

TEXAS DEPARTMENT OF MOTOR VEHICLES
FINANCE AND AUDIT COMMITTEE MEETING

Wednesday
September 11, 2013

Lone Star Room
Building 1
4000 Jackson Avenue
Austin, Texas

COMMITTEE MEMBERS:

Raymond Palacios, Chair
Blake Ingram
Marvin Rush
Joseph Slovacek

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P R O C E E D I N G S

1
2 MR. PALACIOS: Good afternoon. The time is
3 2:11. My name is Raymond Palacios, and I'm pleased to
4 open the meeting of the Finance and Audit Committee
5 meeting of the Board of the Texas Department of Motor
6 Vehicles. I am now calling the committee meeting for
7 September 11, 2013 to order, and I want to note for the
8 record that public notice of this meeting, containing all
9 items on the agenda, was filed with the Office of the
10 Secretary of State on August 29, 2013.

11 And now I'd like to have a roll call of the
12 committee members. Board Member Rush?

13 (No response.)

14 MR. PALACIOS: Board Member Ingram?

15 MR. INGRAM: Here.

16 MR. PALACIOS: Board Member Slovacek?

17 MR. SLOVACEK: Here.

18 MR. PALACIOS: And I, Raymond Palacios,
19 chairman of the committee, am here. Let the record
20 reflect that we have a committee quorum.

21 The posted agenda stated that a quorum of the
22 board may be present at this meeting, however, board
23 members who are not members of the Finance and Audit
24 Committee will not vote on any committee agenda items
25 today, nor will any board action be taken. There are no

1 other board members present.

2 Before we begin today's meeting, please place
3 all cell phones and other communication devices in a
4 silent mode.

5 If you address this committee during today's
6 meeting, please complete a speaker's card at the
7 registration table. To comment on the agenda items,
8 please complete a yellow card and identify the agenda
9 item. If it is not an agenda item, we will take your
10 comments during the public comment portion of the meeting.

11 I do not see that we have any comment cards.

12 Let's move forward with our agenda. We will
13 start with item number 2.A, which is the Internal Audit
14 Plan that will be presented by Mr. Bill Lawler.

15 MR. LAWLER: Good afternoon, Chairman Palacios,
16 members of the committee. For the record, my name is Bill
17 Lawler. I'm the director of Auditing for the Texas
18 Department of Motor Vehicles. I have with me today Trey
19 Wood, my colleague, who will assist me in presenting the
20 audit plan to you.

21 Basically what we have is the proposed fiscal
22 year 2014 annual audit plan. This is a requirement of
23 Government Code 2102, the State Internal Auditing Act, and
24 that law also requires this plan be approved by the board.

25 And so it has been prepared using risk analysis, as well

1 as input from the board members and management,
2 particularly Ms. Brewster.

3 MR. PALACIOS: Do you plan to present that on
4 the monitor?

5 MS. BREWSTER: Mr. Chairman, you have this in
6 your board books on page 310.

7 MR. LAWLER: Page 310, I apologize for not
8 mentioning that, in your board binder.

9 MS. BREWSTER: In the upper right-hand corner
10 is the page number in the board books, so page 310.

11 MR. PALACIOS: Thank you.

12 MR. LAWLER: Our plan for 2014 is a mixture of
13 both those projects that we identified through risk
14 analysis, as well as some statutorily required projects,
15 such as the audit plan for next year, as well as we're
16 required to prepare an annual report in November. And so
17 the remainder of the time has been allocated based upon
18 our risk assessment, as well as reserving a certain amount
19 of time for projects that could be proposed during the
20 year, either as requested by the board or management.

21 With that, I would refer you to page 3, and
22 this includes Table 1 and this identifies those projects
23 that we expect to provide a final report to the board and
24 we can down through these. Basically, we plan a review of
25 agency approved contracts. This is a risk area that has

1 been identified in previous audits, most recently in the
2 State Auditor's report, I believe it was 12043, that we're
3 currently following up on now, and we will be looking at
4 information that we've gained from our followup of that
5 audit, and then expanding into additional areas in
6 basically a sample of contracts that the agency has
7 entered into to test particular compliance with the
8 aspects of those contracts.

9 MR. PALACIOS: Mr. Lawler, I have some
10 questions about the scope of the contracts that you'll be
11 reviewing.

12 MR. LAWLER: Yes, sir.

13 MR. PALACIOS: Which contracts? IN other
14 words, we have hundreds of contracts. What's the scope of
15 the contracts that you'll be looking at, how many, just
16 kind of give me an overview.

17 MR. LAWLER: Typically, in a process like that
18 we'll conduct an actual engagement risk analysis and look
19 at the entirety of the population of contracts and
20 probably pull a stratified sample representative of the
21 various levels, a few of the large ones, maybe some middle
22 ones, and then some of the smaller ones, but looking at a
23 couple of aspects, not only the value but also the nature
24 of the services and the products that are being contracted
25 for. Janitorial services is a pretty straightforward one,

1 is the trash getting taken out, is the place swept;
2 whereas, you may have less defined deliverables in some of
3 the contracts.

4 And so we'll take that into consideration when
5 we're scoping it to make sure that we look at the ones
6 that have the greatest total risk, but trying to limit the
7 population to a representative so that if we do hit any
8 problems, then likely they exist possibly in other
9 contracts.

10 MR. PALACIOS: All right. So at some point in
11 the future you'll present us with the number of contracts.

12 MR. LAWLER: That will be included in the scope
13 of the report. We'll tell you exactly here's what we did,
14 here's what we looked at, and this is what we found, and
15 that would be part of the audit report.

16 We also plan to look at information security,
17 and the risk in this is both of the nature of the
18 information that we have and that we handle on behalf of
19 Texans, but also TAC 202, which is the Department of
20 Information Resources rules, require that we conduct an
21 annual review of information security and compliance with
22 that.

23 One of the things that's currently going on is
24 we've contracted with a security firm to perform a
25 vulnerability assessment. We plan to review the results

1 of that, which we expect to be completed probably by the
2 end of the month, and then determine both the scope of
3 followup on the findings of that report, looking at the
4 issues that are brought to light, and then scheduling a
5 followup to those, as well as looking at other aspects of
6 TAC 202 that aren't included in that engagement and
7 bringing to light any areas that we need to come into
8 compliance with TAC 202. And like I said, we would be
9 able to begin that work in fairly short order, as well as
10 the contracts as soon as we're able to analyze the results
11 of the vulnerability assessment.

12 Web-enabled subcontractor renewals, or Web-Sub,
13 this is actually a carryover project that we had on the
14 previous audit plan. We had encountered some challenges
15 in getting the QAT -- the user acceptance testing was
16 being pushed back at the same time that additional
17 versions of the program were being released, and it became
18 a moving target, and so we made a decision to defer the
19 project until this year. We believe it's stable at this
20 point and so it would lend itself to our looking at it.
21 We plan to look at the application controls that are
22 embedded in the program.

23 This particular program we don't think is in
24 the scope of the RTS refactoring and so the architecture
25 would be stable, as well as it's also serving as a

1 baseline for the Web Dealer program that's under
2 development, and so we think that would give us an
3 understanding of how that program is going to work when it
4 gets rolled out ultimately.

5 MR. INGRAM: What kind of things are you
6 talking about that you're looking for in that WebSub? Are
7 you looking for access to the program itself?

8 MR. LAWLER: We would do some general controls,
9 looking at the access controls, but also input controls,
10 processing controls, and then output controls, what limits
11 the information that goes, how does the system handle it
12 when it's processing the transaction, and then what on the
13 back-end verifies that it did exactly what you thought it
14 was going to do.

15 MR. INGRAM: In order to do that, and of
16 course, there's so many people using WebSub, you're going
17 to have to go, obviously, to some selection -- I would
18 think, right, you're going to some selection of users that
19 are using WebSub?

20 MR. LAWLER: We can also do simulation testing
21 on that. The program itself, once we gain an
22 understanding of how the program is set up, because it is
23 web-based, everyone gets the same interface, then the
24 program itself would be consistent across all platforms.

25 MR. WOOD: I think, Mr. Ingram, to answer a

1 little bit more into your question, there's different
2 categories of users that use the program. Obviously
3 there's the TACs that use it, there's the H.E.B. stores
4 where you can actually go and do that, so there's
5 different categories of users, so each one of those is
6 going to require a slight different testing to check their
7 specific access controls and make sure it's limited to
8 exactly what they can do, because you can have one user
9 that has multiple roles, so that user could be working at
10 an H.E.B. but they could also be working at the county
11 TAC, so you have to make sure that their controls are
12 limited to their specific function at that point in time.

13 And so that's one of the things we would be
14 checking and following up on to make sure that there's
15 that proper segregation of duties and limits to their
16 access.

17 MR. PALACIOS: It seems to me this would be an
18 ongoing.

19 MR. LAWLER: One of the things we hope to
20 understand is th version control and the change control
21 that goes on with the program because there have been a
22 number of releases. It's a fairly new program but there
23 were a number of releases of new functionality that were
24 rolled out, and so we would want to get some understanding
25 of how that process is occurring to have some assurance as

1 to for the future. This would be looking at a point in
2 time, but possibly two releases down the line they have
3 bugs that didn't get picked up, we would want to
4 understand the process for the releases to ensure that
5 there are controls in place to debug them before they go
6 into production.

7 MR. PALACIOS: Please proceed.

8 MR. LAWLER: The next item that we have on here
9 is test of data integrity of selected RTS information.
10 From just limited reviews of information in the RTS
11 system, there appear to be some data integrity issues.
12 The extent of those are unknown at this point. The agency
13 has currently proposed contracts and actually have some
14 underway that are going to implement some purification
15 processes to this. We hope to use those and develop a
16 baseline for the understanding of not only how much
17 improvement did those provide us, but also looking at a
18 baseline of what's the integrity of the data.

19 And it would be a process of negotiating with
20 management the scope of what is considered essential
21 information and fields to be captured to test against to
22 see what we're sitting at as far as an accuracy rate prior
23 to migrating our database over into the refactored system.

24 So it would be testing to ensure that we had integrity of
25 data prior to the migration or you would just get a much

1 faster and correct information.

2 MR. WOOD: As Bill said, our work on this is
3 dependent on the agency completing that initial review of
4 the data and integrity checking of that, so I think now
5 it's currently scheduled to begin sometime in late October
6 or early November, so we would not begin work until
7 sometime in the spring, at the earliest, just depending on
8 when they get done and wrap up and everything, so this
9 would be a project towards the end of the year.

10 MR. LAWLER: And that brings us to the Internal
11 Audit Plan for 2015, and that is much like the process
12 that brought us here this year is sometime in the summer
13 we come back, we reach out to the board members, we reach
14 out to management to identify risks, independently we
15 gather information all year long in everything we do to
16 further our understanding of the challenges and the risks
17 that the agency faces, and we try to bring those to the
18 risk assessment to understand both what are the risks and
19 then what are those risks that we can address or that are
20 appropriately addressed by other functions and that drives
21 the planning process, and based upon our expected
22 resources, we produce the plan for the following year.

23 MR. INGRAM: Didn't we have at one point an
24 audit ongoing with the regional offices? Was that
25 complete?

1 MR. LAWLER: The money-handling, yes, and we
2 had released that report, I believe --

3 MR. WOOD: It was in May. We presented that
4 report to the board in May.

5 MR. LAWLER: And then, of course, we will have
6 the annual audit report, which is statutorily required,
7 and that is due November 1, and that will cover the work
8 that was performed in 2013.

9 If no further questions, we'll move on. We've
10 got also some additional projects, or in the case of the
11 management request a reserve of time that either we can
12 apply to requests that we may get from the board or
13 executive management, or based upon needs, we may
14 independently pursue some items or issues, and then bring
15 those to the board's attention as this is what we've done
16 based upon what we saw going on at the time. It provides
17 us some flexibility to adjust items as we're moving
18 through the year.

19 We also have put in time for monitoring of the
20 RTS refactoring, including the independent validation and
21 verification vendor, and this is basically us keeping our
22 hands on the pulse of the project by embedding ourselves
23 to some extent in the project meetings, the iterations,
24 taking a look at the deliverables review process,
25 especially with the IV&V to ensure that there's a proper

1 vetting of the project deliverables prior to being paid.
2 And so we expect to devote fairly significant time to
3 that, and that will, of course, require being off-site at
4 the development site at Westlake Oaks.

5 MR. INGRAM: Speaking of, have you actually
6 broke down these items into percent of time?

7 MR. LAWLER: On I believe it's page 6, we have
8 a breakdown of estimated hours.

9 MS. BREWSTER: Page 316 in the upper right-
10 hand.

11 MR. INGRAM: Okay, good. Thank you.

12 MR. LAWLER: And these are, once again, our
13 best guess based upon our estimates of what we expect to
14 expend on that.

15 And then our final project that we plan to
16 perform this year is the desktop reviews of the ABTPA
17 single audits. These are basically, as part of their
18 grant requirements that they give to their grantees when
19 they provide funds is they require them to undergo a
20 single audit annually. What we do is receive the single
21 audits, a copy of the single audits and go through a
22 quality checklist to ensure that the external auditors
23 have conformed with professional standards applicable to
24 the particular audit standards that they've conducted the
25 audits under, as well as look for issues that were found

1 during the course of the audits. We also review the
2 associated management letters to see if there's any other
3 minor issues that may come up.

4 One thing why we've added some additional hours
5 to this project for this year is we've had a request from
6 the director to actually help them on some field work.
7 They perform monitoring visits and they've asked for some,
8 basically, technical assistance on the financial aspects
9 when they go out and look at those, and we have qualified
10 CPAs to do that, and so we intend to provide them that
11 assistance this year.

12 MR. PALACIOS: How many audits are you
13 reviewing?

14 MR. LAWLER: It's roughly 30 annually.

15 MR. PALACIOS: So these are all audits
16 conducted by CPA firms on the grantees.

17 MR. LAWLER: Yes. And they're typically single
18 audits. I don't know if you're familiar with A-133, the
19 federal single audit circular, but they're quite extensive
20 and involve a number of compliance reports, in addition to
21 the basic auditor's opinion.

22 MR. PALACIOS: Are these primarily financial
23 audits or operational?

24 MR. LAWLER: It's a hybrid, it's both financial
25 and compliance.

1 Anyway, that is the entirety. We do have a
2 schedule actually on page 5 that shows a color-coding of
3 our risk assessment results, and we just tried to
4 identify. To put it the best way, it is the systematic
5 allocation of our judgment on what we believe to be the
6 highest risks.

7 MR. PALACIOS: And I see you've allotted 500
8 hours, I guess, to give some flexibility in the event that
9 there's items that come up that are unforeseen.

10 MR. LAWLER: There's always items.

11 MR. WOOD: We get SAO complaints that come over
12 that require us to follow up on those, where we can
13 allocate and budget time to do those and research those to
14 provide information back to them. So that's where we can
15 do that, and then like I said, if Ms. Brewster or the
16 board has some kind of additional, something else they
17 want us to look into, this is where we've budgeted for
18 that and for that unforeseen opportunity.

19 MR. LAWLER: But because we are trying to plan
20 a year in advance, circumstances invariably change, and so
21 this gives us an opportunity to be flexible in adapting
22 and responding to those things that we feel are
23 appropriate or that deserve followup immediately.

24 MR. PALACIOS: Any questions?

25 MR. SLOVACEK: Thirty-six hundred hours?

1 That's a lot of work.

2 MR. LAWLER: And coming from your profession,
3 it's billable hours, and I haven't used it but in my
4 previous life I like to refer back to if we were an
5 accounting firm -- and I like to refer to us as the
6 agency's CPA firm -- it's about billable hours and about
7 if we were to have to go out and contract for these
8 services, what would be the value of that.

9 MR. SLOVACEK: How many people do you need to
10 do this?

11 MR. LAWLER: Need or have?

12 MR. INGRAM: Have.

13 MR. LAWLER: There are currently three of us,
14 including myself.

15 MR. SLOVACEK: And you need more.

16 MR. LAWLER: Well, I could do additional
17 audits. There's not a lack of work. And one of the
18 challenges that we have is because the agency is so
19 heavily reliant on information systems, as well as
20 experiencing significant development of information
21 systems that we're trying to develop that expertise right
22 now. We don't currently have a certified information
23 systems auditor but we're trying to get there.

24 MR. PALACIOS: If there are no further
25 questions, I'd like to make a motion. I move that the

1 committee recommend to the full board that the full board
2 approve the 2014 Internal Audit Plan, as presented.

3 MR. INGRAM: I'll second.

4 MR. PALACIOS: All in favor?

5 (A chorus of ayes.)

6 MR. PALACIOS: Thank you, gentlemen.

7 MR. LAWLER: Thank you.

8 MR. PALACIOS: The next item on our agenda, I'd
9 like to call Ms. Linda Flores to discuss the fiscal year
10 2014-2015 operating budget.

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

14 If I could direct your attention to page 236 in
15 your agenda book, this begins the documentation for the
16 agency's operating budget, and in essence, this is the
17 culmination of the legislative process that we just
18 completed in May. What we're seeking is the Finance
19 Committee's approval to move forward with this operating
20 document.

21 On page 238 of your agenda book, we've
22 identified those items that are new from the version that
23 was presented at the July board meeting. Specifically, on
24 page 240 we've made some adjustments to the agency's
25 revenue estimates. They were originally \$3.35- for the

1 two-year period, '14 and '15; we have decreased that down
2 to \$3.31 billion. The significant items that changed or
3 helped drive those numbers down are in two particular
4 areas. One is in registration fees, approximately \$27
5 million decrease for the biennium, and in
6 oversize/overweight fees.

7 In the registration areas, there were some
8 legislative changes that occurred that the agency will not
9 do multi-year registration because we are anticipating
10 going to a single sticker -- that is, a registration and
11 vehicle inspections are going to be merged into one
12 sticker. Because a vehicle inspection does not have a
13 two-year inspection period, we are probably going to go to
14 a single annual sticker, if you will, so we anticipate
15 that multi-year registration is going to decrease because
16 of that.

17 MR. INGRAM: So really no timeline for that,
18 but it's just anticipated within the next two years
19 somewhere it's going to change.

20 MS. FLORES: Correct, yes, sir. And so we've
21 knocked down our fee estimates because of that.

22 And then in the other area, it has to do with
23 oversize/overweight. As you all know, we've seen a boom
24 in the Eagle Ford Shale and the Barnett Shale up in North
25 Texas and we've also seen a big jump in permits because of

1 the implementation of TxPROS. After we met with the
2 program, we decided that we would probably not continue to
3 see that same kind of growth, so based on their request
4 and their assessment of what's going on out there, we
5 lowered our estimates by about \$4-1/2 million a year, so
6 rot he next biennium we've knocked it down almost \$9.2
7 million.

8 So those are the two driving factors that are
9 changing our revenue estimates.

10 On our method of finance, there were some
11 changes during the legislative process, and I'll move to
12 page 242 of your agenda book. The major change here is on
13 the lower part of that page. You will see that our state
14 highway funding has decreased from -- you know, when we
15 started this agency, we were primarily highway funded.
16 House Bill 6 and House Bill 2202, which created the
17 agency's DMV Fund, and House Bill 6 is an overreaching
18 type of funds consolidation bill, moved us into general
19 revenue, so this agency is going to be primarily funded by
20 general revenue.

21 The fees that were associated with all that
22 legislation is going into general revenue. So we've kind
23 of done a flip-flop, if you will, from state highway funds
24 to general revenue, and that is the most significant
25 change regarding our method of finance. The money that

1 was appropriated to the agency remains the same, it's just
2 how it's funded.

3 The major items that were funded, as you all
4 know, with the automation funding, we also received money,
5 approximately \$1.5 million, for centralized accounting
6 payroll and personnel systems. We've already started the
7 planning for that, working with the comptroller's staff.
8 They are the project managers for that specific project.
9 And we also received dollars for the regional offices,
10 security cameras, badge access.

11 The major things that weren't funded were the
12 additional items that we wanted to engage to modernize
13 after the RTS refactoring process is completed. The
14 contact center was a big deal, that was not funded. We'd
15 asked for an exceptional item to increase ABTPA grants to
16 law enforcement entities; that was not approved.

17 We wanted to increase our grant, it's the
18 Commercial Vehicle Information Security Network project
19 funded in Motor Carrier; that was not approved. And then
20 we also had asked for replacement vehicles, and that did
21 not get funded; we got one car, \$27,000 worth.

22 MR. INGRAM: So what does CVISN do?

23 MS. FLORES: It is an information network that
24 is different agencies work together. I know it's DPS, us.

25 Mr. Leal, do you know the other agencies?

1 MR. LEAL: (Speaking from audience.) It's the
2 DPS and the Comptroller's Office are on these operations
3 with CVISN, and this agency, of course, and they are the
4 main agencies that is moving through with this project.

5 MS. BREWSTER: It's a federal system where
6 states have access to the information on commercial
7 vehicles so that they can see if particular sanctions have
8 been placed on vehicles, et cetera.

9 MR. INGRAM: On commercial?

10 MS. BREWSTER: Yes, sir.

11 MS. FLORES: On commercial.

12 That's not to say we don't have funding right
13 now, we just didn't get the increase in funding, we wanted
14 to expand that.

15 On page 244 is a breakdown of these budgets by
16 division. I'm sorry, by strategy. It's 242 on your
17 agenda book. And this is how the agency's dollars were
18 appropriated by the legislature. On page 244 is a
19 breakdown by division, as well as our capital projects.
20 So I've just taken you from appropriations format to an
21 agency internal format. This is by division, so you can
22 see every division and how the money has been allocated,
23 the largest portion going to Vehicle Titles and
24 Registration on an operating basis, followed by Financial
25 and Administrative Services. And then below that. on page

1 244 of your agenda book, are all the automated projects
2 that we received dollars for. We call these capital
3 projects.

4 And this slide just reiterates what the agency
5 was appropriated for capital projects, which is shown on
6 page 244.

7 If I can turn your attention to page 253 of
8 your agenda book, this is the beginning of the contracts
9 that the agency is anticipating to engage in for the next
10 fiscal year '14. Many of these you've seen before in
11 presentations in front of you and the board. Page 254 are
12 large dollar contracts. I believe in July I brought you
13 the contract where we were wanting to engage Department of
14 criminal Justice for the manufacture of license plates.
15 We've included that in here. I had also brought to you a
16 contract for Central Freight to deliver those license
17 plates.

18 So starting on 254 and forward to 265 are all
19 the various contracts that this agency anticipates. If
20 there's something in this list that is over the approved
21 threshold for board consideration, then the particular
22 division will be coming to you at a future time to present
23 that contract to you for your approval. But we're hoping
24 that this has covered everything that we can anticipate at
25 this time.

1 And currently the board approves anything over
2 \$200,000, so I would direct you to page 255 in particular.
3 254 and 255, these are the types of contracts you would
4 currently see to approve.

5 And then just to wrap it up, we had five major
6 pieces of legislation that impacted the agency and I've
7 already covered a couple of them. House Bill 6 and House
8 Bill 2202. We also had House Bill 1692, which brings back
9 cases to the agency, and that's the SOAH -- we call it the
10 SOAH bill. The agency is currently creating a small
11 office of administrative law judges and staff to hear
12 cases that were previously sent to SOAH.

13 We have House Bill 2305, which is that single-
14 sticker situation and then House Bill 2741 is the agency's
15 cleanup bill.

16 MR. INGRAM: The money sent to SOAH previously
17 was under one of these contracts. Yes?

18 MS. FLORES: It was \$600,000. Yes, sir. And
19 so what we're doing with that money is to help fund the
20 internal operation, if you will. It's going to be five
21 FTEs, I believe, two to three judges, administrative
22 judges, and then support staff.

23 MR. INGRAM: I notice that there's still a
24 contract for SOAH in here but I guess that's for residual
25 stuff we still have ongoing.

1 MS. FLORES: It is, yes, sir.

2 MS. BREWSTER: Those items that would still
3 continue to go to SOAH. We imagine that definitely that
4 contract would go down over this fiscal year.

5 MR. INGRAM: Is the contract based on what we
6 send them, though, as far as what is --

7 MS. FLORES: It's kind of like billable hours.

8 MR. INGRAM: Billable hours.

9 MS. FLORES: It's definitely based on what we
10 actually send over there and what they work on. And this
11 is just a summary of all the different contracts that
12 we've provided to you in those pages that I've indicated:
13 13 contracts over \$200,000, 19 between \$100- and \$200-,
14 and 163 contracts under \$100,000.

15 And that concludes my presentation on the
16 agency's operating budget.

17 MR. PALACIOS: Well, that report on the
18 contracts, you have some highlighted in yellow.

19 MS. FLORES: The highlighted items identify
20 changes to this document that were not in your July
21 version that we presented. We had some ongoing cleanup,
22 we either got rid of some or we added some, so the
23 highlight is to point those out to you, those things that
24 are new. The ones that we've removed have been struck out
25 and that's included in your agenda book.

1 MR. PALACIOS: Okay. Will there be any changes
2 that require board approval?

3 MS. FLORES: Not that I'm aware of. If there
4 is a new contract that comes in after this document is
5 approved and it meets the board's threshold for approvals,
6 the division will come to you all and we'll put it on the
7 agenda for consideration.

8 MR. INGRAM: And I left my acronym cheat sheet
9 at home, so ITSAC, what does that stand for?

10 MS. FLORES: It's information staff
11 augmentation contractor.

12 MR. INGRAM: It's the contractors mostly for
13 the refactoring projects.

14 MS. FLORES: Yes, sir.

15 MR. INGRAM: Information technology staff
16 augmentation.

17 MS. FLORES: Contractor.

18 MR. INGRAM: I should have known that.

19 MS. FLORES: We try to remember that not
20 everybody is in the weeds on this.

21 MR. PALACIOS: Are there any further questions?

22 MR. SLOVACEK: No.

23 MR. INGRAM: No. Excellent job, as always.

24 MR. PALACIOS: If there are none, I'd like to
25 move the committee recommend the full board approve the

1 fiscal year 2014-2015 operating budget, as presented.

2 MR. INGRAM: I'll second.

3 MR. PALACIOS: All in favor?

4 (A chorus of ayes.)

5 MR. PALACIOS: Thank you very much, Ms. Flores.

6 Next we have the resolution to adopt contract
7 and project approval procedures to replace the April 11,
8 2013 resolution.

9 MS. FLORES: So if I could turn your attention
10 to page 218 in your agenda board book, we have before you
11 for your consideration and recommendation to the full
12 board approval to modify the current thresholds for board
13 approval on contracts and projects. The current
14 resolution, which was approved in April of 2013, has
15 certain levels at which the board has to approve before we
16 can execute and that level is \$200,000. Any change, any
17 modification to a contract that take threshold over has to
18 go before the board.

19 And we have brought this proposal to you to
20 provide some flexibility and some efficiencies, as well as
21 transparency, as to what we bring to the board. Many of
22 the contracts that we engage in are pretty routine. We
23 have several instances where the original contract was
24 \$155,000 -- I have one in particular -- and because we
25 exercised the renewal option, it is now \$300,000 because

1 the first year was \$155-, the second year is another
2 \$155,000, and it's for routine janitorial or lawn service
3 or whatever, because I decided to exercise that renewal
4 option, I have to bring it to the board for their
5 approval, and it's more of a routine.

6 So this proposal in front of you takes the
7 ceiling to \$500,000. Anything above \$500,000 would be
8 brought before the board for consideration. A change
9 order with an increase of either 25 percent or \$100,000
10 value would also be brought before the board for their
11 approval, and any change order in combination that it
12 increases the original contract by \$250- would also be
13 brought before the board.

14 An example of this is I have an original
15 contract, \$4 million, for whatever reason there's a change
16 and it's \$300,000 added to that original amount, I would
17 bring that or whoever would bring that before the board
18 for their approval.

19 This proposal also provides exclusions from
20 routine types of things, lawn services, janitorial
21 services, copiers. We have contracts that we incur every
22 year for the rental of copiers. Set-aside contracts, and
23 this is where we have to use a certain -- the TIBH, the
24 Goodwill or temporary staff, we have to use what's already
25 been put in place by the Comptroller's Office for

1 temporary services, that would not have to be brought to
2 the board for their approval. The manufacture of license
3 plates, I have to engage with the Texas Department of
4 Criminal Justice, there is no other vendor who is allowed
5 to manufacture license plates.

6 So in those respects, we could just go ahead
7 and with Executive Director Brewster's approval execute
8 those types of activities.

9 MR. SLOVACEK: And then they would be ratified
10 at the following meeting.

11 MS. FLORES: If that is what you all would like
12 to see, we can certainly bring you a list of things that
13 we've executed.

14 MR. SLOVACEK: I presume the purpose would be
15 to avoid calling special meetings.

16 MS. BREWSTER: This resolution actually does
17 not contemplate it going back before the board, on items
18 that Ms. Flores was just discussing, routine things or
19 things that we're statutorily required to do anyway. It
20 carves those particular items out of the contracts that
21 exceed \$500,000.

22 MR. SLOVACEK: It may not require ratification,
23 but at least reporting to the board that a half million
24 dollar contract was approved?

25 MS. BREWSTER: Yes, sir.

1 MS. FLORES: And many of these contracts are
2 already included in the agency's operating budget that I
3 just presented. For example, the manufacture of the
4 license plates, that's in there front and center. We
5 would continue to report anything over \$500,000 in that
6 annual operating document, and we bring that to you on a
7 yearly basis.

8 MS. BREWSTER: So any new items that were not
9 presented on that list, we would certainly come to the
10 board and either seek approval, or if there are these
11 carve-out items, actually, those would have already been
12 included in the operating budget.

13 MR. SLOVACEK: What's the reason for asking for
14 the increased ceiling?

15 MS. FLORES: From my perspective, the current
16 proposal did lead to some confusion. For example, on the
17 janitorial service, the original contract was not brought
18 to the board because it was below \$200,000, so we executed
19 contract in April, it was \$180,000, well below the
20 threshold, so Ms. Brewster was able to execute on our
21 behalf. I needed a part-time porter in the Houston
22 regional service center and we made some modifications to
23 floor cleaning and whatever. That change caused that
24 contract to go over \$200,000, but that change did not
25 occur until my new fiscal year, until after September. So

1 do I go by fiscal year, do I go by original. So we had to
2 go back and determine for ourselves is that part of the
3 current resolution or not. So there was some ambiguity or
4 there is some current ambiguity in that resolution.

5 This helps clarify for us, at least, if it's a
6 routine kind of thing and we're doing it every year and
7 it's below \$500,000, let's go forward. If it's tied to a
8 statutory requirement, that's also carved out because I
9 need to -- or the agency needs to go ahead and move as
10 quickly as possible to get those things in place. If the
11 board meetings don't happen on a monthly basis, that's
12 going to impact our ability to do those kinds of things.

13 MR. SLOVACEK: Is there just a way to report to
14 the board that a contract was approved under these
15 guidelines?

16 MS. FLORES: And if that is the Finance
17 Committee's decision, we are happy to comply.

18 MR. INGRAM: I mean, I don't have any problem
19 with the procedures that you've set forth, I just think it
20 ought to be reported once you actually execute a contract
21 at \$500,000 or below. That doesn't require 3600 more
22 hours, does it?

23 MR. PALACIOS: Hopefully not. But I do have
24 some concern now. We're more than doubling the threshold
25 for the requirement, going from \$200- to \$500,000, and I

1 understand the concerns with recurring contracts and so
2 forth, but that's not what we're addressing here. We're
3 asking now to more than double the threshold on any
4 contract.

5 MS. FLORES: And we also did some research to
6 ensure that we weren't out of line with other state
7 agencies. We did a survey of other agencies. Some
8 agencies, Department of Information Resources has a
9 million dollar ceiling before they seek board approval.
10 Texas Department of Public Safety, they notify their
11 commissioners after they've executed. Department of
12 Juvenile Justice, they have different thresholds; for
13 general contracts it's \$500,000 and above. Then we have
14 agencies that have a lower threshold. Texas Higher
15 Education Coordinating Board has \$100,000, anything above
16 that has to go before their board. Texas Water
17 Development Board, anything over \$250- has to go before
18 the board.

19 So we chose somewhere in the middle that we
20 were hoping that you all would be comfortable with, as
21 well as helping us provide some efficiencies in some of
22 these functions and tasks.

23 MR. PALACIOS: Is your primary concern that if
24 we go to quarterly meetings or bimonthly meetings that I
25 guess you'll be precluded from moving forward on services

1 because we can't vote on them?

2 MS. FLORES: That is a concern.

3 MR. SLOVACEK: And I would also think that
4 Whitney would probably talk to the chairman before
5 entering such a contract, get some input from other board
6 members maybe.

7 MS. BREWSTER: Absolutely. There's actually a
8 provision for emergency procurements within this
9 resolution that would allow me to work with the chairman
10 to enter into a contract should there be a time when the
11 board was not able to meet.

12 MR. SLOVACEK: And assuming that the chairman
13 knows about it and the board is ultimately told about it,
14 I'm okay with it, Raymond. I think it's up to our
15 director to watch out for us, and I presume she would talk
16 to you or Chairman Walker and cover her trail, so to
17 speak.

18 MS. BREWSTER: Yes, sir.

19 MR. INGRAM: So is there some way that we need
20 to modify this resolution so that the contracts will then
21 be reported on the next scheduled meeting?

22 MS. AUCOIN: This is Aline, for the record.

23 This current resolution does not have a
24 reporting requirement for reporting something that has
25 been signed. It does have a reporting requirement for the

1 contracts we know about when we create our operating
2 budget. We can certainly add a provision for reporting to
3 the board the contracts that were signed since the board
4 last met, but I didn't hear of a floor. I mean, do you
5 want to hear about a contract that was executed for a
6 dollar? Currently we have a trigger of \$200,000; we're
7 seeking to raise that to \$500,000, as well as some other
8 exceptions. So on the reporting requirement do you want a
9 floor, or do you want to know every single contract that
10 the agency signed since the board last met?

11 MR. INGRAM: My preference would be between the
12 \$200- and the \$500-, only on the items that are not carved
13 out. On the carve-outs, don't send me that, it's set in
14 stone I've got to go to these people to get these items,
15 so there's no point in me looking at it, but on other
16 items, if it's between the \$200- and the \$500-, just tell
17 me about it at the next meeting. That's my preference.

18 MR. SLOVACEK: Or I presume you could send an
19 email, or however you want to report it. I wouldn't make
20 it complicated, I just think it's about indicating to the
21 board what has taken place.

22 MS. BREWSTER: Certainly. I could include that
23 in my board communication on a monthly basis.

24 MR. INGRAM: That will be fine. Anything to
25 just say that it's been communicated, just so however that

1 needs to be fixed.

2 MS. AUCOIN: And just one other clarification.

3 On the exclusions, the exclusions include not only
4 contracts that we're required to enter into, it also
5 includes contracts where we have to go to that particular
6 source, but it also includes contracts that are routine
7 operations.

8 MR. INGRAM: I'm trying to make this as easy as
9 possible. I really don't need to see contracts about lawn
10 services. I mean, that would be my preference.

11 MR. SLOVACEK: Agreed.

12 MR. INGRAM: So those items that she's already
13 carved out are fine. I'm just trying to reach some sort
14 of middle ground here.

15 MS. AUCOIN: Okay.

16 MR. PALACIOS: As it stands, Ms. Flores, from
17 your previous slide, we have 13 contracts over \$200,000,
18 but we're not really talking about a whole lot that would
19 be coming up.

20 MS. FLORES: Correct.

21 MR. INGRAM: And this would definitely give you
22 more flexibility as we move to less meetings.

23 MS. FLORES: Yes, sir.

24 MR. INGRAM: Theoretically.

25 MS. FLORES: Theoretically.

1 MR. PALACIOS: Well, I take a different
2 approach to this. I think \$200,000 is an adequate
3 threshold, I'm just a little uneasy about going to
4 \$500,000. There is an emergency procurement clause in
5 here that would not stymie any services, so that if we did
6 have a contract that needed to be signed, I'd assume then
7 we could go to the chair or somebody to move forward. I
8 personally can't recommend doubling, but if it's the wish
9 of the other board members, you're free to make a motion.

10 MR. SLOVACEK: Raymond, would your concern be
11 less if the chairman were at least aware of it and was
12 part of the approval process?

13 MR. PALACIOS: And I think there's a provision
14 in there on this emergency procurement. I mean, would he
15 not be apprised -- if there were a contract that needed to
16 be signed sooner than later, if it's a contract that
17 couldn't wait on the full board, it could go before, I
18 guess, the chairman, or whoever would be designated.

19 MR. INGRAM: I hate to see that the chairman is
20 going to be called in about an emergency procurement about
21 lawn services.

22 MR. PALACIOS: But most of these contracts,
23 again, they're not something that just comes up. I mean,
24 you know ahead of time what's coming up, and certainly
25 something over \$200,000 would have been vetted and it

1 takes time to review them.

2 MS. FLORES: Well, if you were going to leave
3 the ceiling at \$200,000, for example, the janitorial
4 service, that's an ongoing thing. I'm exercising the
5 renewal option, which is less than \$200,000, but when you
6 look at the cumulative total on that contract, yes, it's
7 going to be over \$200,000. Do you want to see those?

8 MR. PALACIOS: No. And I can understand a
9 recurring contract, but again, this doesn't refer to
10 recurring contracts, it refers to any contract now over
11 \$500-, and that's really where I have concern now. And I
12 can understand, yes, recurring, and even that, you know
13 ahead of time when it's going to come due and when it's
14 going to renew.

15 MR. SLOVACEK: Raymond, your concern is you're
16 now doubling.

17 MR. PALACIOS: Well, it's more than doubling.
18 I mean, half a million dollars is a pretty hefty amount.

19 MR. SLOVACEK: Right. Half a million dollars
20 used to be a lot of money, didn't it? You're concerned
21 about going from \$200- to \$500-.

22 MR. PALACIOS: Yes.

23 MR. SLOVACEK: And that's really the only
24 concern you have.

25 MR. PALACIOS: Yes. And I understand the issue

1 of recurring contracts that are below the threshold,
2 however, once you renew them, that's one thing. but we're
3 talking now you're giving carte blanche to any contract,
4 whether it's recurring or not, and that I do have a little
5 heartburn with, with not presenting that to the board.

6 MR. SLOVACEK: You'd prefer to keep it at the
7 \$200-?

8 MS. FLORES: And carve out the recurring?

9 MR. PALACIOS: Yes.

10 MS. BREWSTER: So if we could --

11 MR. INGRAM: I'm sorry. Go ahead. I think
12 we're going the same place.

13 MS. BREWSTER: Yes, I think our heads are all
14 going the same place. If we kept the do not exceed amount
15 at the \$200,000 threshold and left the remaining, well, we
16 would need to adjust the second and third bullet points
17 there to something more appropriate as well -- but if we
18 lowered that threshold from \$500- to what it is now,
19 \$200-, you would feel more comfortable with that.

20 MR. PALACIOS: Yes.

21 MR. INGRAM: And the carve-outs would remain,
22 so that if it's one of these items that is set already in
23 stone, then that's exempt.

24 MR. PALACIOS: Yes. So I guess do we need to
25 make a change here?

1 MR. INGRAM: I mean, if need be, we have a
2 special meeting.

3 MS. FLORES: What I would prefer is if one of
4 the Finance Committee members make a motion to direct
5 staff to change this, and then get your approval.

6 MR. PALACIOS: Okay. I'd like to direct staff
7 to modify this to where contracts will not exceed
8 \$200,000. And what was the other?

9 MS. FLORES: It's the three bullet points under
10 general contract approval, the change orders. So we will
11 come back and provide you something before you leave today
12 or early this evening so that it will be ready for you
13 tomorrow.

14 MR. PALACIOS: For tomorrow.

15 MS. FLORES: Yes, sir.

16 MS. AUCOIN: So in terms of any sort of
17 recommendation from this committee to the full board, is
18 it the case that you are not going to vote as a committee
19 and make a recommendation to the board, you're just
20 directing staff to come up with a new resolution that we
21 think fits what you all are telling us, and then tomorrow
22 at the full board meeting you all will just speak as
23 individuals?

24 MR. SLOVACEK: I think the recommendation is
25 that you change \$500- to \$200-, everything else stays the

1 same.

2 MR. INGRAM: Well, bullet points 2 and 3 need
3 to be changed.

4 MS. AUCOIN: Right, the second and third
5 bullet, and there's other language throughout this
6 resolution that is based on the \$500,000.

7 MR. SLOVACEK: How would you fix it then? If
8 his primary concern is the \$500- remaining at \$200, does
9 that just completely eliminate the other two bullet
10 points?

11 MS. AUCOIN: It's up to the committee's and the
12 full board's discretion on whether you want the second and
13 third bullets. The second and third bullets are designed
14 to indicate problems or potential problems in a contract
15 or lack of planning, someone has signed a contract, they
16 didn't plan ahead and they're having these change orders
17 that are not ordinary normal renewals but actually change
18 orders in large dollar amounts.

19 MR. SLOVACEK: Really, what we're talking about
20 it just exclusions if we leave it at \$200,000. That
21 provision about general contract approval would really
22 just go away because we're already at \$200,000. What
23 you're really talking about is just the exclusions below.
24 Raymond?

25 MR. PALACIOS: Well, the exclusions would stay

1 as they are. I guess regarding your two bullet points --

2 MR. SLOVACEK: Well, have we ever approved the
3 exclusions?

4 MS. BREWSTER: We originally -- correct me if
5 I'm wrong -- we originally included bullets two and three
6 to give you greater transparency into any changes that the
7 agency made. As you know, we had requested to up the
8 threshold to \$500,000, but we also wanted to strike a
9 balance between having greater ability to move forward on
10 these contracts, but also allowing you to see when there
11 are issues that arise. So I'm of the opinion that bullets
12 two and three are really no longer needed if we're keeping
13 the threshold at \$200,000, but that is, of course, up to
14 the Finance and Audit Committee.

15 MS. FLORES: Another option for bullets two and
16 three is just to knock those numbers down by half. So
17 it's a change order, individually or in combination with
18 other change orders, increases the original contract by 25
19 percent or more, as long as the dollar amount of the
20 change order is \$50,000 or more. And then the last one
21 would be increases the original contract by \$125,000 or
22 more.

23 MR. PALACIOS: Where did you come up with your
24 50 percent?

25 MS. FLORES: Well, 25 percent of \$200- is 50,

1 25 percent of \$200,000 is roughly \$50,000. That's an
2 option.

3 MR. PALACIOS: Well, I'm comfortable with that
4 option. So I guess the suggestion is staff would come
5 back and make changes to this policy and we will present
6 it to the board tomorrow.

7 MR. SLOVACEK: We could actually approve it now
8 with those changes.

9 MR. INGRAM: Yes, with those changes. So I
10 would move that we approve the resolution with the
11 following changes: that the contract exceeds \$500,000 be
12 changed to \$200,000; that bullet point two is changed to
13 be \$50,000 in place of \$100,000; and bullet point three,
14 I'm using \$100,000 just simply because it's a round
15 number; and then all other items as far as exclusions
16 would remain the same.

17 MS. FLORES: And under reporting?

18 MS. AUCOIN: And the reporting is currently
19 \$500-, should we knock that down to in excess of \$200-?

20 MR. INGRAM: Yes.

21 MS. FLORES: And then the final, if I remember
22 correctly, Board Member Ingram, is that you want the
23 executive director to include in her monthly report to the
24 board contracts that were executed between \$200,000 and
25 \$500,000.

1 MR. INGRAM: That's exactly what I meant to
2 say, with the exception of the excluded items. It's a
3 little sloppy but it kind of gets there.

4 MS. AUCOIN: So why would we need a report of
5 contracts executed between \$200,000 and \$500,000 if we're
6 knocking the trigger?

7 MR. INGRAM: Right, you're right, that part
8 goes away. That's exactly what I meant.

9 MS. AUCOIN: So I thought that was a good
10 motion. If you want me to summarize it one more time?

11 MR. INGRAM: I would love for you to summarize
12 that.

13 MS. AUCOIN: So the motion is to have
14 department staff modify the contract resolution to reflect
15 the committee's motion today to reduce the \$500,000
16 trigger to \$200,000 on the first bullet point, to reduce
17 the \$100,000 to \$50,000 on the second bullet, to reduce
18 the \$250,000 to \$100,000 on the third bullet, on the
19 second page under the budgeting and reporting trigger, to
20 reduce that \$500,000 amount to \$200,000, and for staff to
21 modify this resolution in time for tomorrow's board
22 meeting.

23 MR. INGRAM: Yes, ma'am.

24 MR. PALACIOS: Is that your motion?

25 MR. INGRAM: Yes, it is.

1 MR. PALACIOS: All right. Second?

2 MR. SLOVACEK: Second.

3 MR. PALACIOS: All in favor?

4 (A chorus of ayes.)

5 MR. PALACIOS: Good job.

6 MR. INGRAM: Thank you, Aline.

7 MR. PALACIOS: Thank you, Ms. Flores.

8 Let's move on to the fourth item, the
9 recommended card fee options. I was informed just before
10 the meeting that there is a pending class action lawsuit
11 which may affect the credit card fee options. The court
12 is scheduled to meet tomorrow, September 12, to decide if
13 the class action settlement will be approved. We
14 obviously don't know how they're going to rule on the
15 settlement, so as such, I've been informed that this
16 settlement may have effects on our decision today. So
17 given the uncertainty of the lawsuit, I would move that we
18 pass on agenda item 2D until we have more clarity on which
19 way this lawsuit is going to go.

20 But in the interim, I would direct staff to
21 review the options that we know now, because we don't know
22 when this lawsuit will be settled. We may have a decision
23 tomorrow, it could take months, so I don't want to wait on
24 a lawsuit to hold up whatever decisions that we can make
25 now. So if there's something that would fall, I guess,

1 within a safe harbor, within the auspices that is legal,
2 I'd move that we look at these issues now so that we can
3 make recommendations sooner than later on how we want to
4 proceed with the credit card fee options.

5 MR. INGRAM: I would second that, and just to
6 note that every day we postpone is a dollar lost.

7 MS. BREWSTER: We can certainly do that.

8 MR. PALACIOS: All right. And I believe that
9 takes us to the end of the meeting. IF no members have any
10 further items of business, I'd be pleased to entertain a
11 motion for adjournment.

12 MR. INGRAM: So moved.

13 MR. PALACIOS: All in favor?

14 (A chorus of ayes.)

15 MR. PALACIOS: Thank you very much. We're
16 adjourned.

17 (Whereupon, at 3:16 p.m., the meeting was
18 concluded.)

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C E R T I F I C A T E

MEETING OF: TxDMV Board Finance & Audit Committee

LOCATION: Austin, Texas

DATE: September 11, 2013

I do hereby certify that the foregoing pages, numbers 1 through 46, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy H. King before the Texas Department of Motor Vehicles.

(Transcriber) 09/14/2013
(Date)

On the Record Reporting
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