Authority's fees and refund unit, which
14 we will discuss in more detail shortly.

15 Next slide.

16 As mentioned earlier, our projections assume
17 that TxDMV will continue to collect sufficient funds to
18 cover our request. The estimates presented to you on page
19 15 in your board materials have been adjusted from our
20 previous presentation to reflect the continued impact of
21 the deferrals granted by the governor's emergency
22 declaration during this pandemic.

23 In comparison to our preliminary request last
24 June, the processing and handling fee reflects the highest
25 impact with a drop in fiscal year 2020 and an increase in

1 fiscal year 2021 when the current registrations become due
2 once more. More insight on the revenue impacts of the
3 COVID-19 will be discussed in a future agenda item.

4 At this time I will refer this back to Ms.
5 Flores to discuss the baseline, the capital budget request
6 and the exceptional items.

7 MS. FLORES: Next slide, please.

8 This chart is found on page 19 of your board
9 book and reflects a continued bottom line appropriations
10 request of \$310.8 million for the next biennium. The
11 amount has not changed. but what has changed are amounts
12 included in the various strategies, as shown on this
13 slide.

14 The variances are the result of right-sizing
15 each program to ensure that it is funded appropriately as
16 well as to reflect organizational changes that the
17 department has implemented over time.

18 For example, this includes transfers that have
19 occurred from one division to another to better align with
20 the receiving division. This includes transfers from the
21 Information Technology Division to Finance for staff who
22 were performing a billing function, as well as the
23 transfer from IT to Consumer Relations for staff who were
24 performing a call center function.

25 It also includes transfers and changes to

1 accommodate the creation of a new ombudsman and a new
2 deputy director who oversees the administrative functions
3 of the department.

4 Next slide, please.

5 MR. GRAHAM: Ms. Flores?

6 MS. FLORES: Yes, sir.

7 MR. GRAHAM: I just would like to make note
8 that Member Prewitt is in attendance and has joined the
9 meeting.

10 Welcome, Member Prewitt.

11 MS. FLORES: Thank you.

12 Moving on to the capital budget for the next
13 biennium request, it remains the same as what we presented
14 in June. The department has requested capital line items
15 which will continue the department's focus of automation
16 and realigning dollars for projects that are projected to
17 be completed this biennium as shown for the consumer
18 protection and enforcement tracking, as well as
19 infrastructure improvements.

20 Those two projects are slated to be completed
21 by the end of the biennium, so we have repurposed those
22 dollars into the automation system as well as the PC
23 replacements.

24 Next slide, please.

25 As Mr. Rey mentioned, we still have six

1 exceptional items requests that we're requesting for the
2 next biennium. This slide does allow you to see the
3 priority for each of those six items.

4 The first priority is Phase 1 for a new
5 building to be constructed on the Building 5 current
6 location site. Before the pandemic hit Texas, the
7 department was developing a larger dollar request for
8 design, infrastructure preparation, and construction
9 costs.

10 Knowing that the state's economy has declined
11 and the department's ability to expand remote teleworking
12 occurred during the pandemic, the department will request
13 a new building in two phases that will span two
14 legislative cycles, which is approximately four years
15 total.

16 We are requesting \$6.2 million for Phase 1 that
17 includes engineering, environmental, and surveying costs
18 to prepare the site. It also allows the department to
19 reexamine its future space needs with a more mobile
20 workforce.

21 Priorities 2 and 3, accounts receivable and
22 complaint management systems did not change since the June
23 presentation.

24 And finally, the last three exceptional items,
25 two substations, one in Dallas, one in Houston, and the

1 Motor Vehicle Crime Prevention Authority's refund unit,
2 have been refined to include better cost estimates for the
3 next biennium.

4 This did include, as you can see, we showed the
5 strikeout from the June presentation to current. It's
6 approximately \$300,000 increase in the total bottom line
7 for those six line items.

8 Next slide, please.

9 These are the same riders in front on this
10 screen that we presented in June. For those of you who
11 are new to the legislative process, a rider is a special
12 directive to a state agency regarding an expenditure or a
13 collection of funds.

14 The department's bill pattern contains these
15 five riders now, and we are requesting that they continue
16 into the new biennium. The riders provide the ability to
17 pay a contract vendor their portion for the sale of
18 specialty plates and allows the carryforward of unspent
19 dollars for automation projects, headquarters capital such
20 as roof repairs, federal grants and unspent funds from
21 operating categories.

22 Next slide, please.

23 That concludes our presentation not the
24 department's FY22-23 Legislative Appropriations Request,
25 and as I previously mentioned, we are still waiting on

1 instructions from the Legislative Budget Board.

2 If at some point we do receive instructions, we
3 will come back to the board to provide a final assessment
4 of what changes we had to make in order to comply with
5 their guidance.

6 MR. GRAHAM: Okay. Thank you. Thank you, Ms.
7 Flores, Mr. Rey.

8 And I do apologize. Y'all might be able to
9 hear the construction that happens to be going on right
10 outside my door at this hotel, as Murphy's Law would have
11 it. Hopefully it doesn't bother us too much.

12 With that, I will ask if the committee has any
13 questions.

14 MR. PREWITT: This may be a question not for
15 Linda but for Whitney. On the complaint management
16 system, is that basically a one-year project timeline to
17 put that in place?

18 MS. BREWSTER: This project is one that we
19 would work with the selected vendor who is doing this work
20 to work out the project timeline.

21 But a little more information on this item.
22 This is an item that came through the Sunset process.
23 There were no additional funds associated with this
24 project, and it was to combine the two complaint systems
25 in MCCS and eLICENSING into a single system so that there

1 could be consistency in reporting and in our assessment, a
2 more modern platform for it to reside.

3 Again, this is the estimated cost associated
4 with this and we do believe that the level of effort of
5 this is large, but we would work with the selected vendor
6 on the exact timeline, but we would anticipate that it
7 would happen during the biennium.

8 MR. PREWITT: And the estimated cost was based
9 on other agencies' experience in integrated these kind of
10 systems, or how did we come up with a number?

11 MS. FLORES: This is Linda Flores.

12 MS. BREWSTER: Go ahead, Linda.

13 MS. FLORES: I'm sorry. This is Linda.

14 We did work with our IT staff to develop a
15 detailed cost estimate that is included in your board book
16 starting on page 33.

17 MR. PREWITT: Okay.

18 MS. FLORES: The primary cost is for contract
19 services associated with external contractors of
20 \$3 million, and then professional services of \$2 million,
21 and software costs of \$135,000.

22 MR. PREWITT: Okay.

23 MS. FLORES: And we can provide you additional
24 information.

25 MR. PREWITT: My page 33 is the substation for

1 Houston.

2 MS. FLORES: I'm sorry.

3 MR. PREWITT: That's all right.

4 MS. FLORES: If you would maybe go back one.

5 MR. PREWITT: No.

6 MS. FLORES: One more. It looks like a
7 spreadsheet.

8 MR. PREWITT: Right, right. Okay. I'll find
9 it.

10 Anyway, I was just thinking -- I've found it.
11 I think it's on page 26.

12 MR. GRAHAM: Yes, 26. That's correct.

13 MR. PREWITT: Yeah. So I guess my only concern
14 was both the amount was substantial. Obviously it's a
15 Sunset recommendation, so we need to abide by that, but
16 just for purposes of what the drawdown on it would be and
17 having a manageable project from an external vendor
18 perspective, I'm sure we can control the cost. I wouldn't
19 want to get off the rails and have to come back for
20 another \$5 million on top of what we have allocated.

21 MS. BREWSTER: Chairman Graham, if I may?

22 MR. GRAHAM: Yes, ma'am.

23 MS. BREWSTER: Whitney Brewster for the record.

24 Member Prewitt, we do anticipate that we will
25 continue to look to refine this number. We are looking

1 for other estimates in terms of trying to rein this cost
2 in, and so we do not believe that we will need to go above
3 this amount. We do believe we're continuing, like I said,
4 to explore the technological solutions out there that may
5 bring that cost in.

6 MR. PREWITT: Okay, wonderful. Thanks,
7 Whitney.

8 MR. GRAHAM: All right. Thank you, Member
9 Prewitt.

10 Are there any other questions for Ms. Flores or
11 Mr. Rey.

12 (No response.)

13 MR. GRAHAM: Being none, Tracey, do we have any
14 public comment.

15 MS. BEAVER: Tracey Beaver, general counsel,
16 for the record.

17 There are no public comments.

18 MS. BEAVER: Tracey Beaver, general counsel,
19 for the record.

20 MR. GRAHAM: Okay. Being none, I will
21 entertain a motion for agenda item 4.A.

22 MS. GILLMAN: Chairman Graham, I have a motion.

23 MR. GRAHAM: Okay.

24 MS. GILLMAN: I move that the committee
25 recommend that the board approve the fiscal year 2022-2023

1 Legislative Appropriations Request as presented by staff,
2 subject to any technical corrections that are approved by
3 the department's chief financial officer and executive
4 director to comply with the instructions from the
5 Legislative Budget Board.

6 MR. GRAHAM: Okay. Thank you, Member Gillman.

7 Do we have a second?

8 MR. PREWITT: Second.

9 MR. GRAHAM: Member Prewitt second.

10 Is there any further discussion?

11 (No response.)

12 MR. GRAHAM: Hearing none, I'll call for the
13 vote.

14 Member Bacarisse?

15 MR. BACARISSE: Aye.

16 MR. GRAHAM: Member Gillman?

17 MS. GILLMAN: Aye.

18 MR. GRAHAM: Member Prewitt?

19 MR. PREWITT: Aye.

20 MR. GRAHAM: And I, Chairman Graham, vote aye,
21 and the motion carries unanimously. Thank you.

22 Okay. We will move to 4.B. Fiscal year 2021
23 recommended annual operating budget. Again, Ms. Flores
24 and Mr. Rey, please continue.

25 MS. FLORES: Thank you.

1 Next slide, please.

2 Agenda item 4.B again is another action item
3 for the full board to approve the department's FY21
4 recommended annual operating budget. The material for
5 this begins on page 46 of your board book.

6 Next slide, please.

7 MR. GRAHAM: And Ms. Flores, just for the
8 benefit of the other members, if you look at the top
9 corner of each of the pages of your board book, you'll see
10 a small green number that Ms. Flores is referencing, while
11 the number at the bottom of the page is -- you know,
12 there's a disparity between the document and the online
13 document. So Ms. Flores is referencing the number in the
14 top right-hand corner.

15 MS. FLORES: Thank you, Chairman.

16 The department's executive summary for the
17 operating budget begins on page 52, the little green page
18 52, of your board material.

19 The department's recommended operating budget
20 is the implementation of the department's approved
21 appropriations for year two of the biennium. The
22 operating budget totals \$181.7 million composed of amounts
23 of appropriated dollars for year two plus carryforward of
24 unspent balances from this year.

25 The budget finances 802 FTEs, as well as the

1 operating and capital costs that are currently in flight
2 and planned expenditures for the new year.

3 Next slide.

4 This chart details the department's collections
5 for the State of Texas, including the State Highway Fund,
6 general revenue and the DMV Fund, which primarily finances
7 the department's operating budget. Details of the fees
8 for each of these funds are shown on page 72 of your board
9 materials.

10 Vehicle registration fees account for the major
11 collections in the State Highway Fund, and we currently
12 project to bring in \$1.74 billion for the State Highway
13 Fund. These revenue projections, although, have been
14 modified downward since we anticipate to experience
15 declines in the economy in the next year due to effects of
16 the pandemic on businesses.

17 Next slide.

18 While the previous slide demonstrated the
19 collections by fund, this chart drills down to the fees
20 that draw the largest revenues for the state.

21 As I previously mentioned, by far the largest
22 fee collection is from the motor vehicle registration
23 fees. This is followed by oversize/overweight permits,
24 followed by motor vehicle titles, the processing and
25 handling fee which is associated with the motor vehicle

1 registrations, and last but not least, business license
2 fees, which includes fees for dealer licenses and fees for
3 general distinguishing numbers.

4 Next slide, please.

5 The FY2021 estimated DMV Fund 10 revenue is
6 expected to cover our estimated obligations in the new
7 year. Estimated revenues include collections from fees,
8 prior year carryforward of unspent dollars, general
9 revenue funding for the Motor Vehicle Crime Prevention
10 Authority, formerly ABTPA, or Auto Burglary and Theft
11 Prevention Authority.

12 Estimated obligations include our projected
13 expenditures in the next year, including projects that are
14 currently in flight, roof repairs on Building 5 for leaks,
15 and continued disinfecting fogging services and personal
16 protective equipment such as hand sanitizers and
17 disinfecting solutions.

18 I will now turn it over to Mr. Rey to continue
19 the operating budget presentation for the next five
20 slides.

21 Next slide, please.

22 MR. REY: Again for the record, Sergio Rey,
23 assistant chief financial officer.

24 The total fiscal year 2021 budget of
25 \$181.7 million is broken up into five main categories.

1 The largest category starting with our core
2 program activities of \$88.6 million. These core programs
3 are Vehicle Titles and Registration, Motor Vehicle
4 section, Motor Carrier, Enforcement, Compliance and
5 Investigation, Consumer Relations, Administrative
6 Hearings, and the Motor Vehicle Crime Prevention
7 Authority.

8 Next we have our information technology with
9 \$18 million, and that's to provide oversight of all our
10 technology functions and projects. Agency-wide includes
11 special programs like MyPlates and the credit card service
12 fees.

13 Our next item is the capital projects, which is
14 our automation, our other technology capital items, and
15 other capital projects like the headquarters maintenance
16 and the regional service center maintenance projects and
17 our vehicle replacements.

18 And our final section is our central
19 administration, which includes our Executive Management
20 and Administrative Services, such as Finance and
21 Administrative Services, General Counsel, Human Resources,
22 Internal Audit, the Board Support, and Government and
23 Strategic Communication.

24 Next slide.

25 Our capital budget, the detail for this

1 information of the capital budget is found on page 66 of
2 your board book. The following chart of this presentation
3 is on page 67.

4 The recommended capital budget for fiscal year
5 2021 totals \$37 million. The capital budget is divided
6 into these major categories, the first one being other
7 technology projects which total about \$20 million.

8 This includes the continued funding for the
9 data center consolidation budget, our accounting
10 technology support, the growth and enhancement and our PC
11 replacement, as well as cybersecurity and our consumer
12 protection and tracking, as well as other IT
13 infrastructure projects.

14 In other capital projects total \$4.6 million
15 this is, again, primarily the HQ maintenance which is
16 funded by carryforward funds from fiscal year 2020.

17 In the automation sections we have, again,
18 primarily carryforward funds that are estimated at
19 \$12.4 million, and it's funding projects like webLIEN, the
20 RTS tools and software acquisition, call center upgrades,
21 RTS defects, and the statewide dealer adoption project.

22 Next slide.

23 As part of the operating budget we also present
24 to you a list of contracts that will be executed or plan
25 to be executed by the agency in this next fiscal year.

1 This information begins on page 79 of your board material.

2 This slide reflects the summary of the
3 approximately 233 new and renewal of existing contracts
4 for fiscal year 2021. Seventeen contracts, whose
5 cumulatively value is of \$200,000 or more, focus on
6 routine services or software maintenance contracts, the
7 second year of the Texas Department of Transportation
8 memorandum of understanding, or title paper and postage
9 contracts.

10 One of these contracts will be presented to you
11 shortly to recommend for approval from the full board in
12 accordance with the board's contracting approval
13 procedures.

14 The remaining contracts listed here have either
15 delegated authority from the Comptroller's Office
16 statewide procurement division or the Department of
17 Information Resources, or are procured in compliance with
18 the managed term contracts from these same two agencies.

19 Next slide.

20 And at the end there was 16 statutorily
21 required contracts. These are the ones that by statute we
22 are working with specific vendors or other state agencies
23 to procure these services. Such examples are the State
24 Office of Administrative Hearings for our contested cases,
25 the State Office of Risk Management, or SORM, which we

1 coordinated our workers' compensation, our vehicle
2 liability and property insurance, the Texas Department of
3 Criminal Justice for the manufacturing of license plates,
4 registration stickers and placards, and the Texas
5 Department of Information Resources for their data center
6 services.

7 Next slide.

8 As mentioned earlier, we are requesting
9 approval as part of this presentation. We have two items
10 which we are requesting the Finance and Audit Committee to
11 recommend approval from the full board.

12 The first item is approval to execute the
13 contract to the American Association of Motor Vehicle
14 Administrators for the user licenses to the National Motor
15 Vehicle Title Information System, or NMVTIS as known by
16 its acronym.

17 This is a subscription that allows the agency
18 to comply with state and federal laws to protect Texas
19 vehicle owners' interests from fraudulent titled unsafe or
20 stolen vehicles and to ensure the integrity of Texas title
21 records.

22 Our second item here is an approval to request
23 from the Legislative Budget Board and the Governor's
24 Office the ability to transfer funds from automation
25 capital to the data center consolidated capital

1 appropriation. This is the nexus of the 25 percent
2 permitted by the General Appropriations Act.

3 Let me start off by mentioning that the data
4 center consolidation capital appropriation supports the
5 agency's cost for the statewide mainframe server network
6 and data center and print mail services through the
7 Department of Information Resources. In addition to these
8 services, DIR offers the managed applications services
9 developing contracts for pre-approved vendors.

10 There are two projects that are funded by the
11 automation capital budget. This is the webDEALER
12 statewide adoption project and the external website web
13 server cloud solution project.

14 TxDMV anticipates that these projects can be
15 better implemented using the Department of Information
16 Resources managed application services contracts. This is
17 a cost of \$2.7 million that is currently in automation;
18 however, data center consolidation services are solely
19 paid through its own capital budget line.

20 In Article 9 of the General Appropriations Act,
21 agencies can transfer out or in no more than 25 percent of
22 the original amount that's appropriated to that specific
23 capital budget.

24 The data center consolidation for fiscal year
25 2020 is just over \$10 million. The \$2.7 million transfer

1 exceeds that 25 percent limitation. To fulfill this
2 transfer, we are asking this committee and the full board
3 their approval to request authorization from the
4 Legislative Budget Board and the Governor's Office Budget
5 and Planning Division to exceed the 25 percent threshold.

6 With your support and once authorized, the
7 transfer will allow us to initiate the procurement of
8 managed application services contracts for these two
9 projects.

10 This concludes our presentation on the
11 operating budget. We are available for any questions that
12 you may have.

13 MS. GILLMAN: I have a question, Sergio.

14 MR. REY: Yes, ma'am.

15 MS. GILLMAN: Is the \$377,00 for the
16 Association of Motor Vehicle Administrators, this is a new
17 system and you say it is to make sure Texas titles are
18 clean and without fraud. Is that correct?

19 I'm trying to understand why we need it when
20 last year and the year before and the year before that we
21 did not have it. Why is it all of a sudden needed?

22 MS. FLORES: Board Member Gillman, this is
23 Linda Flores.

24 This has been in place for several years. It
25 is what we call title check, and we utilize the nationwide

1 database system, if you will, so we have an agreement with
2 AAMVA for that service, and it has been in place for
3 several years that I'm aware of.

4 MS. BREWSTER: Mr. Chairman, if I may?

5 MR. GRAHAM: Yes, ma'am.

6 MS. BREWSTER: Whitney Brewster, executive
7 director.

8 Member Gillman, this is not a new system. We
9 have been connected to the National Motor Vehicle Title
10 and Information System since 2014, and that is when we
11 came into compliance with the Anti Car Theft Act.

12 The Department of Justice oversees this program
13 and has an agreement with the American Association of
14 Motor Vehicle Administrators to administer the HUB
15 national system that allows states to understand whether
16 or not the title that is being presented to them is the
17 most recent version of the title to prevent, obviously,
18 title fraud.

19 And so this cost is associated with the
20 maintenance and operations of this system, and it is also
21 based on the number of registered vehicles per state, and
22 so this is the associated amount for the State of Texas to
23 participate in this federally required program.

24 MS. GILLMAN: So it's not new.

25 MS. BREWSTER: No, ma'am.

1 MS. GILLMAN: It will be a regular part of
2 budget every single year?

3 MS. BREWSTER: Yes, ma'am.

4 MS. GILLMAN: Does it require this approval
5 every single year?

6 MS. FLORES: It does require approval every
7 year.

8 MS. GILLMAN: Okay. All right. Thank you.

9 MR. GRAHAM: Thank you.

10 And to just add to that and ask a question
11 myself. I know that recently on a federal level there was
12 some -- well, the feds are working towards a system by
13 which titles can become more electronic state to state. I
14 know that each state has to then take that up on a state
15 level.

16 Is this a step towards getting to where there's
17 much tighter control and oversight and reduced fraud and
18 move towards electronic titles on the national level? Is
19 that sort of the movement that this coincides with?

20 MS. BREWSTER: Member Graham, it's actually
21 parallel, I would say. I wouldn't say that it influences
22 the other. I will just mention that the American
23 Association of Motor Vehicle Administrators has developed
24 an eTitling working group specifically to address what you
25 are talking about, and that's consistency and

1 standardization across the states when it comes to
2 eTitling and other controls.

3 We needed to wait until the eOdometer rule came
4 out from the National Highway and Transportation Safety
5 Administration. Once those rules came out now, I think,
6 there is more guidance to states on the expectations of
7 using digital signatures versus wet ink signatures, and so
8 there are efforts to, again, have this working group that
9 develops that national strategy, and we have made
10 recommendations from our agency to sit on that working
11 group.

12 Mr. Chairman, I believe your mute button is on.

13 MR. GRAHAM: It's the greatest challenge of the
14 new society, the mute button. Thank you.

15 I did have one additional question regarding
16 the capital projects which represent about roughly 20
17 percent of the budget. How does that compare to past
18 budgets and its percentage of the overall budget?

19 MS. FLORES: Member Graham, this is Linda
20 Flores for the record.

21 We have been very lucky in the ability to
22 continue to carry forward unspent dollars for our
23 automation projects, and so that has been place now for
24 several years.

25 There are some very large projects, and as Mr.

1 Rey mentioned, that's why we know that some of these
2 require more staff resources than we are capable of
3 providing, so we are looking to move some of those dollars
4 from automation to DCS to help us out to actually take
5 those over and complete them in a timely manner.

6 So I would say that our automation capital has
7 been consistently at about 20 percent of our operating
8 budget.

9 MR. GRAHAM: Okay. Well, I think it can be
10 said that those agencies that have worked over the years,
11 especially the past few years, to invest in those kinds of
12 projects are probably very appreciative in this day
13 current environment to have better automation and IT
14 overall, so certainly think that's something that we
15 should continue. I was just curious if it deviated much
16 from past years. So thank you.

17 Are there any other questions from the
18 committee?

19 (No response.)

20 MR. GRAHAM: Do we have any public comments?

21 MS. BEAVER: Tracey Beaver, general counsel.

22 There are no public comments.

23 MR. GRAHAM: Okay. Thank you.

24 I will entertain a motion for agenda item 4.B
25 at this time.

1 MR. BACARISSE: Mr. Chairman?

2 MR. GRAHAM: Yes, sir, Mr. Bacarisse.

3 MR. BACARISSE: I'd make a motion. We've got
4 two pretty big items here, and I'm wondering, Ms. Beaver,
5 can I take them separately, can we do two separate votes?
6 Is that all right with you, do item 1 and then item 2, or
7 do we need to do them together?

8 MS. BEAVER: Tracey Beaver, general counsel.

9 That's fine to do them separately if you would
10 like, either way.

11 MR. BACARISSE: I think it would be helpful
12 just so we all know what we're doing here.

13 I'd like to move, Chairman, that the committee
14 recommend that the full board approve the FY 2021
15 operating budget as presented, which includes item 1, the
16 list of contracts that require board approval, as well as
17 the designation of signature authority to the executive
18 director or the executive directors designee, subject to
19 the restrictions in Government Code Section 2261.254,
20 subsection (d), for the approved contracts that were
21 discussed.

22 MR. GRAHAM: Okay. Thank you, Member
23 Bacarisse.

24 And do I have a second?

25 MR. PREWITT: I will second.

1 MR. GRAHAM: Okay. Member Prewitt. Thank you,
2 Member Prewitt.

3 We have a motion and a second. Is there any
4 further discussion?

5 (No response.)

6 MR. GRAHAM: None being, I'll call the vote.
7 Member Bacarisse?

8 MR. BACARISSE: Aye.

9 MR. GRAHAM: Member Gillman?

10 MS. GILLMAN: Aye.

11 MR. GRAHAM: Member Prewitt?

12 MR. PREWITT: Aye.

13 MR. GRAHAM: And I, Chairman Graham, vote aye.

14 Let the record reflect the vote was unanimous for.

15 And I will now entertain a motion for part B.

16 MR. BACARISSE: Thank you, Mr. Chairman. I'll
17 be happy to make the motion for part B as well.

18 I would like the committee to recommend to the
19 full board for approval the transfer of \$2.7 million --
20 that's the note I made, that's the accurate number, I
21 believe -- from the DMV automation system capital line in
22 Rider 2 of the department's bill pattern to the data
23 center consolidation capital line item in the department's
24 bill pattern, subject to the department receiving approval
25 from the Legislative Budget Board and the Governor's

1 Office.

2 And this is obviously subject to the 25 percent
3 transfer limit on transferring the amount in one capital
4 budget item to another capital budget item.

5 MR. GRAHAM: Okay.

6 MS. GILLMAN: I'll second the motion.

7 MR. GRAHAM: Second by Member Gillman.

8 Any further discussion?

9 (No response.)

10 MR. GRAHAM: None being, I'll call the vote.

11 Member Bacarisse?

12 MR. BACARISSE: Aye.

13 MR. GRAHAM: Member Gillman?

14 MS. GILLMAN: Aye.

15 MR. GRAHAM: Member Prewitt?

16 MR. PREWITT: Aye.

17 MR. GRAHAM: And I, Chairman Graham, vote aye,
18 and the motion has been approved unanimously. Thank you.

19 All right. We will now move -- I think we're
20 ready to move to 4.C, which is the first six-month
21 Internal Audit plan.

22 MS. MENJIVAR-SUDDEATH: Good afternoon, Finance
23 and Audit Committee members. For the record, Sandra
24 Menjivar-Suddeath, and I am presenting item 4.C., the
25 fiscal year first six-month Internal Audit plan.

1 The material is on page 104 of your committee
2 book. This is an action to recommend to the full board to
3 approve the audit plan.

4 Next slide, please. Thank you.

5 The first six-month Internal Audit plan
6 includes value-added services, divisional initiatives,
7 required, risk-based and contingency engagements. The
8 contingency engagements and risk-based engagements are
9 identified through the risk assessment process that the
10 division conducts each year, and that I'll go into detail
11 next.

12 Next slide.

13 So the risk assessment process begins defining
14 the risk level guidance in early March. The risk level
15 guidance helps the division determine the risk rating for
16 any identified risks that we have.

17 The risk level guidance is developed by us, but
18 it is provided to the executive director, the board chair,
19 and Finance and Audit Committee for review and approval to
20 ensure that we have appropriate alignment on the risk
21 level guidance. We also provide the guidance to the
22 committee in the April-May time frame.

23 Something to note that's different in our risk
24 level guidance this year is that we moved from a three-
25 tier risk level to a five tier. The five tier is depicted

1 on the slide. The previous three-tier risk level was
2 high, medium, or low.

3 So while we're developing the guidance and
4 reviewing that, we're meeting with divisional leadership
5 and staff to understand what risk issues or concerns they
6 may have that can impact the department or a division from
7 achieving its objectives.

8 We also review all previously collected risks
9 to ensure that they're still relevant and appropriate.
10 Finally, we review media, reputable audit services and
11 look at the current environment to look at other risks
12 that could impact the department.

13 Once we have all those risks we do an initial
14 risk rating using the guidance that is approved, and we
15 take into account any processes, any controls, any
16 mitigation that we are aware of that the division is
17 doing.

18 We provide the initial scores to the division
19 directors and then ask them to provide any other
20 additional information that may help mitigate the score or
21 something we're not aware of.

22 So through that process this year we reviewed
23 and identified 247 risks. We also identified 181 unique
24 controls, and I say unique because the control can be used
25 multiple times to mitigate multiple risks.

1 Now, out of the 247 risks, we had about 48 that
2 were in the high and the very high categories, the rest
3 were in the middle, low or very low, and I'll go into a
4 little bit more discussion about that in the next slide.

5 Next slide, please.

6 So this chart depicts overall where all those
7 247 risks where they landed. Now, to note it's really
8 important to know that most of the risks landed in the
9 medium category, which is actually something we like to
10 see.

11 Having too many risks in the very high and the
12 high categories means that the department may not have
13 enough risk mitigation, and having too many risks in the
14 very low may mean the opposite, that they're actually
15 overcompensating and overmitigating risk, so this is where
16 we like to see a normal distribution.

17 Now, another thing to note on the very high and
18 high, about 20 of those risks are actually included in the
19 Internal Audit plan as either a planned audit or a
20 contingency audit.

21 The other 28 risks are either risks that have
22 been evaluated in previous engagements or they're being
23 covered through the divisions in a combined assurance
24 approach. That basically means that division management
25 and Internal Audit have had discussions on these high and

1 very high risks and they're taking action to mediate it
2 before Internal Audit has to go in to do an engagement.

3 So with that, I'll move on to the Internal
4 Audit plan. Next slide, please.

5 So this slide, which is on page 108 of the
6 material, summarizes the Internal Audit activity that
7 we'll be conducting in the first six months. This
8 includes the five value-added services, the five
9 divisional initiatives and the nine engagements.

10 The nine planned engagements include five risk-
11 based engagements and four required engagements. Now, the
12 risk-based engagements, which are listed on the top row,
13 are categorized by the things that we discussed at the
14 June board meeting and that includes the procurement and
15 supply chain management, the human resources, information
16 technology, and transformation themes. I'll go into a
17 little more detail on each of these engagements on the
18 next slide.

19 Next slide, please.

20 So the next four slides are pretty identical.
21 They'll have the name of the engagement, the hours
22 estimated that the engagement will take, and the high
23 level objectives. I'm just going to provide you a little
24 bit more detail and context on these engagements.

25 The procurement measures engagement, this

1 engagement will complement the work we've already done in
2 the procurement area. If you recall about last year, we
3 did a procurement and contract management audit. That
4 audit focused more on the compliance and basic efficiency
5 and just effectiveness of achieving objectives in the
6 procurement function.

7 This engagement will go in and will look more
8 about the measurement and how it functions, and that
9 includes both the purchasing area and the Office of
10 General Counsel for contracts, how they're measuring their
11 effectiveness and how they're measuring timelines to make
12 sure that contracts and then procurement are done as
13 needed on a timely basis.

14 The next engagement is employee relations.
15 This engagement is on the plan because employee relations
16 and performance issues is an area of risk due to legal,
17 regulatory and reputational concerns. And we've also not
18 spent a lot of time in human resources, so this will give
19 us an opportunity to go in and kind of see how the Human
20 Resources Division is doing.

21 The next engagement on the slide is
22 telecommuting. Telecommuting is on here because of the
23 current environment that we're in. Currently about 73
24 percent of our workforce in the department are working
25 remotely due to COVID-19.

1 Prior to COVID-19 we had about 18 percent of
2 our workforce that was working somehow, some way
3 telecommuting. Now, we do anticipate that the number of
4 73 percent will go down, but the number of 18 percent will
5 go up after COVID-19, so we'll have more employees wanting
6 to telecommute, probably not in the degree that we have
7 now.

8 So it's a good time for us to go in and
9 evaluate the program, you know, how is the program set up,
10 is the program effective, and more importantly do we have
11 processes in place to make sure that we can monitor our
12 remote employees.

13 Next slide, please.

14 The last two risk-based engagements include the
15 license plate manufacturer monitoring engagement and the
16 change management engagement. The license plate
17 manufacturer monitoring engagement is actually going to
18 look at the contract that we have with the Texas Department
19 of Criminal Justice to see if, A, it was set up
20 appropriately to ensure that it's meeting our goals and
21 operations, but we'll also look at the stores of our
22 license plates or disabled placards and other items that
23 they manufacture.

24 In addition, we're going to look at the
25 monitoring components that we have established to make

1 sure that our stakeholders, such as the tax assessor-
2 collectors' office or dealers, have the plates and the
3 items they need to service the customers when they come
4 in.

5 Something else to note on this engagement, we
6 have been having conversations with the internal audit
7 function at the Texas Department of Criminal Justice, and
8 we're planning to do this engagement together with them,
9 focusing more on the compliance with the contract and the
10 financial records and also looking at the operations so
11 that way we can have a streamlined and overarching view of
12 the license plate manufacturing process.

13 The last engagement that's risk based is change
14 management. This is change management related to
15 Information Technology Division. This is when we change
16 to other systems or maybe make code changes, what are the
17 processes we use to elevate that code from development to
18 production.

19 Now, this engagement does not have any hours
20 associated to it, because it is going to be a co-sourced
21 engagement. The vendor will be coming in and will be
22 doing most of the work; while our staff will have some
23 work, we don't know what that work looks like because we
24 have not been able to discuss those areas with the vendor
25 yet, but we will provide an update to the Finance and

1 Audit Committee once we have more concrete numbers on how
2 many hours this will take.

3 Next slide.

4 Then we'll go into the required engagements.
5 The first two required engagements on this slide include
6 the auditor's recommendation implementation status, which
7 you are familiar with.

8 This is the quarterly reporting we do to the
9 board that tells you which audit recommendations that were
10 due in that quarter were actually completed and whether
11 they were completed, they're going to need more time, or
12 whether they weren't acted on at all.

13 We'll also have the annual activity report.
14 This is a statutorily required report where we summarize
15 our Internal Audit activities. The guidance is provided
16 by the State Auditor's Office and is due in November.
17 Typically by this point we also have guidance on what that
18 report should include, and we do not have that so we're
19 still waiting on that.

20 Next slide, please.

21 And then last two required items are related to
22 our quality assurance and improvement program. The first
23 is the internal assessment, which you are aware of,
24 familiar with. This is our annual review of ourselves to
25 make sure that we are in compliance with audit standards

1 and how we're doing and performing as a function.

2 This will provide you information on how we did
3 on our key performance indicators, what's going on on
4 fraud, waste and abuse, as well as where we are in our
5 capability model where we grade ourselves on that scale.

6 The one you're probably not familiar with is
7 the external assessment, so every three years other
8 auditors from other state agencies come and review us to
9 make sure we are actually really in compliance with audit
10 standards, and so a part of this engagement, Internal
11 Audit has to provide a grade of self-assessment where we
12 go through and do a review of the past three years and
13 make sure we're okay with we're in compliance and we fix
14 any internal issues and we provide that self-assessment to
15 the team once they come in.

16 Next slide, please.

17 So with nine engagements, there were some
18 questions about how will we do all this with our small
19 staff, and so we put together a preliminary schedule. I
20 will say it is preliminary because things change that will
21 impact our environment that we may not be able to achieve
22 the time frames that we want, but this slide denotes where
23 we plan to start and end the engagement. And what you
24 will notice is that for audit recommendation
25 implementation status and quality assurance external

1 assessment, we're only asking for approval for work for
2 the first half. We'll come back and ask for approval for
3 the second half in February-March time frame.

4 Next slide, please.

5 The final part of the engagement are the
6 contingency engagements. Now, these are six potential
7 engagements that we could do if something occurs that the
8 engagements that we have planned where something occurs
9 where we can't do the engagement. For example, the
10 license plate manufacturer monitoring requires us to go to
11 the prison unit that they're built in or they're done. If
12 something is going on there that we can't access that
13 facility, we may have to use one of the contingency
14 engagements. The other thing on the contingency
15 engagement, we have one called a placeholder engagement.
16 This is in case anything occurs in the year where Internal
17 Audit has to review risk immediately, and so that way we
18 can swap out one of the risk-based engagements. This is
19 similar to what happened to the law enforcement
20 information request advisory service where we had to move
21 an engagement to put that in.

22 In those cases we work, obviously, with the
23 committee as well as the committee chair and board chair
24 to ensure that everyone is in agreement that we should go
25 in and look at that.

1 Next slide, please.

2 Finally, we kind of get into what Internal
3 Audit is doing to improve itself and these are our
4 divisional initiatives. Many of these things you've seen
5 before.

6 The key risk indicators are a way for us to
7 keep monitoring risk throughout the year. We're
8 developing and identifying specific indicators that we'll
9 be measuring on a quarterly basis. We're also
10 transitioning our audit software for more functionality
11 and more reporting capabilities, more on-demand reporting
12 capabilities.

13 We also have staff development training. We
14 are required by audit standards to have at least 40 hours
15 of continuing education every year, and so we make sure
16 those hours of training are really beneficial to the
17 agency and what we're doing, so we have staff development
18 plans.

19 And we have dashboard report development.
20 We're continuously trying to update and improve our
21 reporting to the board, and so this is an initiative we're
22 taking to make our boards more interactive.

23 And finally, we have board communication, which
24 we're trying to standardize and streamline all
25 communications to the board so that way you have an

1 expectation on what communication will come from us when.

2 Next slide.

3 And finally, we have our added-value services
4 that we conduct every year that include fraud, waste and
5 abuse, external coordination efforts, providing advice as
6 needed to the department either in a work group
7 participation method or as an ad hoc basis, and then also
8 doing training to the department on what is internal
9 audit, fraud-waste and abuse, and anything that those
10 require.

11 Next slide, please.

12 And so that is my presentation. I'm open to
13 take questions.

14 MR. GRAHAM: Okay. Thank you, Sandra.

15 I'll lead off with just a couple of questions,
16 the first being do we allocate time, is there any time
17 allocated to the placeholder category, or if something
18 kind of jumps up that we need to tackle, does it come at
19 the cost of some other audit?

20 MS. MENJIVAR-SUDDEATH: It depends on the
21 timing. At this point we don't allocate any hours to the
22 placeholder because we don't know what the risk will be.

23 For example, the law enforcement advisory
24 service occurred in December, the risk related to those
25 engagements occurred in December. Had those risks

1 occurred -- if we had come to understand those risks in
2 February, it wouldn't have changed our audit plan, we
3 would have just added it to the second six-month audit
4 plan.

5 But since it occurred in December, we had to
6 actually take off some engagements and use those hours to
7 do that placeholder engagement. So all of that to say is
8 the placeholder engagement really depends on what the risk
9 is and that would be a discussion with you, the board
10 chair and the Finance and Audit Committee on how many
11 hours we want to allocate and if we want to take anything
12 off.

13 MR. GRAHAM: Excellent. Thank you for
14 clarifying that.

15 I'd also just like to commend you on your work
16 on the dashboard that you really worked hard to get put
17 together for us, the committee. Has that been accessible
18 by the board in general, or is that just for the committee
19 at this point?

20 MS. MENJIVAR-SUDDEATH: We provided it to the
21 rest of the board I believe in July, you know, with the
22 caveat that it is mostly for Finance and Audit Committee,
23 but it is also available to the board, and they will be
24 getting a quarterly update of it, but they can access it
25 whenever they like.

1 MR. GRAHAM: Excellent. Okay. Thank you.

2 I would like to real quickly recognize Chairman
3 Treviño who has joined us. I think he's joining not as a
4 panelist, but Chairman, we welcome you. Thank you for
5 jumping on today.

6 I know that Member Gillman had some questions
7 previously regarding the higher risk items and how we were
8 treating those.

9 Member Gillman, has this helped answer those
10 questions, or would you like to dig in a little more?

11 MS. GILLMAN: Yeah, I would like to dig in a
12 little bit more and ask Sandra when do we go over the 48
13 high risk items and the action expected. When is it
14 appropriate to see the action? You've identified the 48.
15 What happens next?

16 MS. MENJIVAR-SUDDEATH: So we've identified the
17 48, and so we've had discussions with the divisions with
18 those 28 or so that we're not covering in the audit plan.

19 So those 28 that are not covered in the audit plan, we've
20 actually had discussions with the divisions about that,
21 and they've provided us some information on how they're
22 planning to tackle or fix those items.

23 So it's not a part of our audit engagement at
24 this point. We really just monitor them as we update our
25 risk assessment; as we do our risk assessment we update

1 them to see if action has been taken. If action isn't
2 taken, the typical view is that will become a priority for
3 our audit plan next year.

4 MS. GILLMAN: So the next update on the 28 will
5 be -- I guess I assumed it would be at the next meeting,
6 not next year.

7 MS. MENJIVAR-SUDDEATH: So we can definitely
8 work with the divisions and get them to provide us an
9 update and a potential timeline on when they are going to
10 be addressing some of the risks if that is something the
11 committee members would like.

12 MS. GILLMAN: I'm not exactly sure if it should
13 be right here in the Finance and Audit Committee, or does
14 it trickle down into the division meetings? I'm not real
15 sure of the correct structure. I'm wanting to make sure
16 that there's follow-up, and maybe that's a question for
17 Whitney.

18 MS. BREWSTER: Chairman Graham, if I may?

19 MR. GRAHAM: Yes, ma'am.

20 MS. BREWSTER: Whitney Brewster, executive
21 director.

22 Now that Sandra and her team have completed
23 this review and developed the Internal Audit plan
24 addressing, I believe, 20 of the high or very high risk
25 areas, we then as agency staff are going through each of

1 those remaining risks to determine what the next steps
2 are.

3 And certainly I would be happy to provide
4 updates on how the agency is mitigating those risks moving
5 forward, those that are certainly not covered under
6 engagements from Internal Audit.

7 MS. GILLMAN: When is the appropriate time and
8 place for that update? Is it here in the Finance and
9 Audit Committee?

10 MS. BREWSTER: Member Gillman, I think that
11 there is likely more than one way or venue to do that. I
12 would like to work with the chairman of Finance and Audit
13 to determine what the best course of action would be
14 moving forward.

15 If you could just give us a little bit of time
16 to develop what that strategy looks like, we'd be happy to
17 circle back with the Finance and Audit Committee with a
18 particular time frame.

19 MS. GILLMAN: All right. Thank you very much.

20 MR. GRAHAM: Member Gillman, I'll add that I
21 certainly without a doubt believe it's a discussion that's
22 appropriate for Finance and Audit, and you know, once we
23 go through that process and see how that looks, we can
24 make a decision what we believe should also be presented
25 to the full board, in our opinion.

1 We may not know that till we get there, but at
2 a minimum, I certainly think it would be something to
3 cover in Finance and Audit.

4 And I'll add, Member Gillman, that on the
5 dashboard when -- sorry, is that really loud, is that
6 bothering y'all?

7 MR. BACARISSE: We can just hear it a little
8 bit, Mr. Chairman. It's okay.

9 MR. GRAHAM: Okay, good. Boy, it is loud here.

10 Member Gillman, when we have engagements in
11 audit on those high priority items and they do go to the
12 divisions for there to be actions taken on the
13 recommendations, you can see how that's progressing on the
14 dashboard and you can see if they're within their
15 timeline, if they're running over their timeline, and so
16 there's some pretty good data that help assist you with
17 those items as well.

18 And if you would like to walk through that,
19 myself or Sandra can show you that, if you aren't already
20 aware of it. So I just thought I'd point that out.

21 MS. GILLMAN: Thank you. I have not been on
22 the dashboard, I need to. I need to get education from
23 it, I'm thankful for it, it's awesome. Thanks.

24 MR. BACARISSE: Mr. Chairman, if I may just
25 echo your points, I totally agree that this is the

1 committee where we should be working with Sandra and the
2 team. The dashboard is critical. I think it helps the
3 entire agency, and it helps our board too.

4 Member Gillman, thanks for your interest and
5 focus on these issues.

6 And Mr. Chairman, I appreciate your response as
7 well. I think we're going to head in the right direction
8 with this. Thank you.

9 MR. GRAHAM: Excellent. You bet.

10 Okay. Well, at this point, if there's no
11 further questions, we'll see if we have any public
12 comment.

13 MS. BEAVER: Tracey Beaver, general counsel,
14 for the record.

15 No public comment. Thank you.

16 MR. GRAHAM: Okay. Being no public comment,
17 this is an action item, and I will entertain a motion on
18 item 4.C. Or I can make a motion that we approve the
19 first six-month Internal Audit plan as presented.

20 MS. GILLMAN: Second.

21 MR. GRAHAM: Okay. Motion made by Chairman
22 Graham and a second by Member Gillman. Is there any
23 discussion?

24 (No response.)

25 MR. GRAHAM: One item of discussion I would

1 have is, Sandra, do you believe that motion is worded in a
2 way that is suitable?

3 Tracey, is that motion worded appropriately?

4 MS. BEAVER: Tracey Beaver, general counsel,
5 for the record.

6 Yes, that's a suitable motion. Thank you.

7 MR. GRAHAM: Thank you.

8 All right, hearing no other questions, I'll
9 call the vote.

10 Member Bacarisse?

11 MR. BACARISSE: Aye.

12 MR. GRAHAM: Member Gillman?

13 MS. GILLMAN: Aye.

14 MR. GRAHAM: member Prewitt?

15 MR. PREWITT: Aye.

16 MR. GRAHAM: And I, Chairman Graham, vote aye.

17 Let the record reflect that the vote was unanimous for.

18 And I appreciate, Sandra, thank you so much for
19 that presentation.

20 All right. Moving on, we will now go to agenda
21 item 5, financial impacts of COVID-19 on TxDMV, and we
22 will now hear from Linda Flores and Brian Kline on 5.A.

23 MS. FLORES: Thank you, Chairman.

24 Agenda item 5.A is a briefing item, and no
25 action is required. The materials for this agenda item is

1 found on page 119 of your board materials.

2 Next slide -- oh, I'm sorry, there is no slide.

3 Thank you.

4 The department provides a monthly fiscal impact
5 to the Legislative Budget Board and the Governor's Office.

6 The information in the board book is for the month ending
7 June 30, 2020. It provides not only revenue impacts but
8 expenditure obligations that the department has incurred
9 in response to the pandemic in Texas.

10 Mr. Kline will provide the department's
11 projections of collections deferred into the next year, as
12 well as revenue that will not be collected due to waivers
13 associated with vehicle registrations and delinquent title
14 transfer penalties.

15 Mr. Kline.

16 MR. KLINE: Thank you so much, Chief.

17 Good afternoon, honorable board members. My
18 name is Brian Kline, and I work in the Finance and
19 Administrative Services Division here at TxDMV, and the
20 CFO has asked me to do something similar to what I did at
21 the meeting that y'all had a couple of months ago and talk
22 about some of the revenue highlights of what we're seeing
23 so far this fiscal year, as well as some of the variances
24 in revenue collections that we expect by the end of the
25 fiscal year, not necessarily a loss in some cases but a

1 variance in revenue collections as compared to what we
2 anticipated at the beginning of fiscal year 2020.

3 Before I move on, I'm reminded of the quote
4 from literature that no man is an island, and even though
5 I'm the one doing the presentation, I would like to offer
6 my thanks and appreciation to my teammates, Laura Fowler
7 and Steve Sandoval. They have done an incredible job of
8 helping to put together these numbers, as well as the
9 narrative that we need to update various parties every
10 month to. So thank you for their work

11 Mr. Chairman, you mentioned earlier the page
12 number in the board book, and I'm going to be referring
13 mostly to page 121 in your board materials, and that's
14 that little green number at the upper right of that page.

15 And what you'll see there is a table that talks
16 about our expected variances for the fiscal year in all
17 funds combined. That's the top table by revenue category,
18 and the tables below it are the backup for the upper
19 table, so that's General Revenue Fund 0001, State Highway
20 Fund 0006, and TxDMV Fund 0010.

21 You'll see in the rightmost column that's the
22 expected variance from FY 2020. We expect at this point a
23 \$210.9 million drop in revenues from what we projected for
24 FY 2020, and that's broken down in the GR Fund 0001,
25 \$12.7 million loss, the big one is State Highway Fund

1 0006, \$175.9 million variance, and then our own TxDMV Fund
2 0010 variance of \$22.2 million.

3 That \$210.9 million variance is compared to the
4 figure I gave y'all a couple of months ago, which was a
5 \$133.8 million variance. So it looks like about another
6 \$70 million "loss" within the fiscal year, but there's
7 something key that's different that I'll explain in a
8 moment.

9 In the column that says "Economic Impact" in
10 the upper table, of the \$210.9 million I mentioned, about
11 \$71.6 million is just due to overall economic factors, so
12 it's not fee waivers, it's not fee deferrals, it's just a
13 general drop in expected economic activity.

14 So for example, in titles that might mean less
15 revenue -- well, it does mean less revenue, for example,
16 because fewer cars are being sold than were expected.

17 If you go to motor carrier oversize/overweight
18 permits, you'll see a drop there under Economic Impact.
19 That's due to a bit of a decline in economic activity that
20 actually we were seeing before March because of lower oil
21 prices, and that has a direct impact on motor carrier
22 permits.

23 Under business dealer licenses, we're seeing
24 fewer dealers purchasing licenses than we did at the
25 beginning of the year.

1 And a couple of big ones under miscellaneous
2 revenue, fewer transactions for purchasing permits or
3 dealer licenses brings in less credit card service fee
4 revenue, and so that's why you're seeing part of that
5 drop, and also the interest on the DMV Fund has been cut
6 in half each month because of lower interest rates.

7 So that's the economic impact component of the
8 expected variance for FY 2020.

9 I want to go over to the column that says
10 "Waived" and then that will feed into the column that says
11 "Postponed."

12 As you know and as the chief financial officer
13 mentioned earlier, there are some proclamations in place
14 from the governor and what these do is starting in March
15 and through some future determined date certain fees are
16 waived right now due to a lot of closures of county
17 offices, for example.

18 That's the delinquent title transfer penalty
19 and also the need for certain temporary permits, and
20 vehicle registrations are deferred as well, and they are
21 deferred, again, until 60 days after TxDMV notifies the
22 public that normal operations have resumed.

23 For this particular exercise we had to assume a
24 date to start the calculations here, and the exercise you
25 see here in your board book on page 121 assumed that

1 announcement date would be August 1, with the various fees
2 and deferments ending on September 30.

3 Obviously, here we are at August 5, so that
4 date is not happening, but as we continue to move forward
5 with this exercise, we're going to make adjustments in
6 that start date so that we can go through this theoretical
7 exercise.

8 The "Waiver" column is just going to be a loss
9 of fees, so due to fees not being collected not because of
10 the economy per se, but because of the fee waivers in
11 place. That's where the \$24.9 million comes into play.

12 If you'll see next to it the column that says
13 "Postponed," that's more than half of the expected
14 variance in revenue for the fiscal year, and that's
15 \$114.4 million.

16 This is primarily registration fee revenue of
17 customers who are taking advantage of the ability to defer
18 their registration revenue payments until that 60-day
19 waiver period is up past the resumption of normal
20 operations.

21 So we did not have a "Postponed" column in June
22 because we were using a start date of June 1, which would
23 have allowed all of those registration revenue collections
24 to be captured within the fiscal year, so right now many
25 people are indeed registering their vehicles online and by

1 mail or at deputies, but some people, for whatever reason,
2 are not doing that.

3 Maybe they prefer to go into a county office
4 and they're not able to do that right now. So when they
5 are able to do that, that \$114 million is expected to be
6 collected but in fiscal year 2021 instead of in fiscal
7 year 2020.

8 Any questions on that? That's just a general
9 overview of what's happening and what we expect to happen
10 over the next couple of months, and as we get July actual
11 revenues and August actual revenues in our accounting
12 system, we're going to be updating these numbers as
13 necessary.

14 So I'm happy to answer any questions.

15 MS. GILLMAN: I have a comment.

16 MR. KLINE: Yes, ma'am.

17 MS. GILLMAN: Your report scares me to death,
18 but I'm just offering a glimmer of hope that the car sales
19 and our registration has bounced back pretty good. And so
20 just looking in my own market, the Texas recorded sales
21 and of course registering them, I would say that you can
22 be collecting this year, I can't imagine it going into
23 '21.

24 So I guess what I am hopeful of is that
25 everyone is going to have a pile of work in the third and

1 fourth quarters because things are not that bad. I'm
2 saying that's my glimmer of hope and it's good, so just
3 kind of wanted to let you know that I think you're going
4 to collect a lot more than you think.

5 MR. BACARISSE: Brian, can I just kind of
6 catapult on to Member Gillman's point?

7 MR. KLINE: Yes, sir.

8 MR. BACARISSE: The state government's fiscal
9 year ending this month, as it does, that kind of crimps
10 our numbers for 2020, as you could imagine, and what
11 Member Gillman is seeing -- thank God -- is great for the
12 State of Texas.

13 We'll feel it, though, in that next fiscal
14 year, and I guess, also, like so many tax offices that are
15 not -- well, let me back up -- you have a lot of citizens
16 that have decided to take advantage of Governor Abbott's
17 deferral allowance on re-registering your vehicles and so
18 forth, and then, of course, we have a lot of tax offices
19 that are operating with skeletal staff or they've closed,
20 so those all kind of compound the number problem and
21 citizens will play catch-up.

22 Thankfully, our dealers are doing their part,
23 they're selling vehicles, they're titling vehicles, but
24 the citizenry maybe is waiting a bit before they come and
25 renew their tags.

1 Is that what y'all believe is happening out
2 there?

3 MS. BREWSTER: Member Graham, if I may?

4 MR. GRAHAM: Yes, ma'am.

5 MS. BREWSTER: Whitney Brewster, executive
6 director, for the record.

7 We have been looking very closely in the
8 Vehicle Titles and Registration Division on the numbers of
9 Texans who are maybe registering late. We are seeing a
10 significant catch-up.

11 I know that Jeremiah Kuntz, the director of the
12 Vehicle Titles and Registration Division is online and is
13 very familiar with the kind of catch-up that we're seeing,
14 but we are seeing very promising numbers showing Texans
15 catching up with their registration.

16 MS. GILLMAN: That's great.

17 Jeremiah, do you see it?

18 MR. KUNTZ: Mr. Chairman, this is Jeremiah
19 Kuntz. If I could?

20 MR. GRAHAM: Yes, sir.

21 MR. KUNTZ: For the record, Jeremiah Kuntz,
22 director of the Vehicle Titles and Registration Division.

23 So I guess as Director Brewster was referring
24 to, we are tracking this very closely and actually just
25 got a report this afternoon from my staff that have been

1 working on this and tracking it.

2 And so right now what we see -- and just to
3 kind of to give everybody a little bit of a level set --
4 the way we look at this, we on average send out about
5 2 million renewal notices per month and at the end of
6 about eleven months or really nine months is what I'll
7 use, about 82 to 83 percent of the people that we send a
8 renewal notice to actually renew their registration, and
9 that could be for any number of reasons: people have sold
10 their car since they last renewed it last year, they've
11 moved out of state, the vehicle has been in an accident,
12 it's no longer operational, for whatever reason those
13 people just don't come in to renew registration.

14 So that's kind of our baseline that we look at
15 is we send out about 2 million, we want about 82 percent
16 or so of those to come in and renew their registration.

17 So in March, for March as our example, we are
18 now four months since March and are currently at 71
19 percent of the customers that we've sent renewal notices
20 to have already come in and renewed registration.

21 And so we're pretty good, we're within about
22 300,000 registrations for just that one month of March,
23 and we're looking at it for all the other months as well.

24 It's just the one that we've got the most data on since
25 it was really the first month that COVID had really kind

1 of impacted registrations.

2 I can tell you for the month of June, when we
3 looked at June, kind of that similar trend, about 45 to 50
4 percent of the renewal notices that we send out renew on
5 time, and in June we were right in line with the number of
6 folks that had renewed on time for June of last year
7 renewed on time for June of this year.

8 So we're getting back to some level of normalcy
9 as we look at those registrations for the most recent
10 months for registration renewal, and the registrations
11 that were from the months, you know, March, April, May,
12 which were really the hardest hit, we're seeing a catch-up
13 in those months as well.

14 MR. GRAHAM: Good, awesome.

15 Well, Brian, that's some great work. I know
16 you didn't probably have this giant task scheduled in your
17 time frame, but y'all have done some great work, and it
18 really helps seeing it in this light to help understand
19 the impact on the agency as well as down the line what
20 it's going to mean to the state. So thank you.

21 Are there any other questions for Brian?

22 (No response.)

23 MR. GRAHAM: This is not an action item, so it
24 will not require a vote, but I will ask Tracey Beaver if
25 we have any public comment.

1 MS. BEAVER: Thank you, Chairman. No public
2 comment.

3 MR. GRAHAM: Excellent. Okay. Thank you.
4 Thank you, Brian.

5 MR. KLINE: Thank you, Chairman. Thank you,
6 board members.

7 MR. GRAHAM: All right. With that we will move
8 to item B, and we will hear from Linda Flores and Sergio
9 Rey on the third quarter financial report ending May 31,
10 2020.

11 MS. FLORES: Thank you, Chairman.

12 Agenda item 5.B, again, is a briefing item and
13 no action is required. The material for this begins on
14 page 124 of your board book.

15 While the previous briefing item reported the
16 fiscal impacts of the pandemic for the month ending June
17 2020, the third quarter report reflects revenues and
18 expenditures through the month ending May 2020, so it lags
19 approximately a month behind the previous briefing item.

20 Next slide, please.

21 The bar chart in front of your screen is shown
22 on page 128 of your board book. The chart compares
23 revenues for the department's three major funds from the
24 third quarter of last year to this year.

25 All of the collections mirror the impact of the

1 pandemic on the state's economy for this fiscal year. The
2 percentage declines hover at approximately 7.1 percent to
3 7.2 percent, and we do not expect to meet our projections
4 for the current year.

5 Next slide.

6 The DMV Fund, shown on page 130 of your board
7 materials, primarily supports the agency's operations, and
8 as we previously mentioned, we anticipate a 7 percent
9 decrease from last year's third quarter activity for the
10 fund.

11 Our collections, however, are sufficient to
12 cover our expenditures, including costs that we've
13 incurred in response to the pandemic.

14 Next slide, please

15 This slide details the decreases in fees that
16 are deposited into the DMV Fund. The decreases range from
17 4.8 percent for various registration fees such as buyer's,
18 temporary tags and certain license plate fees, to a high
19 decrease of 9.8 percent in the processing and handling
20 fees which are tied to vehicle registration.

21 I will now turn it over to Mr. Rey to cover the
22 next two slides in the presentation.

23 Next slide, please.

24 MR. REY: For the record, Sergio Rey, assistant
25 chief financial officer.

1 In this slide this graph, which can also be
2 found on page 138 of your board material, reflects the
3 expenditures and encumbrances through the end of May.

4 Our primary obligations continue to be the
5 printing, postage, contract and professional services, as
6 well as salaries and the Motor Vehicle Crime Prevention
7 Authority grants.

8 The \$96.4 million in expenditures also includes
9 the \$1.3 million of actual expenditures for COVID-19
10 responses in the last few months, and as Ms. Flores and
11 Mr. Kline discussed earlier, we do expect to have a total
12 cost grow as we conclude the fiscal year this month.

13 Next slide.

14 Our total capital budget through the end of May
15 is at \$44.7 million, and as milestones and major
16 deliverables near completion this time of year, our actual
17 expenditures will begin to rise.

18 Currently the expenditures total to \$10.4
19 million, primarily from our data center services, our
20 county support, and PC replacements. The remaining
21 available budgets are for projects that are in flight and
22 will continue into fiscal year 2021. Again, this chart
23 focuses on the major categories of automation, technology
24 and other projects.

25 Next slide.

1 This concludes our presentation. We are
2 available for any questions that you may have regarding
3 the third quarter of fiscal year 2020.

4 MR. GRAHAM: Are there any questions from the
5 committee members?

6 (No response.)

7 MR. GRAHAM: Okay. It sounds like we're going
8 to be able to pay our bills, Sergio.

9 MR. REY: Yes, sir.

10 MR. GRAHAM: Glad to hear that.

11 All right. We'll now move to item 5.C, the
12 Internal Audit Division status report. This will be our
13 last briefing item from Sandra Menjivar-Suddeath.

14 MS. MENJIVAR-SUDDEATH: Good afternoon, again
15 for the record, Sandra Menjivar-Suddeath. And this is a
16 briefing item only, it's 5.C. It's on page 143 of your
17 board book.

18 The Internal Audit Division status includes
19 three key areas: the status of the Internal Audit plan,
20 external coordination efforts, and Internal Audit
21 activities.

22 On page 144 there's a summary of all that
23 information. Currently we have four engagements that
24 we're currently working through.

25 The first is the law enforcement information

1 request. This is an advisory service item. We are in the
2 reporting phase of this engagement, so that means we've
3 sent the report to management for their review. We do
4 anticipate having the report ready for Finance and Audit
5 Committee review towards the end of this month.

6 The next engagement is the payment card
7 industry compliance requirement 2. This is also in
8 reporting. We anticipate sending this report to
9 management next week.

10 Right now it's going through our internal
11 review process to ensure we have adequate evidence and the
12 quality is there. We do anticipate also releasing that
13 towards the end of this month, if not early September.

14 The next item is the fiscal year 2021 risk
15 assessment. That has been completed for item 5.C.

16 And then the final item in the audit status is
17 the internal audit follow-up. This is field work because
18 we technically never leave field work as we're doing
19 continuous monitoring of internal audit status and
20 internal audit recommendations, we just continuously move
21 each quarter and see what's due for that quarter and
22 report out the next month.

23 The external coordination effort, we have two
24 audits that we're kind of monitoring. The first is the
25 Texas Department of Public Safety did a Criminal Justice

1 Information Services security technical audit in July.
2 They came in to evaluate if we were in compliance with the
3 CJIS policies and procedures. We are waiting for their
4 report for our review.

5 And then the next is the Texas Cybersecurity
6 Framework Assessment. This is not an audit, it is an
7 assessment where they come in to see our overall health of
8 our cybersecurity program by reviewing our policies, and
9 so we're just there assisting as needed.

10 And the final item is our Internal Audit
11 activities. Although we're really busy with our
12 engagements, our staff are very active in our internal
13 audit community.

14 Two of our staff members have volunteered on
15 their own time to help with the local chapter on
16 professional development and reporting requirements, and
17 this is really important because we rely a lot on our
18 community when we're addressing issues that face the
19 community that they may have some area of expertise or we
20 may need something from them, so that's a positive thing.

21 So that concludes my Internal Audit Division
22 status update. Are there any questions?

23 (No response.)

24 MR. GRAHAM: No questions. Thank you, Sandra.

25 Tracey, do we have any comments from the

1 public?

2 MS. BEAVER: Tracey Beaver, general counsel.

3 There are no comments from the public comment
4 on any of the agenda items or the public comment period
5 for today's committee meeting.

6 MR. GRAHAM: Okay. Awesome.

7 Well, that takes us to agenda item 9,
8 Adjournment. We don't have any comment sheets, so we'll
9 move to adjourn.

10 MR. BACARISSE: I'll second, Mr. Chairman.

11 MR. GRAHAM: Excellent. Thank you so much.
12 Appreciate y'all's time today, and that was a hellish
13 report, but you know, it looks like we're on top of things
14 and staff is doing great, so thank you. We will look
15 forward to seeing y'all tomorrow.

16 (Whereupon, at 3:44 p.m., the meeting was
17 adjourned.)

C E R T I F I C A T E

1
2
3 MEETING OF: TxDMV Finance & Audit Committee

4 LOCATION: via telephone conference call

5 DATE: August 5, 2020

6 I do hereby certify that the foregoing pages,
7 numbers 1 through 72, inclusive, are the true, accurate,
8 and complete transcript prepared from the verbal recording
9 made by electronic recording by Nancy H. King before the
10 Texas Department of Motor Vehicles.

11 DATE: August 11, 2020
12
13
14
15
16

17 /s/ Nancy H. King
18 (Transcriber)
19

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