

TEXAS DEPARTMENT OF MOTOR VEHICLES  
FINANCE AND AUDIT COMMITTEE MEETING

Thursday,  
August 13, 2015

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. My name is  
3 Raymond Palacios and I'm pleased to open the meeting of  
4 the Finance and Audit Committee of the Board of the Texas  
5 Department of Motor Vehicles.

6 It is 1:04 p.m., and I'm now calling the  
7 Committee meeting for August 13, 2015 to order. And I  
8 will note for the record that public notice of this  
9 meeting, containing all items on the agenda, was filed  
10 with the Office for the Secretary of State on August 4,  
11 2015.

12 Before we begin today's meeting, please place  
13 all cell phones and other communication devices in the  
14 silent mode.

15 If you wish to address the committee during  
16 today's meeting, please complete a speaker's sheet at the  
17 registration table. To comment on an agenda item, please  
18 complete a yellow sheet and identify the agenda item. If  
19 it is not an agenda item, we'll take your comments during  
20 the public comment portion of the meeting.

21 And now I'd like to have a roll call of the  
22 Committee members. Board Member Ingram?

23 MR. INGRAM: Here.

24 MR. PALACIOS: Board Member Rush?

25 (No response.)

1 MR. PALACIOS: Board Member Slovacek?

2 MR. SLOVACEK: Here.

3 MR. PALACIOS: And I'm Raymond Palacios,  
4 chairman of the committee. Let the record reflect that we  
5 have a committee quorum.

6 The posted agenda stated that a quorum of the  
7 board may be present at this meeting, however, board  
8 members who are not members of the Finance and Audit  
9 Committee will not vote on any committee agenda items  
10 today, nor will any board action be taken.

11 Also, let the record reflect that Committee  
12 Member Rush is absent.

13 With that, is there anyone here wishing to make  
14 public comment? Do we have any yellow cards, anybody  
15 that's registered for public comment? I see no one.

16 With that, we will move to the first item on  
17 your agenda, and that will be from Ms. Linda Flores.

18 Good afternoon, Ms. Flores.

19 MS. FLORES: For the record, good afternoon.  
20 My name is Linda Flores. I'm the chief financial officer  
21 for the agency. And with me today is Renita Bankhead, and  
22 she will be providing a brief summary, no action is  
23 required, on the third quarter financial summary for the  
24 agency. This is for the period ending May 31, 2015.

25 MS. BANKHEAD: Good afternoon. For the record,

1 my name is Renita Bankhead, assistant CFO.

2 Beginning on page 14 of your board documents is  
3 a snapshot of revenues and expenditures as of the end of  
4 the third quarter which ends May 31, 2015.

5 On page 16 of your materials is a summary of  
6 revenues. The total deposits increased almost \$500  
7 million from the end of the second quarter that ended in  
8 February. This increase is driven by increases in  
9 registration revenue, just our basic revenue. Also, our  
10 Oversize/Overweight revenue continues to increase; that  
11 was a \$40 million increase from February. However, the  
12 year to date collections for '15 are slightly less than  
13 '14, and that is due to a decline in oil prices.

14 On page 17 of your materials, we're going to  
15 talk about My Plates for just a second. The year to date  
16 collections as of the end of May increased \$2.6 million  
17 over the collections as of the end of February. The end  
18 of May was showing collections of \$4.8- attributable to  
19 the new contract. And Linda, during her presentation on  
20 the fiscal year '16 budget will give you some more updated  
21 numbers on those collections.

22 MR. PALACIOS: Excuse me, Ms. Bankhead.

23 Let the record reflect that Board Member Rush  
24 has entered, 1:08 p.m.

25 MS. BANKHEAD: Next we're going to talk about

1 expenditures. At the end of May the remaining budget is  
2 \$41 million. Of the \$41 million, over half of that will  
3 be carried forward to fiscal year '16, primarily for  
4 automation, which we'll talk about in a few minutes.  
5 Staff will maximize any operating balances that we have to  
6 purchase postage for our registration and titling  
7 materials.

8 Capital projects, this is a snapshot, as we  
9 said before, at the end of the third quarter, May 31,  
10 however, we had quite a few things that happened after  
11 this snapshot. In June the Data Center services budget,  
12 which you see here at \$3.9 million, was increased to \$5  
13 million to address a shortfall we identified during the  
14 midyear review. The contract for the security systems,  
15 that's a budget of \$813,000, those funds have been  
16 obligated. We are working to finalize that contract and  
17 it should be done by the end of this month.

18 In July the agency notified the Legislative  
19 Budget Board and the Governor's Office of Budget Planning  
20 and Policy of our intent to transfer \$4.4 million of  
21 technology replacement and upgrades for accounting to the  
22 TxDMV automation budget, and that is for increased costs  
23 related to the RTS refactoring project and the LACE  
24 project. These funds, along with an estimated \$24.3  
25 million in DMV automation project balances, and \$857,000

1 in CVISN, will be carried forward to 2016, and we'll talk  
2 about that also as part of the 2016 budget presentation.

3 This concludes my presentation of the third  
4 quarter financial summary. Are there any questions?

5 MR. PALACIOS: Any questions?

6 (No response.)

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

8 MS. FLORES: Moving on to the FY 2016 operating  
9 budget, this is an accumulation of all of the work that  
10 came up during the legislative session. So I'm just going  
11 to give you a real brief overview of what's in your  
12 material.

13 Part 1 is the impacts to the LAR. Part 2 is  
14 just a snapshot of our revenues. Part 3 is a lot of  
15 detail on the agency's operating budget; we slice and dice  
16 and give you different presentations. Part 4 of your  
17 document deals with capital projects. And then part 5,  
18 which we're going to focus on, has to do with contracts.

19 So back to our part 1, the impact of the LAR,  
20 we asked for a total of \$390.1 million but we were  
21 appropriated \$313.4 million, a difference of \$76.2  
22 million, and we stayed at the same FTE level that we've  
23 had for the last four years. These are some of the major  
24 things that were funded. Let's deal with the things that  
25 weren't funded first: the headquarters building that we

1 all know about which seems to be still kind of out there  
2 in conversation; the cyber-security services that we asked  
3 for; the vehicles; as well as the FTEs for the field  
4 service reps. We also did not get funding for our CVISN  
5 2016 grant, and then the \$10 million extra that we asked  
6 for ABTPA.

7 The things we did get, though, continue to move  
8 the agency forward in operations. We got \$7.4 million for  
9 the AMSIT project, and that's the continuation of  
10 separation from TxDOT IT.

11 MR. PALACIOS: Excuse me, Ms. Flores.

12 Let the record reflect that Board Member Ingram  
13 has left for a few minutes.

14 MS. FLORES: We did get additional funding for  
15 our operations in the data center. We got additional  
16 money for producing more license plates. We got funding  
17 to relocate two regional service centers in the State of  
18 Texas, and those service centers have not been finalized  
19 which particular regions we're going to be moving, but  
20 we're going to move at least two, and if we have enough  
21 dollars, maybe three.

22 Finally, we got a million and a half to  
23 relocate the staff at Bull Creek, and just as a reminder,  
24 that's the Motor Carrier Division, and we specifically  
25 have about 119 staff members over there. Technically,

1 we're allowed to stay there until 2018. That was the  
2 formal agreement between TxDOT and the new owners of that  
3 facility. However, our plan is to move out of there by  
4 2017.

5 So some of the legislation that impacted our  
6 finances, and I know Caroline has a presentation that will  
7 address other legislation, but these were some of the  
8 major things. We had Senate Bill 1512 which recreated the  
9 DMV Fund, but for '16 we're funded out of general revenue  
10 and in '17 our method of finance is supposed to point to  
11 the newly created DMV Fund. House Bill 6 was the funds  
12 consolidation bill. The last legislative session created  
13 the fund and then promptly omitted the fund from funds  
14 consolidation, so it was removed. This time the fund  
15 stands and is created and is exempted from funds  
16 consolidation, so we're good to go for this biennium.

17 Finally we had, as you know, vetoes both in  
18 House Bill 1 and House Bill 2. The governor chose to not  
19 approve the funding for the building, which was actually  
20 TFC's bill pattern, as well as \$500,000 for up-front  
21 planning money that they were going to use to kind of  
22 start the planning process for real estate.

23 Moving on, our revenue summary for the next  
24 biennium, we know that we're going to be collecting at  
25 least \$1.77 billion in fiscal year '16. For the biennium,

1     though, we're going to be collecting over \$3 billion in  
2     total, but this is just a one-year snapshot. Our  
3     appropriations are \$168 million, and if you do the math,  
4     we're using about 9.5 percent of our total revenue  
5     collections.

6             My Plates. As Renita mentioned, we've  
7     implemented a new contract. The term goes from 2014 to  
8     2018. She indicated that we've had collections through  
9     May of about \$4.8-. As of June we collected under this  
10    new contract \$5.76 million. They have a guarantee to  
11    general revenue of \$15 million over five years, so based  
12    on their current trend, we know that they're going to hit  
13    that 15 million way sooner. When that sooner is, I cannot  
14    tell you at this point.

15            MR. PALACIOS: Excuse me one more time. Let  
16    the record reflect that Board Member Ingram has returned.

17            MS. FLORES: That's okay.

18            What I can tell you because I don't have enough  
19    data points to really give you an estimate, but as we  
20    compile more data points, we'll have a better idea of when  
21    they're going to hit that \$15 million target to general  
22    revenue.

23            They have 124 plates in their catalogue. They  
24    started at an all-time high of about 168 plates, they're  
25    down to 124. And these are the top ten plates in their

1 portfolio, as we all know, the Lone Star Black, the T for  
2 Texas, all the way down to Come and Take It.

3 We're going to spend just a little time on the  
4 agency's activities. As I mentioned, your board document  
5 details out by program, by budget category, but I just  
6 thought we would show you where we spend our money. This  
7 is how the agency spends its money, and the biggest  
8 portion has to do with technology enhancements, as well as  
9 administration for those types of activities. That's  
10 roughly about 43 percent.

11 The next big ticket item is the license plate  
12 production which is one of our four missions. That's  
13 approximately 20 percent, and if you throw My Plates in  
14 there, we're at 23 percent.

15 And then the rest is followed by administration  
16 which is myself, the executive director, human resources,  
17 ABTPA and other entities such as administrative hearing,  
18 motor vehicle enforcement, and so forth.

19 And then the automation, the technology side,  
20 you can see that our biggest chunk of attention is spent  
21 on automation projects, followed by the charges in DCS,  
22 the new AMSIT project, and growth and enhancements which  
23 has to do with just printers, computers, laptops and that  
24 type of equipment.

25 And here's a further breakdown of our capital

1 projects one more time. As Renita mentioned, we're going  
2 to be carrying forward almost \$30 million, \$29.6 million  
3 into the new year. We're going to start out with a budget  
4 of \$69.4 million. And if I'm going too fast on this, just  
5 let me know.

6           The next major thing that I really want to  
7 bring to your attention has to do with contracts over  
8 \$200,000, and those begin on page 54 of the agenda  
9 briefing book page number. One of the things that I did  
10 want to bring up was some significant legislation, it's by  
11 Senator Jane Nelson, it was Senate Bill 20, and this has  
12 to do with contract reform. There were several  
13 appropriations hearings that occurred that dealt with  
14 major issues with contracts, specifically on IT projects,  
15 and this was a result of State Auditor reports that were  
16 published right before session or right during session,  
17 and there was a lot of concern how one project could start  
18 at a million dollars and within one year's time jump to  
19 \$20 million, and before they were done they were reaching  
20 \$90 million without ever having to go out on the street  
21 for a request for proposal.

22           So the agency in question spent a lot of time  
23 in various committee hearings, and as a result, this  
24 legislation has passed and it impacts all state agencies,  
25 it's over the Comptroller, it's going to impact everyone

1 doing any type of contracting for IT services. The  
2 Comptroller, the LBB, DIR, the State Auditor are all  
3 working together to establish policies, procedures and  
4 rules that we're all going to have to follow as state  
5 agencies. The effective date is right around the corner,  
6 September 1.

7 We've all been attending various meetings to  
8 follow very closely what the new guidance is going to be  
9 for state agencies. We have an internal work group  
10 composed of legal staff, finance staff, state auditor  
11 staff, and all the different programs who deal with  
12 contracting because there's going to be some major changes  
13 when it comes to having to get DIR to pre-approve our  
14 statements of work for certain thresholds. There's a lot  
15 of different reporting requirements that we're going to  
16 have to follow. So internally we're going to have to  
17 change our process to meet the new rules. But I did want  
18 to point that out so that you are aware that things are  
19 changing when it comes to contracts.

20 And as I mentioned earlier to someone, this is  
21 not a new issue. If anyone was in state government in the  
22 nineties, there was a big scandal called VitaPro, and it  
23 was a new -- what was it, Sandra?

24 MS. VICE: A meat substitute.

25 MS. FLORES: Meat substitute that was provided

1 to state prisoners, and it turned out -- I mean, this was  
2 hundreds of millions of dollars -- it turned out that the  
3 executive director for the agency was in cahoots with the  
4 vendor who was selling this item to the State of Texas and  
5 he was also promoting it across to various states. And he  
6 ended up leaving the agency, but before he left the agency  
7 he got TDCJ to issue a five-year contract that was in  
8 excess of \$30 million. So all of this kind of stuff came  
9 to light. There were some indictments but we believe that  
10 at the end of the day he was not prosecuted but there were  
11 several state employees who were indicted on charges.

12 So as I mentioned, this is not a new issue but  
13 it surfaces every so many years, and Senate Bill 20 is in  
14 response to some of those concerns that the legislature  
15 has for contracts over a certain value, and I think  
16 they're looking at contracts over a million dollars.

17 MR. PALACIOS: So this is only contracts over a  
18 million, because I saw \$50,000 in there.

19 MS. FLORES: They have certain reporting  
20 requirements that they're going to make this follow,  
21 certain procedures, so for items over \$50,000 you've got  
22 to go to DIR to get pre-approved your statement of work.  
23 So we're going to send them our statement of work: Hey,  
24 we want to contract for this type of service. They have  
25 30 business days to approve that and send it back to us so

1 that then we can go out and find vendors who can perform  
2 that work.

3 MR. PALACIOS: Okay. So I guess the process  
4 moving forward, because we have our own \$200,000  
5 threshold, and I guess we've got some contracts that we're  
6 going to approve, so our board would approve these and  
7 then you take it to DIR.

8 MS. FLORES: Well, for the contracts that we're  
9 going to ask for your consideration, these are contracts  
10 or tasks that were in place before September, so they're  
11 going to fall under the normal guidelines that we're  
12 operating under today.

13 MR. PALACIOS: Okay. Now, how is this going to  
14 change, I guess, the scope of our internal audit because  
15 it looks now that --

16 MS. FLORES: She's going to have more work to  
17 do.

18 MR. PALACIOS: It sounds like it. So the scope  
19 of her responsibilities are going to increase and how is  
20 that going to affect, I guess, going forward implementing  
21 contracts? I mean, can we expect delays?

22 MS. FLORES: Absolutely. All state agencies  
23 know if it's something that's having to go to DIR for 30  
24 business days, we're going to have to extend our planning  
25 process to take those type of things into consideration,

1 because if they have 30 business days, that means we're  
2 sitting around waiting for their approval before we can  
3 take the next step, so it's really going to be like 45  
4 calendar says before we hear anything.

5 MR. PALACIOS: And then beyond that, I would  
6 assume there's going to be greater accountability. I  
7 don't know what exactly all the procedures are going to  
8 be.

9 MS. FLORES: Neither do we, quite honestly,  
10 because Legislative Budget Board and DIR, DIR has some  
11 draft rules out right now, I think they posted the rules  
12 for comment, but everything has to be in place by  
13 September, so those agencies are scrambling at this time  
14 trying to get everything in place for us to follow.

15 MR. PALACIOS: Okay. So I understand these new  
16 rules and procedures are still being developed, as we  
17 speak.

18 MS. FLORES: Yes, sir.

19 MR. PALACIOS: That will absolutely affect, and  
20 as you said, the scope of what our internal audit  
21 department does.

22 MS. FLORES: And State Auditor does rely on  
23 internal staff to kind of follow up and check on state  
24 agencies to ensure that they're complying with all the  
25 rules and guidance that we're supposed to follow. So as I

1 mentioned, yes, Ms. Vice will have additional workload  
2 placed on her as a result of Senate Bill 20.

3 MR. PALACIOS: Okay. So this takes effect when  
4 now?

5 MS. FLORES: September 1.

6 MR. PALACIOS: September 1.

7 MR. INGRAM: So a quick question. So the items  
8 that we already have in place, they're not going backwards  
9 in time.

10 MS. FLORES: No.

11 MR. INGRAM: But if we modify any one of those  
12 items to increase its budget, then it would fall into the  
13 situation?

14 MS. FLORES: Yes, sir, very much so.

15 So as I mentioned, we do have a part 5 section  
16 in your document and it starts on page 53 of your briefing  
17 book. I wanted to spend a little time here, and I do have  
18 some modifications to make to this. We do not have 13  
19 contracts now that require board approval, instead we have  
20 five. Technically, the rest, we have eight contracts  
21 listed here in your board document that says it requires  
22 board approval, but it does not because they're either  
23 obtained through the Council on Competitive Government or  
24 they're acquired through the Department of Information  
25 Resources contracts for routine operations and therefore

1 they're excluded from approval.

2 But here is the list, this is on page 54 of  
3 your briefing document. So technically, the Title Paper  
4 contract will not require board approval. I'll go through  
5 these really quickly, I'll tell you what needs to come off  
6 this list.

7 MR. PALACIOS: Okay.

8 MS. FLORES: The Title Paper. Technically, the  
9 Deloitte has already been approved; this is a  
10 continuation. The Greentree Group contract can be  
11 removed. The Insight Public Sector contract can be  
12 removed since that's obtained through DIR.

13 MR. SLOVACEK: Why do are you removing them?

14 MS. FLORES: They're exempt from board  
15 consideration since they're for routine operations and  
16 excluded due to acquisitions from either TxPASS, which is  
17 Texas Procurement and Support Services, Department of  
18 Information Resources contracts, Council on Competitive  
19 Government contracts.

20 MS. BREWSTER: Mr. Chairman, if I might?

21 MR. PALACIOS: Yes.

22 MS. BREWSTER: Whitney Brewster, executive  
23 director.

24 What Ms. Flores is reading from is the board  
25 resolution for contracts exceeding \$200,000, and there are

1 exemptions in that resolution and those are what Mr.  
2 Flores is referring to.

3 MS. FLORES: But they made it on the list  
4 inadvertently, so I did want to make that correction.  
5 We'll have that corrected for tomorrow's board meeting.

6 MR. PALACIOS: It doesn't hurt to have them on  
7 here.

8 MS. FLORES: Technically, also you could remove  
9 the Ragsdale-Brookwood Venture, the facility. That's for  
10 the Houston Regional Service Center. That actually is  
11 acquired under Texas Facilities Commission, it's not our  
12 internal agreement with them.

13 HP Enterprise Services for eTags maintenance  
14 and support, that was obtained through DIR. The  
15 following, CDW Government, SMARTNET, that's for  
16 maintenance of our Cisco network and telephone system,  
17 that was acquired through DIR. And the Intratek Computer,  
18 Inc. contractor, that can also be removed. That was staff  
19 aug which is also an exclusion, that can move.

20 MR. PALACIOS: Ms. Flores, I'd like to say that  
21 even though we're not approving these contracts, I think  
22 for the edification of this committee and the board, it's  
23 good to have this information available to us.

24 MS. FLORES: And what we can do is just create  
25 an informational listing, if you will, for transparency in

1 Texas government.

2 MR. PALACIOS: Thank you.

3 MS. FLORES: The ones that we do want to bring  
4 to your attention that will require board approval is the  
5 Deloitte Consulting for workstream 4 amendment, there is  
6 no dollar value here, specifically because we haven't  
7 actually finalized what that dollar value is, but I  
8 believe Ms. Brewster will have more discussion to offer on  
9 that tomorrow. But we did identify that as a placeholder,  
10 if you will. There's still some pending negotiations and  
11 so we really didn't want to put a number there that may  
12 change.

13 The other contract for board consideration is  
14 the Explore Information Services for the Texas  
15 International Registration Plan maintenance at \$320,292.  
16 That's a sole source. In other words, that company built  
17 that application, so since they built it, we rely on them  
18 for maintenance.

19 MR. PALACIOS: On this contract, I understand  
20 it expires in 2016, but will we be renewing this going  
21 forward for these types of services?

22 MS. FLORES: After '16, if we are in a  
23 situation where we refactor that application and maybe  
24 change it to open source type application, then definitely  
25 we'll be moving away from that vendor, but at this point I

1 really can't address that.

2           The same thing is for the next vendor,  
3 Promiles, sole source, they built the Texas Permitting  
4 Route Optimization application. It's called TxPROS. This  
5 is where motor carriers can purchase permits on their own  
6 online. That's a sole source vendor as well, and this is  
7 next year's hosting and maintenance services contract.

8           The next item is Southwest Research Institute.  
9 They're a non-profit entity out of San Antonio. They  
10 provide assistance for the Commercial Vehicle Information  
11 System Network project. That's a federally funded  
12 project. That entity does research and helps them  
13 identify those transponders on the bridges to alert  
14 truckers if they're too high and they're about to hit a  
15 bridge. They're expanding that network. They call it  
16 SWRI, Southwest Research Institute.

17           And then finally, the last item is AAMVA,  
18 American Association of Motor Vehicle Administrators.  
19 This is a data transfer of title information on vehicle  
20 identification numbers, VINs, and it's a fraud protection  
21 service that we've engaged with AAMVA and these are our  
22 service fees for that application.

23           MS. BREWSTER: Mr. Chairman, Whitney Brewster.

24           This is to participate in the National Motor  
25 Vehicle Title Information System which is a federally

1 required system for all states to participate in. It is  
2 enforced by the Department of Justice, and the American  
3 Association of Motor Vehicle Administrators, AAMVA, they  
4 are the information hub, if you will, for all states to  
5 join NMVTIS.

6 MR. PALACIOS: How are the fees set?

7 MS. BREWSTER: Mr. Chairman, the fees are set  
8 on the number of registrations that a state has. There is  
9 also the ability to recoup some of those costs should  
10 customer go to the title check website that we have  
11 listed, the DOJ sponsored vendors where an individual can  
12 go and check to see if a vehicle is branded and what the  
13 odometer reading is. So there's a combination of things:  
14 one, it's based on the number of registrations for a  
15 state, but we can also get a rebate, if you will, for  
16 those customers that do go onto our website and utilize  
17 the title check function.

18 MR. PALACIOS: Do we have any idea what the  
19 rebates could be? The total fee is \$240- so you're saying  
20 we could be rebated a portion of this back.

21 MS. BREWSTER: Mr. Chairman, if you wouldn't  
22 mind, if I could ask Jeremiah Kuntz to come up and answer  
23 that question.

24 MR. PALACIOS: Sure.

25 MS. BREWSTER: Thank you.

1 MR. KUNTZ: For the record, Jeremiah Kuntz,  
2 director of Titles and Registration Division.

3 The rebate I believe that we got last year was  
4 close to \$35,000. I believe it's estimated to be close to  
5 that again this year. We can get you the exact number on  
6 that if you'd like it.

7 MR. PALACIOS: Well, that's in that ballpark,  
8 35-?

9 MR. KUNTZ: Correct.

10 MR. PALACIOS: Thank you.

11 MS. FLORES: So this concludes our presentation  
12 on the next year's annual operating budget. This is an  
13 action item and staff requests that the Finance and Audit  
14 Committee recommend that the board approve the operating  
15 budget as modified with regards to the contracts. And I'm  
16 available to answer any questions that you may have.

17 MR. PALACIOS: Do we have any further questions  
18 for Ms. Flores or Ms. Bankhead?

19 (No response.)

20 MR. PALACIOS: Hearing none, I'll entertain a  
21 motion.

22 FEMALE SPEAKER: I move that we recommend that  
23 the full board approve the fiscal year 2016 operating  
24 budget as presented, including the contracts as modified  
25 set out on page 31 of the fiscal year 2016 operating

1 budget.

2 MR. INGRAM: Second.

3 MR. PALACIOS: All those in favor please  
4 signify by saying aye.

5 (A chorus of ayes.)

6 MR. PALACIOS: All opposed?

7 (No response.)

8 MR. PALACIOS: Motion carries.

9 MS. FLORES: Thank you.

10 MR. PALACIOS: Thank you.

11 Next we have Sandra Vice, who will present the  
12 audit plan, the fiscal year 2016 audit plan.

13 MS. VICE: Good afternoon. Sandra Vice,  
14 Internal Audit director.

15 Before I present the plan, I'd like to give you  
16 some additional information on the current audit plan, and  
17 then I'd like to present the results of an audit that we  
18 completed recently, and I'd also like to give you an idea  
19 of the schedule of the current audit plan and the future  
20 audit plan, how those schedules would lay out, and  
21 finally, let you know about some external audits that are  
22 being conducted at the agency in the coming months.

23 On page 67 of your board book you'll find the  
24 status update that I'm reading from, and the first thing  
25 is informational only, requires no board action. And I'd

1 like to introduce Derek Miller. He was the lead auditor  
2 on the internal controls over State of Texas titling  
3 processes. This is a report that we completed recently  
4 and is on page 77 of your board book. This audit had a  
5 couple of purposes. First, we were looking at the  
6 controls over the titling processes intended to protect  
7 the agency's assets, and to make sure there is accurate  
8 title information. And after doing a whole bunch of  
9 different pieces of work, we concluded that the agency has  
10 effective controls over the titling process, and I want to  
11 give you a couple of examples of that.

12 First of all, you were hearing Ms. Flores a  
13 minute ago talk about the title paper vendor. We looked  
14 at the specifications that are recommended by the  
15 Association of Motor Vehicles Administrators that Ms.  
16 Whitney Brewster was referring to. They come out with  
17 suggestions for what's good title paper, how it should be  
18 laid out, specifications so as to deter fraud, and we  
19 found that the title paper that we use includes all of the  
20 security standards and all the title specifications that  
21 are required. We also found that that title paper, which  
22 is very valuable, is secured by this organization. We  
23 maintain an inventory, we do daily reconciliations, so we  
24 take very good care of that paper.

25 In addition, once a title application is put in

1 by a customer, it undergoes quality assurance checks. As  
2 Ms. Brewster was referring to NMVTIS, the National Motor  
3 Vehicle Title Information System, we run a check against  
4 that to see if a vehicle has been reported stolen or  
5 missing, and there's also a check against the Department  
6 of Public Safety National Crime Information Center. I  
7 want to correct myself. The NMVTIS check is actually to  
8 make sure that the information related to the car is  
9 accurate. So a lot of checks going on to make sure that  
10 the information that makes it into our registration and  
11 titling system is correct.

12 We also are required by the Transportation Code  
13 to issue titles within five days, and we found that we are  
14 for the most part doing that. In a very small amount of  
15 cases, was it like 2 or 3 percent? Two percent there were  
16 holds placed on it and that's because there was something  
17 in these checks that required us to take a closer look at  
18 it, but if there wasn't a hold placed on it because of  
19 that, the titles were being issued timely.

20 And then finally, we looked that the records in  
21 the registration and titling system were correct. We  
22 actually pulled a lot of records and looked at the  
23 supporting documentation that came in from the customer  
24 and compared to what we have electronically and found that  
25 that information was correct.

1           Also, whenever we do an audit where there are  
2 contracts we're going to look at those contracts to make  
3 sure that we're complying with contracting rules and  
4 statutes, and in this case we looked at three key  
5 contracts. Again, they were briefly mentioned. One was  
6 the paper supplier, another one was a vendor who prints  
7 our titles, and we also have a vendor that folds and mails  
8 the titles.

9           And when we looked at all those, we concluded,  
10 one, that we competitively bid all those contracts, which  
11 is something that the legislature is concerned about  
12 agencies doing, but in every case we competitively bid  
13 them. We also had all the required contract terms, and  
14 that's how you hold your vendors accountable, and some  
15 agencies don't do that but we do. And then finally, we  
16 looked at the expenditures. We wanted to make sure that  
17 we were paying -- if we said we were going to pay a  
18 certain rate that that's what we paid, if we had invoices  
19 that they were approved, and we found in every case that  
20 that had happened. So we had no findings related to the  
21 contracts, and that's a complement to our procurement  
22 section.

23           The other purpose that we had in doing this  
24 audit was we were trying to identify if there were any  
25 other actions that the board or management could consider

1 taking in the future, and these would be to do further  
2 deterrence and detection of fraud, recover agency  
3 operating costs or reduce processing time. And I've said  
4 all these good things about the titling process and yet we  
5 all know that fraud occurs, and so how is it that fraud  
6 still occurs. Well, good controls will lessen the amount  
7 of fraud but they can't keep people who want to collude,  
8 people who are willing to lie on affidavits, it's not  
9 going to prevent those things, and so we were looking for  
10 what other methods can we recommend to strengthen our  
11 detection, and so we made some recommendations for how we  
12 can be more aggressive in our monitoring.

13 I will say that in all the records that we  
14 looked at we did not identify any fraudulent transactions,  
15 they were all being completed correctly by the tax  
16 assessor-collectors and by our staff.

17 We have provided management with some  
18 recommendations and they have agreed with them. Some of  
19 these included being, as I mentioned, more proactive in  
20 detecting fraudulent title activity through monitoring  
21 activities, and also providing additional training to tax  
22 assessor-collector staff.

23 If you have any questions, Derek is here to  
24 answer them. I'm joking.

25 (General laughter.)

1 MR. PALACIOS: Any questions for Ms. Vice or  
2 Mr. Miller?

3 I guess I have a question for Ms. Brewster  
4 regarding the recommendations. Are these recommendations  
5 that we're implementing? Can you comment on what action  
6 was taken?

7 MS. BREWSTER: Sure, Mr. Chairman. Whitney  
8 Brewster.

9 There are an array of different  
10 recommendations, some requiring statutory change, others  
11 that could be implemented relatively easily. We do have  
12 time frames for those that we have within our control, and  
13 those dates should be laid out in the information provided  
14 to you when we would have those implemented. So we agreed  
15 with the recommendations and we certainly will pursue  
16 those, and we would be happy to provide you with an update  
17 on our status at a future meeting moving forward.

18 MR. PALACIOS: Okay. That would be fine.  
19 Thank you.

20 MS. VICE: The second item is for the  
21 committee's consideration to recommend to the full board  
22 approval, and that's the internal audit plan for fiscal  
23 year 2016. This starts on page 69 of your board book, and  
24 on page 71, table 1 are the projects that we are proposing  
25 for your consideration.

1                   Projects 1 and 2 are required by statute. The  
2 Texas Internal Auditing Act requires certain reports and  
3 those are the first two that are listed. The third  
4 project is a project that we had planned to start this  
5 month, however, we learned recently that the International  
6 Registration Plans peer review team is coming to Texas in  
7 November, and so we're going to wait till after their  
8 review and re-scope and reevaluate what exactly we need to  
9 do related to this project, so we're going to wait till  
10 after November to make that decision.

11                   On the following page, project 4 is an advisory  
12 service that we would like to review the agency's fraud  
13 prevention program and make recommendations to make it  
14 more robust. And number 5 is a post-implementation review  
15 of the registration and titling system refactoring project  
16 and the single sticker, so the first phases of those. The  
17 next project is an audit of how the agency permits  
18 oversize and overweight vehicles and loads for the  
19 highways and bridges. And the last one is an audit to  
20 determine the agency's compliance with the Driver's  
21 Privacy Protection Act. So those are the projects that we  
22 propose doing next year.

23                   The next page, table 2, I include two more  
24 projects that are if we have audit resources available.  
25 For example, if we finish an audit sooner, or let's say

1 that we decide that the peer review has covered everything  
2 related to the IRP and we don't have to do it, or we have  
3 additional resources, then we would propose an audit of  
4 the My Plates contract and/or the Enforcement Division.  
5 And so those are there for your consideration.

6 We had some other projects that we had  
7 considered also doing, and if you would like descriptions  
8 of those, I can provide them.

9 MR. PALACIOS: Yes, please.

10 MS. VICE: So these are if we had additional  
11 resources, these are other projects. What we do is we  
12 conduct a risk assessment, we get input from all of you  
13 and also from senior management, and of course, we have  
14 input from just looking at things that are high risk.

15 On this list, for example, the first thing is  
16 the administrative hearings. One of the things that is a  
17 high risk factor is something that is new, so this is an  
18 office that was created because of new legislation a  
19 couple of sessions ago, and so it has not had the  
20 opportunity to be audited. There were certain things that  
21 we wanted to accomplish, and having this brought from the  
22 State Office of Administrative Hearings to this agency, we  
23 wanted to do things faster, cheaper and better, and this  
24 audit would validate whether, in fact, that has happened.

25 The next one is the Automobile Burglary and

1 Theft Prevention. You may recall that last year we did an  
2 audit of the ABTPA and found some pretty significant  
3 issues. This would be a followup audit to verify that the  
4 recommendations that we made have been implemented.

5 And the final one is the motor vehicle  
6 licensing process, so this is a key program that we have.

7 Dealers are an important part of our business, and so  
8 this would look to see whether we're doing a good job of  
9 licensing them and collecting all the associated fees.

10 So those are additional projects that if we  
11 have additional resources we could do.

12 Would you have any questions?

13 MR. PALACIOS: I have a question regarding Ms.  
14 Flores's comments on Senate Bill 20. Have you had a  
15 chance to evaluate the requirements there and what impact  
16 that will have on your department?

17 MS. VICE: Yes, sir. We're participating in  
18 the working group, and in addition to what Senate Bill 20  
19 says, we receive instructions on the State Auditor's  
20 Office on preparing our audit plan, and one of the things  
21 that is included in there is they want us to identify any  
22 projects that we are doing that relate to contracts. So  
23 it's very much something that is on the radar, and that's  
24 why, if you look at the objectives, I have tried to  
25 identify every time that we looked at contracts, and

1 whenever we can, whenever we audit something, if there is  
2 a major contract, we're going to look at it, and that's  
3 important that we do.

4 MR. PALACIOS: But again, the Senate bill is  
5 going to be broader than what we're encompassing here in  
6 your audit plan, so what impact is that going to have on  
7 your resources, because again, you're going to have to  
8 widen the scope. I mean, you've covered a few contracts  
9 here but this is now covering anything from \$50- to a  
10 million. Obviously, the bigger the contract, the greater  
11 the scrutiny is going to be.

12 MS. VICE: Right, and one of the things that  
13 we're supposed to do is we're supposed to come up with a  
14 methodology for how we identify the high risk contracts,  
15 and then we're supposed to do additional monitoring on  
16 those. We haven't gotten to that point yet where we've  
17 identified how we're going to select which are the high  
18 risk, but we will have some requirements to keep an eye on  
19 those.

20 MR. PALACIOS: Okay. I just want to make sure  
21 that we have adequate resources to cover whatever  
22 requirements, and in addition, you've got other items that  
23 we would like to do but hopefully we'll be able to get to  
24 some of these if we have available time.

25 MS. VICE: Yes, sir.

1 MR. INGRAM: Ms. Vice. Blake Ingram, for the  
2 record.

3 You have budgeted around 4,000 to 4,700 hours.  
4 How many hours do you have available in the current  
5 staffing that you have?

6 MS. VICE: So we estimate that we have 4,200  
7 hours is basically what we estimate we have available.

8 MR. INGRAM: Is that based on today's levels of  
9 employment, or is that based on full?

10 MS. VICE: That's based on three FTEs, three  
11 full-time equivalents.

12 MR. INGRAM: Do we have three FTEs currently?

13 MS. VICE: Yes, we currently do. And right now  
14 we have an intern as well, but yes, three is what we  
15 generally have.

16 MR. INGRAM: Thank you.

17 MS. VICE: Yes, sir.

18 Further questions?

19 MR. PALACIOS: Any further questions for Ms.  
20 Vice or Mr. Miller?

21 (No response.)

22 MR. PALACIOS: Hearing none, I'll entertain a  
23 motion to accept the fiscal year 2016 audit plan.

24 MR. RUSH: I make a motion.

25 MR. PALACIOS: Do I have a second?

1 MR. INGRAM: Second.

2 MR. PALACIOS: All in favor say aye.

3 (A chorus of ayes.)

4 MR. PALACIOS: Motion carries. Thank you, Ms.  
5 Vice.

6 MS. VICE: The other thing I would like to  
7 share with you for information again, on page 68 of your  
8 briefing book is a schedule for the current year and next  
9 year's projects. I wanted to give you an idea of how  
10 those have laid out.

11 From looking at the current year, you will  
12 notice that there are two projects that are not yet  
13 completed. They will be substantially completed by the  
14 end of August, and so as soon as we have the next board  
15 meeting, we'll be presenting those too. It's following up  
16 on the information security gap assessment and also an  
17 audit of we call it the gold standard, administration of  
18 agency rules and standards through tax assessor-  
19 collectors. So those we're wrapping up right now.

20 In addition, I've laid out the potential  
21 schedule for next year, as well, so you can see how those  
22 will lay out.

23 MR. PALACIOS: Okay. Thank you.

24 MS. VICE: The last thing I wanted to brief you  
25 on is I wanted to let you know about some external audits

1 that are coming up. If you will go back to page 67,  
2 there's three and two of these involve the Motor Carrier  
3 Division. There will be a site visit in August from the  
4 U.S. Department of the Federal Highway Administration and  
5 they'll be reviewing the heavy vehicle use tax. And then  
6 in November, as I mentioned, the International  
7 Registration Plan peer review team will be coming to look  
8 at that program, and that will be in November. And then  
9 finally, the State Auditor's Office is conducting their  
10 regular financial review. This year it is a limited  
11 review, and they'll be onsite in September to do their  
12 work. So those are three audits that are being done by  
13 external auditors.

14 And that concludes my report.

15 MR. PALACIOS: Good. Thank you, Ms. Vice, Mr.  
16 Miller.

17 Next we have Ms. Brewster with a report on the  
18 fiscal year 2016 interagency agreement between TxDOT and  
19 TxDMV.

20 MS. BREWSTER: Mr. Chairman, if I might refer  
21 to David Duncan, general counsel. We are currently in  
22 negotiations on this interagency agreement, and he can  
23 point out some of the things that we have come to  
24 agreement on and go from there.

25 MR. DUNCAN: Good afternoon, Mr. Chairman,

1 members. David Duncan, general counsel.

2 As Ms. Brewster stated, we're in the midst of  
3 negotiating the interagency contract with TxDOT and the  
4 reason we've not shared a draft with you is it's covered  
5 with redlines, some of which we've agreed to, some of  
6 which we haven't, so it really wouldn't be fair to them to  
7 share the things that we disagree -- maybe not disagree  
8 but haven't decided yet.

9 I'll just go over some major points. We're  
10 pretty much following last year's agreement. Each year we  
11 take the previous year's and mark it up, try to clarify  
12 thing where we can. One thing that you've seen every year  
13 with this contract is the maximum amount that we will pay  
14 to TxDOT has been reduced every year. Last year it went  
15 from \$4- to \$3-, this year it's going from \$3- to \$2.25  
16 million which Ms. Flores assures me is plenty to cover the  
17 expenses that will be anticipated. That reflects that  
18 we're separating from TxDOT, both in physical plant and in  
19 IT support services.

20 One big addition that you'll see this year,  
21 when the final interagency contract comes out, is we've  
22 added an addendum that allows us, in the event of an  
23 emergency here at Camp Hubbard, to use TxDOT space that's  
24 available at the regional service center up in north  
25 Austin on Parmer Lane. We've negotiated that over the

1 past several months with the regional director for TxDOT.

2 It's actually a required element of something called a  
3 continuity of operations plan. There's an agency called  
4 SORM, State Office of Risk Management. There's a  
5 statutory requirement that we have basically an emergency  
6 operations plan in the event that we have to vacate this  
7 premises and operate somewhere else for a period of time.

8 The one major element of that we're missing is  
9 some kind of lease or agreement to use alternate space,  
10 and this will get us that. It's about a three-page  
11 addendum to this and it's very detailed. It says what  
12 space we can use. It's actually tiered depending on how  
13 bad the emergency is: if we're only going to be there  
14 for a few days, we can just existing rooms; if we're going  
15 to be there for a few weeks, we can use that and some bay  
16 space, they actually have some bays and we could bring in  
17 portable air conditioners and even portable toilets and  
18 things like that; and then if it's really bad, we're  
19 actually allowed to put office trailers down. So the  
20 worse it is, the more facilities we would use.

21 And again, TxDOT has agreed with this in  
22 principle. They had some minor markups of that addendum  
23 but we pretty much have that one agreed to.

24 There are a lot of redlines in the agreement,  
25 as well, on clarifying sort of the interplay between our

1 two IT systems. TxDOT uses some of our IT information to  
2 do things, like collect tolls they pull off of RTS. They  
3 would like to do that in a more automated way to pull from  
4 our systems pretty much directly. And we use their data,  
5 Jimmy Archer and the Motor Carriers group uses their data  
6 for routing and load awareness for oversize and overweight  
7 permitting, for example. So we need to know from them  
8 their road information database. So what we've done in  
9 this year's agreement is we've gotten a lot more explicit  
10 about how we use each other's systems. Again, this is all  
11 clarifying stuff but it's important.

12 Finally, the only other thing that's really of  
13 notice is they put a little note, we've got a monthly  
14 amount but it's currently \$46,000 that we pay them that  
15 they use to get janitorial services and general  
16 maintenance, grounds maintenance, that sort of thing for  
17 all the buildings that we're in, and it's also essentially  
18 what we pay to be in their buildings. They told us that  
19 that number might change but they haven't shared with us  
20 what that will be, whether a little more or maybe a little  
21 less because we moved out of Houston and we're in our own  
22 space. But they've said pending on that and we're  
23 awaiting a number from them.

24 We've done three rounds of redlines back and  
25 forth. We sent them ours about two weeks ago, two weeks

1 ago tomorrow. We expect to hear something back from them  
2 very soon and get the last little bits negotiated before  
3 the end of this month, obviously, so we can get it signed  
4 and entered before the beginning of the fiscal year.

5 One issue that comes up every year, and I  
6 thought I'd leave this for last in case you guys wanted to  
7 discuss this a little bit, is the issue of us being asked  
8 to leave TxDOT facilities. We all recall Houston and also  
9 what happened with Bull Creek. Ms. Brewster may want to  
10 elaborate on this some more, but there have been very  
11 recent commitments from General Weber in the House  
12 Transportation Committee just this week and we're trying  
13 to get more clearer language and more directive language  
14 about when and how.

15 MR. PALACIOS: We'll get an opportunity to do  
16 that.

17 MR. DUNCAN: And that was the source of some  
18 friction. At the staff levels it is, and even though we  
19 have commitments from the highest levels, we get some  
20 resistance to trying to put appropriations-like language  
21 in there which is what we would like. So more to come on  
22 that, and again, I'll leave it to Whitney to add any  
23 clarification to that.

24 This is an action item where we would request  
25 that you recommend to the full board tomorrow that they

1 give Ms. Brewster approval to execute the final agreement,  
2 as we've done for the last couple of years. The board has  
3 delegated to her the authority to execute the final  
4 agreement, with the chairman's input on the amendments.  
5 So we would request that you recommend that to the board  
6 tomorrow so Whitney can execute this when it's ready to  
7 go.

8 MR. PALACIOS: Well, I think I'll speak for the  
9 committee, we probably need a little bit more clarity on  
10 exactly -- I mean, I heard some of the highlights, but are  
11 you asking that we allow Ms. Brewster the authority to  
12 execute an agreement?

13 MR. DUNCAN: Yes, sir.

14 MR. PALACIOS: Or to make changes?

15 MR. DUNCAN: Both. Execute the amended  
16 agreement, essentially, and again, once we get more  
17 clarity, I'd be glad to share a redline before/after  
18 version with the entire committee and with the chairman,  
19 if that's your desire, certainly.

20 MR. PALACIOS: I think that would be the  
21 preference of this committee.

22 MR. DUNCAN: Absolutely.

23 MR. PALACIOS: It would be hard for us to give  
24 approval on an agreement we haven't seen.

25 MR. DUNCAN: I understand.

1 MR. PALACIOS: Unless you feel different. How  
2 soon can you have that to us?

3 MR. DUNCAN: Again, it wouldn't be today or  
4 tomorrow. We've not gotten their answer back on some of  
5 the key remaining redlines. I would hope in the next week  
6 or early the week after that, with a week or ten days left  
7 in the fiscal year. I realize it's pushed late but we  
8 send it there, it takes a couple of weeks, we take a week  
9 to send it back. We started in early July, late June,  
10 early July, and we're still not there.

11 MR. PALACIOS: Okay. If we have to push this  
12 back, is this something we could approve at the -- when is  
13 the next meeting, October?

14 MR. DUNCAN: October. It would be late, we  
15 would be outside of the fiscal year at that point, and the  
16 last one was for a term of a fiscal year so it would be  
17 technically expired.

18 MS. BREWSTER: Mr. Chairman, Whitney Brewster.  
19 Because we are still in negotiations, might I  
20 make a recommendation that I execute this interagency  
21 agreement with input from the chair of the Finance and  
22 Audit Committee, as well as the chairman of the board, if  
23 that would make you all feel more comfortable?

24 MR. PALACIOS: I think that would be  
25 acceptable. I'm going under the assumption that the

1 chairman of the board has had a chance to review this  
2 document, because this committee has not.

3 MR. DUNCAN: Absolutely, and we have every  
4 intention of sharing 100 percent of the redlines with  
5 whoever would like to see them before Ms. Brewster would  
6 execute. Absolutely.

7 MR. PALACIOS: Okay. Are we okay with that?

8 MR. SLOVACEK: Yes.

9 MR. PALACIOS: Is there anything else, Mr.  
10 Duncan?

11 MR. DUNCAN: That is it.

12 MR. PALACIOS: Ms. Brewster?

13 MS. BREWSTER: No, sir.

14 MR. PALACIOS: I think we've covered all the  
15 agenda items.

16 MR. DUNCAN: Would you like to make an amended  
17 motion, essentially, to what I had suggested as far as the  
18 committee recommend to the full board that Ms. Brewster be  
19 given authority to execute the IAC with input from the  
20 chair of F&A and the chairman of the board?

21 MR. PALACIOS: Yes. Exclusively, I'd like the  
22 chairman of the board, under the assumption that he's had  
23 a chance to read the redlines and see the agreement.

24 MR. DUNCAN: Absolutely.

25 MR. WALKER: (Speaking from audience.) After

1 you look at it.

2 MR. PALACIOS: Oh, he's here. I didn't see you  
3 over there.

4 (General laughter.)

5 MR. INGRAM: You need that in a motion?

6 MR. PALACIOS: Yes.

7 MR. INGRAM: Then I move that we propose to the  
8 full board that we allow the executive director, Ms.  
9 Brewster, to sign the interagency agreement, along with  
10 the chair of the Finance and Audit and the full board. Is  
11 that close enough?

12 MR. WALKER: (Speaking from audience.) I think  
13 that missed a part: after review by the chairman of the  
14 committee and then the chairman of the department. He's  
15 going to review it first.

16 MR. PALACIOS: Do I have a second?

17 MR. RUSH: I seconded it a minute ago.

18 MR. PALACIOS: I'm sorry, Mr. Rush, I didn't  
19 hear you.

20 All in favor say aye.

21 (A chorus of ayes.)

22 MR. PALACIOS: Motion carries.

23 There's no reason to go into closed session.  
24 Anything else that we have not covered?

25 MR. DUNCAN: No, sir.

1 MR. PALACIOS: It's approximately 2:06 p.m. on  
2 August 13, 2015. I need a motion to adjourn the meeting.

3 MR. INGRAM: So moved.

4 MR. RUSH: Second.

5 MR. PALACIOS: Meeting adjourned.

6 (Whereupon, at 2:06 p.m., the meeting was  
7 concluded.)

