

TEXAS DEPARTMENT OF MOTOR VEHICLES

FINANCE AND AUDIT COMMITTEE

MEETING

Wednesday,
February 7, 2018

Lone Star Room
Building 1
4000 Jackson Avenue
Austin, Texas

COMMITTEE MEMBERS:

Luanne Caraway, Chair
Brett Graham
Kate Hardy
Johnny Walker

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EXECUTIVE SESSION	none
5. The Board may enter into closed session under one or more of the following provisions of the	

Texas Open Meetings Act, Government Code,
Chapter 551:

- Section 551.071
- Section 551.074
- Section 551.089

6.	Action Items from Executive Session	none
7.	Public Comment	none
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P R O C E E D I N G S

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MS. CARAWAY: I'll call this meeting to order.

Good afternoon. My name is Luanne Caraway, and I'm pleased to open the meeting of the Finance and Audit Committee of the Board of the Texas Department of Motor Vehicles.

It is 3:00 p.m., and I am now calling the committee meeting for February 7, 2018 to order, and I want to note for the record that the public notice of this meeting, containing all items on the agenda, was filed with the Office of Secretary of State on January 30, 2018.

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

And now I'd like to have roll call of the committee members.

Member Graham?

MR. GRAHAM: Here.

MS. CARAWAY: Member Hardy?

MS. HARDY: Here.

MS. CARAWAY: Member Walker?

MR. WALKER: Present.

MS. CARAWAY: And I'm Luanne Caraway, chair of the committee. Let the record reflect that we have a committee quorum.

1 The posted agenda stated that a quorum of the
2 Board may be present at this meeting, however, Board
3 members who are not members of the Finance and Audit
4 Committee will not vote on any committee agenda items, nor
5 will any Board action be taken. And I see that Chairman
6 Palacios is here for information gathering and discussion.

7 So we will begin with item 2. Any comments or
8 announcements from any member or the executive director?

9 MS. BREWSTER: No, ma'am.

10 MS. CARAWAY: So we will go on to agenda item
11 3.A, and I'll turn it over to Bryan Wilson and Ms. Flores

12 MR. WILSON: Hi. My name is Bryan Wilson, I'm
13 the director of the Automobile Burglary and Theft
14 Prevention Authority, also referred to commonly in this
15 discussion as ABTPA. I'll see if I can keep that alphabet
16 soup straight.

17 So this action item is recommended by an
18 official action for the Automobile Burglary and Theft
19 Prevention Board requesting for the Texas Department of
20 Motor Vehicles to request the Legislative Budget Board the
21 authority to have an unexpended balance authority between
22 biennium. This means that any balances that wouldn't be
23 spent in 2018 would be available for the ABTPA Board to
24 allocate and award in 2019 if this authority were granted.

25 Now, this is being presented to this committee and then

1 hopefully an action for the Board meeting tomorrow, so we
2 hope to get a vote or an answer or response to the ABTPA
3 Board.

4 Now, ABTPA, while it is its own entity with a
5 governor appointed board, its authority or appropriation
6 is a line within the DMV Board, and so that's why it's
7 coming to you instead of just the ABTPA Board directly
8 requesting that authority.

9 So the ABTPA Board provides grants and then we
10 also have some administrative expenses, and so each year
11 those grants are awarded prior to the start of a fiscal
12 year but they're a reimbursement grant so that means that
13 even though, say, Harris County gets \$1.2 million, they
14 can only get reimbursed for what they actually spend. And
15 because some of these are large amounts, if somebody
16 retires, it takes 60, 90, 120 days to replace a highly
17 skilled trained investigator so there's almost always
18 lapse in funding within the grant. So it's not like the
19 money goes out to the county, it's always been here at
20 TxDMV, and it only gets spent as they actually pull it
21 down.

22 So with that, there's usually a small
23 percentage of money that we don't spend internally that is
24 required for administration. We budget, you know, \$6,000
25 for transcription fees for ABTPA Board meetings but we

1 only spend \$2-, or whatever, so there's accumulations
2 there. We've had lapsed salary in the past here as well.

3 So that's where the money comes from, this
4 unexpended balance, and under the statute that's covered
5 in the letter to Chairman Palacios from the ABTPA Board,
6 it cites the specific statutory authority in the
7 Appropriations Act that an agency may request this
8 authority. It's not automatically granted but the
9 Legislative Budget Board does have the authority to grant
10 that.

11 I think that covers all the elements. If you
12 have any questions, I'll be glad to answer any questions.

13 MR. WALKER: Linda is looking at me, she knows
14 I have a question.

15 So of the \$500,000 of unexpended balances, do
16 we have an itemization of where that wasn't spent, who
17 didn't send it?

18 MR. WILSON: I do, yes.

19 MR. WALKER: You have a list of that? And so
20 have we ever asked? And I heard your explanation that
21 it's reimbursed but is all of that money salaries?

22 MR. WILSON: No. Sometimes it's delayed
23 purchases. Somebody asks for permission to buy a license
24 plate reader or some expensive piece of equipment. It's
25 mostly salaries.

1 MR. WALKER: So let's exclude the salaries now
2 because you're going someplace that interests me. So if
3 I'm going to buy a license plate reader and I come to the
4 agency and I want a grant to do that with, and we say,
5 okay, here's your \$5,000 to buy a license plate reader.
6 If they don't go purchase that license plate reader for
7 some reason, so they lose the \$5,000, it comes back to us,
8 it goes to an unexpended balance. Do they come back and
9 request that again, or do we say, hey, we gave it to you
10 once and you didn't do anything about it? Or how does
11 that work?

12 MR. WILSON: I mean, what we fund actually is
13 task forces, regional and individual police department
14 task forces, which I just want to be clear, 85 percent of
15 the money we award is salaries and fringe, so only 15
16 percent is something other than salaries and fringe.
17 Every once in a while a small amount may be awarded but
18 because these are operational programs, it's not like I
19 give a grant for an LPR of \$5,000, I give a grant to the
20 Houston Police Department to do all kinds of technical and
21 operational combating auto theft, which may include LPRs,
22 which may include computer systems, which may include
23 surveillance equipment, pole cams. A lot of times on the
24 bridges we fund cameras since the feds won't often share
25 the equipment, in other words, the photographs of cars

1 going across the border, we have to set up our own in many
2 jurisdictions. So that's just examples.

3 So if they didn't buy it this year and they
4 have lapsed funding, they might be able to request that
5 purchase in the next year but it's not because it's not
6 because it's a grant for \$5,000, it's just because it was
7 it was an ongoing operation.

8 MR. WALKER: So in my nine years of doing this,
9 Bryan -- and I'm in your corner -- these unexpended
10 balances, very seldom do we get that money back. I mean,
11 generally they send that into the general fund, is that
12 not true? I mean, I'm for going out after it, let's try
13 to get it back, but how many times have we succeeded in
14 getting it back? Linda?

15 MS. FLORES: None.

16 MR. WALKER: I just want to make sure I
17 remembered it right. So my point is what we really need
18 to do, and it really ought to be your job, is you need to
19 tell these police agencies it's their money and if they're
20 losing it because they're not using it, they need to
21 figure out how to take and make sure that the grant money
22 that we're giving them that they're using it for the
23 appropriate purposes and make sure they get their programs
24 funded, make sure they buy the system if we said here's
25 the money to buy it with, use it or lose it. When it goes

1 to the big government in their bucket over there --

2 MS. HARDY: It's hard to get it back.

3 MR. WALKER: -- you're not going to get it back
4 because they've got somebody else that wants it.

5 MR. WILSON: We fully understand that, sir.

6 MR. WALKER: Okay. That's all. I'm sorry I've
7 wasted so much of your time.

8 MS. CARAWAY: Are there any other questions?

9 (No response.)

10 MS. CARAWAY: I'll call for a motion.

11 MR. GRAHAM: I move that the committee
12 recommend that the full board approve a written request to
13 the Legislative Budget Board, on behalf of the Automobile
14 Burglary and Theft Prevention Authority for unexpended
15 balance authority to transfer any unexpended and
16 unobligated balances remaining as of August 31, 2018 for
17 the same purposes for the fiscal year beginning September
18 1, 2018, for up to \$500,000 within the biennium budget for
19 appropriations related to ABTPA.

20 MS. CARAWAY: Do I have a second?

21 MS. HARDY: Second.

22 MS. CARAWAY: A second by Member Hardy.

23 Any other discussion?

24 MR. WALKER: But that has to go to the full
25 Board. The recommendation is to send it to the full Board

1 for a recommendation.

2 MR. GRAHAM: Correct.

3 MS. CARAWAY: All those in favor raise your
4 right hand.

5 (A show of hands.)

6 MS. CARAWAY: Any opposed?

7 (No response.)

8 MS. CARAWAY: The motion carries. Thank you.
9 And now we'll go to item 3.B, and Jonathan
10 O'Quinn.

11 MR. O'QUINN: For the record, Jonathan O'Quinn.
12 I'm the interim CIO.

13 And today we'll be asking the Board to approve
14 the delegation of authority to the executive director to
15 execute the new contract for the standard presumptive
16 value web service. This service provides connectivity to
17 both the Registration and Title System, RTS, as well as
18 the public through our website.

19 The standard presumptive value provides
20 connectivity both to our Registration and Title System for
21 the sale of used vehicles between private parties, as well
22 as through the website, so they can check the standard
23 presumptive value and charge the 6.25 percent sales tax
24 that's required under Texas law.

25 Should I go into some additional background, or

1 are there any questions at this time?

2 MS. CARAWAY: Does anybody have any questions?

3 MR. GRAHAM: I do. How often do we update
4 this?

5 MR. O'QUINN: Sir, this is updated weekly, and
6 I've actually reached out to our vendor to confirm this.
7 It's actually in our contract that it gets updated between
8 12:01 a.m. on Sunday and no later than 7:00 Monday morning
9 of every calendar week. I've confirmed with the vendor
10 and they have confirmed that it's updated once a week. I
11 asked the very specific question: Is it updated between
12 these contractually mandated times or at another time?
13 Now, they did mention -- we actually consume two products,
14 one is the online web service, we have a backup which gets
15 pushed out to all county machines in case the web service
16 is down, there's a little icon on county machines, that's
17 the local backup, that's updated monthly. So there is a
18 possibility that if for some reason a clerk was checking
19 the local version versus the online version through RTS or
20 the website, that there could be a potential difference.

21 MR. GRAHAM: And then this contract period
22 annually?

23 MR. O'QUINN: It was annually -- I'm sorry.

24 MR. DUNCAN: That's okay. I was wondering
25 whether that was the question.

1 MR. GRAHAM: But that was coming, I appreciate
2 the information. And then wondering if this is an annual
3 contract.

4 MR. DUNCAN: It was an annual contract
5 previously. David Duncan, general counsel. In the prior
6 version of the contract, which is running out of renewals,
7 it was a contract renewed annually, and this time we've
8 decided to up it to biennial, so it's only going to be
9 renewed every two years, and that is actually what pushed
10 the value up to threshold for Board review.

11 MR. GRAHAM: Okay. Thank you.

12 MR. WALKER: So what we're asking for today is
13 for delegation authority to allow the executive director,
14 with the approval of the chairman, to enter into contract
15 negotiations for the presumptive value contract going
16 forward for the next two years, so to speak.

17 MR. O'QUINN: Exactly, with two two-year
18 renewals after that.

19 MR. WALKER: I'll make the recommendation.

20 MS. CARAWAY: A motion by Mr. Walker to
21 approve. Is there a second?

22 MS. HARDY: Second.

23 MS. CARAWAY: Second by Member Hardy.

24 I would just request that it be put out to the
25 county tax offices when that update happens, because I

1 know we've had the problem with it appearing that it
2 happens more often than that. A customer gets information
3 from us about what SPV is and then they come in and it's
4 different than what we told them. Could be it was on
5 Friday and they came in on Monday that caused that.

6 MR. O'QUINN: That would make a tremendous
7 amount of sense when they update between Sunday and
8 Monday.

9 MS. CARAWAY: Right, right. And that may be
10 what the situation has been in the past, but it would just
11 be nice for the tax offices to know exactly when it's
12 updated so when they get that information they can tell
13 them if you're not in this week, you know, it's going to
14 possibly change.

15 MR. O'QUINN: Absolutely. We come up with a
16 message with that and send that out through delivery.

17 MS. CARAWAY: That would be great. Thank you.
18 Is there any other discussion?

19 (No response.)

20 MS. CARAWAY: All those in favor say aye.

21 (A chorus of ayes.)

22 MS. CARAWAY: Any opposed?

23 (No response.)

24 MS. CARAWAY: The motion carries.

25 Thank you, Jonathan.

1 Next on the agenda is items 4.A, 4.B, 4.C and
2 4.D. Ms. Flores, I think we turn it over to you for a lot
3 of information.

4 MS. FLORES: Yes, ma'am.

5 For the record, Linda Flores, chief financial
6 officer for the Texas Department of Motor Vehicles. With
7 me today is Renita Bankhead, assistant CFO, Sergio Rey,
8 director of accounting, Ann Pierce, the assistant director
9 for Finance and Administrative Services.

10 This is a lot of information, I know, for you
11 all and we are going to kick it off with Sergio Rey. He
12 is going to discuss the financial activities for the
13 agency's 2017 fiscal year. We are required by Government
14 Code to submit our financial statements by November 20.
15 We did so in accordance with those requirements. We
16 adhere to the comptroller's rules and guidelines when it
17 comes to preparing governmental fund statements, unlike
18 the private sector balance sheet income statements.

19 On your table you will have a green folder that
20 says: Balance Sheet/Income Statement Variance Analysis.
21 The financial statements that we prepare do not include
22 comparisons with prior year, however, internally we do an
23 analysis between the two fiscal years for both of those
24 financial statements, so we wanted to provided that for
25 you. We did have a question from another Board member

1 come up. Mr. Rey will include some of those major
2 differences between the two years for the balance sheet
3 and the income statement.

4 And with that, I'm going to turn it over to
5 Serg.

6 MR. REY: Good afternoon. My name is Sergio
7 Rey, I'm director of accounting.

8 And today we'll start off with the annual
9 financial statement that, as Linda mentioned, was
10 submitted to our oversight agencies, the Legislative
11 Budget Board, the Governor's Office, the State Auditor's
12 Office and the Comptroller's Office, as required by
13 statute on November 20.

14 Overall, one of the significant items in this
15 report is the department's transition to the Texas
16 Department of Motor Vehicles Fund. In 2017 the department
17 became responsible for reporting the activities of the DMV
18 Fund after two years of general revenue appropriations
19 revenue and expenditure transactions. This slide
20 represents a graphic of the balance sheet that and its
21 major component, the balance sheet itself is in your
22 packet on page 36.

23 In 2017 our balance sheet reports a fund
24 balance with a net increase of \$30 million, primarily
25 because of this transition to the DMV Fund. Our move to

1 the DMV Fund as our funding source method meant that the
2 legislative appropriations from general revenue decreased.

3 That net difference from last fiscal year was a decrease
4 of almost \$33 million. There as a \$53.5 million increase
5 in the fund cash reported in the state treasury. This is
6 from fees previously collected as general revenue and
7 reported by the Comptroller's Office.

8 For our normal operations the balance sheet
9 shows a decrease of liabilities. In 2017 there were fewer
10 invoices that were due on August 31, on the books on
11 August 31, and there were fewer invoices that paid in
12 September that required and adjusting entry back into
13 2017. Our payroll liabilities, pretty much our August
14 payroll got paid on September 1, which was slightly lower
15 because of the hiring freeze of 2017. The hiring freeze
16 also impacted our employee compensable leave balances in
17 our liability there, reflecting an increase in higher
18 leave balances that were left on the books either because
19 of less leave taken or the higher amounts of accruals
20 during the year.

21 The next slide we'll move on to the income
22 statement and that is found in your packet on page 18.
23 The changes in our funding source also affected our income
24 statement. From our normal operations the department had
25 an increase in both revenue collections and expenditures

1 made. Notably, again, our legislative appropriations show
2 a significant decrease from the change from general
3 revenue to the DMV Fund. In 2017 the general revenue
4 appropriations were solely for ABTPA and ABTPA related
5 payroll expenditures. Revenue in all the categories, but
6 primarily our licenses, fees and permits and in settlement
7 of claims showing an increase of \$163 million from fees
8 that, again, are deposited now in the DMV Fund and were
9 previously in general revenue. This aside, the DMV Fund
10 aside, the revenue deposited into the State Highway Fund
11 reflected its normal projected increases.

12 For expenditures, the bottom graph depicts the
13 major items or categories in our income statement. The
14 total expenditures concluded with a net increase of \$5-1/2
15 million, as noted in the totals there at the bottom of the
16 slide.

17 MR. WALKER: Back up a second.

18 MR. REY: Yes, sir.

19 MR. WALKER: I lost you when you said \$163,000.

20 MR. REY: \$163 million.

21 MR. WALKER: Tell me where that is, what line
22 am I looking at?

23 MR. REY: The \$163 million is a combination of
24 the licensing fees and permits, settlements of claims
25 and --

1 MR. WALKER: That's one billion, 698 million.
2 Is that right?

3 MR. REY: The \$1.7 billion is the licensing
4 fees and permits, yes, sir.

5 MR. WALKER: But the variance is \$160 million,
6 not \$163-, that's where you lost me.

7 MR. REY: Correct. The other \$3 million is a
8 combination of the interest and investment income, the
9 settlement of claims, and the sales of different services.

10 MR. WALKER: Okay. That's where I got lost.
11 I'm sorry.

12 MR. REY: So the biggest component, yes, was
13 licensing fees and permits of that \$163-.

14 Going back to our expenditures, the category
15 with the significant impact was the materials and
16 supplies, and this had an increase of expenses related to
17 postage and county computer related costs, such as toner,
18 which each of those two items have \$5.5 million of
19 increase apiece. We did see a decrease in our
20 professional fees and services and that had to do with the
21 completion of projects throughout the year, and I will
22 discuss that one in a little bit more detail as we talk
23 about the financial report, the annual report of
24 nonfinancial data.

25 So at this time, before transitioning to the

1 next report, do you have any questions on the balance
2 sheet or income statement.

3 MR. WALKER: I do. The fines and penalties,
4 \$867,000, roughly.

5 MR. REY: Yes, sir.

6 MR. WALKER: So I don't think ever in the past
7 have we ever seen that number, Linda?

8 MR. REY: No. Those items were, again, fees
9 that at the time were deposited to the general revenue.

10 MR. WALKER: So if you fail to display a dealer
11 sign or whatever it might be and you got a fine by the
12 agency for those penalties, we never saw that before.
13 Right?

14 MS. FLORES: Correct.

15 MR. WALKER: And so this is the first time
16 we're seeing that and that money now is coming to us?

17 MS. FLORES: Yes.

18 MR. WALKER: Because it was always interesting,
19 I know the Board had always had some concerns about how
20 much of that we collected and if you don't pay what
21 actions do we take with respect to how we collect that
22 money.

23 MS. FLORES: Correct. And so enforcement does
24 a very good job going out and making sure they do collect
25 whatever penalties are assessed. A portion will not going

1 into general revenue, let me put it that way, some will
2 come to the DMV. We rely on our programs to help us make
3 sure that they collect those fines. We in finance don't
4 have a staff dedicated to collecting bad debt.

5 MR. WALKER: Don't go any further in this
6 public meeting.

7 MS. FLORES: Okay.

8 MR. WALKER: David knows that I'm talking
9 about.

10 MS. FLORES: Right. Okay. But we will be
11 seeing those moving forward from now on.

12 MR. WALKER: So the other question is now the
13 fines and penalties are actually coming into the fund, the
14 agency's fund?

15 MS. FLORES: Yes.

16 MR. WALKER: Do we calculate that in on our
17 budget initially?

18 MS. FLORES: We try not to estimate penalties.
19 That's almost like making an assumption that people are
20 not going to do what they're supposed to.

21 MR. WALKER: So that's like the gravy on the
22 chicken fried steak.

23 MS. FLORES: Yes, sir.

24 MR. WALKER: Okay.

25 MS. FLORES: The other thing to note is that

1 this fund does retain the interest earnings through cash
2 management at the state level, which is unusual for a lot
3 of funds. A lot of funds are not allowed to retain
4 interest earned on their dollars.

5 MR. WALKER: They should have whispered that in
6 our ear during the budget process.

7 Go ahead. I'm sorry.

8 MR. REY: No problem.

9 Now is our annual report on nonfinancial data.
10 This package is a schedule of eight reports that
11 previously were part of the annual financial report but
12 now they've been grouped separately. The instructions
13 related to these schedules is from the Governor's Office
14 of Budget and Planning, and you'll find it in your board
15 packet and I will focus on the professional fees schedule
16 which is on page 54 of your packet.

17 MR. WALKER: So we're going to page 54?

18 MR. REY: Yes, sir.

19 The graphic here before you takes that
20 information into smaller categories of professional fees.

21 As noted earlier, professional fees did decrease by \$30
22 million from the previous fiscal year. Much of that was
23 in the categories of data processing services because of
24 projects that completed during the year, like the
25 eLICENSING project and also the AMSIT transition that took

1 effect in 2017. Other areas that had reductions were
2 definitely our contractors in the other professional
3 category related to training and also the eLICENSING
4 project. The other item that had an increase was for
5 computer services statewide tech which is our Data Service
6 Center, so that had to do with our transition into the
7 servers that we're now directly responsible for paying in
8 the Data Service Center.

9 That concludes my presentation. Do you have
10 any further questions on this category?

11 (No response.)

12 MS. CARAWAY: Thank you.

13 MR. REY: Thank you.

14 MS. FLORES: So wrapping up the end of the
15 year, we're now going to transition into the first quarter
16 financial activities for the current fiscal year 2018, and
17 this is a briefing item only. You will find the material
18 beginning on page 65 of your book, and I'm going to turn
19 it over to Ms. Bankhead because this report has a new look
20 and feel to it and she's going to address some of the new
21 things in this report.

22 MS. BANKHEAD: Good afternoon. For the record,
23 my name is Renita Bankhead, assistant CFO, and as Linda
24 said, this is a briefing and there's no action.

25 So the new report is now a dashboard format.

1 The staff decided to update it to make it a little bit
2 easier to read and to highlight information in a better
3 way so you can kind of zero in on some information that we
4 wanted the Board to know. So the report still includes
5 the information that was there before, there's still
6 revenues, there's still expenditures, we still talk about
7 the capital budget, we still talk about My Plates, all
8 those sorts of things, but we do have some things that are
9 new.

10 Last year we had a TxDMV Fund status report
11 that was a separate report, we've now incorporated that
12 report into this document. We've also added some
13 highlights on the processing and handling fee. Revenues
14 for specific fees are now highlighted. We've included in
15 the budget data FTE status, prior year budget comparisons,
16 and some detailed information on some of the budget
17 categories that might need a little bit more information.

18 So those are some of the new things that we've tried.
19 Hopefully you like the new look. If you have any
20 feedback, we would be glad to hear it.

21 Thank you very much. And I'll turn it over to
22 Linda to talk about revenues.

23 MS. FLORES: New and improved.

24 So on page 65 of your board book we start out
25 with addressing some of the highlights, actual versus

1 projected revenue, and your eyes will be drawn to the reds
2 and the greens. Some of the major items that we'd like to
3 address are you will see dealer licenses up 19 percent and
4 basically the reason for that is last year we had a
5 backlog of dealer licenses being processed. That's no
6 longer the case, we're pretty current due to eLICENSING,
7 so we have seen a jump in revenue regarding the dealer
8 licenses. We've also seen an increase because of
9 registrations for the processing and handling fee. As
10 more registrations are processed, the processing and
11 handling fee revenue also goes up.

12 We are a little bit behind on registration but
13 the primary reason for that is that registration category
14 used to include the one dollar processing fee which is now
15 going into the P&H fee, so it's a flip-flop between those
16 two categories. Certificates of titles are also up
17 compared to last year, and of course, that also includes
18 salvage titles that have seen a major increase due to the
19 storm. As I mentioned before, motor vehicle registration
20 is down and the reason for that is that one dollar that
21 used to be called the automation fee.

22 Oversize/overweight, we're doing a good job in
23 processing those permits through TxPROS. Dealer licenses
24 are up, miscellaneous revenue is down primarily due to
25 timing of collections and just different items which are

1 below. And then as mentioned before, we are now seeing
2 our processing and handling fee, which, if you'll recall,
3 went into effect September 2016, so we will see a brand
4 new annual report for processing and handling fee, and
5 we're on target to meet our projections.

6 MR. WALKER: Linda, at the last Board meeting
7 we had we were told that the oversize/overweight revenues
8 were down due to permitting down, and you're saying it's
9 up by 11 percent. That doesn't make sense.

10 MS. FLORES: Oversize/overweight is up, the
11 credentialing fee -- which if I can have you turn to page
12 64 of your board book -- the motor carrier credentialing
13 fees are down by approximately 46 percent. The reason for
14 that is those rates were not set until January of this
15 year, whereas before they were normally set in October.
16 So the bills have gone out, we expect to see those fees
17 come in in the next couple of months, and we should be
18 back on track when it comes to the credentialing fees.

19 MR. WALKER: Help me out. What is the
20 credentialing fee?

21 MS. FLORES: This is the fees that uniform
22 carriers have to -- it's a credential, it's almost like a
23 registration.

24 MR. WALKER: UCR?

25 MS. BREWSTER: This is UCR.

1 MS. FLORES: Yes, UCR. Sorry.

2 MR. WALKER: Okay. But UCR doesn't have
3 anything to do with oversize/overweight.

4 MS. FLORES: No. Oversize/overweight is a
5 separate one.

6 MR. WALKER: I thought that's what was down,
7 oversize/overweight was down.

8 MS. FLORES: Oversize/overweight --

9 MR. WALKER: -- is up 7 percent, according to
10 the chart.

11 MS. FLORES: It's up 20.7 percent.

12 MR. WALKER: 7.8.

13 MS. FLORES: In the DMV Fund, yes, sir.

14 MR. WALKER: I don't know. 3.8, I'm lost.

15 MS. FLORES: On page 65 --

16 MR. WALKER: Stop, stop. Right here,
17 oversize/overweight it says it's up 7.8 percent.

18 MS. FLORES: Yes, sir.

19 MR. WALKER: Is that for 2017 for the fiscal
20 year?

21 MS. FLORES: For the current fiscal year, yes.

22 MR. WALKER: So it's my understanding at the
23 last meeting we were told that that was down.

24 MS. FLORES: It might have been for the end of
25 the year.

1 MR. WALKER: Because all year it has been down
2 due to the --

3 MS. FLORES: It has been down but for this
4 first quarter we've seen --

5 MR. WALKER: What are you saying, Jimmy?

6 MR. ARCHER: Jimmy Archer, director of the
7 Motor Carrier Division.

8 This is a look at actual versus projected in
9 this stat. I can tell you for the last couple of years
10 our oversize/overweight fees have been up since 2015.

11 MR. WALKER: The dollar is up.

12 MR. ARCHER: Yes, it is up. And permits have
13 incrementally been going up little by little since 2015.
14 Wasn't the real big year in '14?

15 MR. WALKER: In '14, but I thought last year we
16 were down. Okay. My mistake.

17 MS. FLORES: We did adjust our projections
18 based on when they hit that valley, if you will, but
19 they've been going up incrementally since. We're not back
20 to where we were, for sure, where we were issuing 700-and-
21 some-odd permits, but we've been coming back, if you will.

22 So other items to note on page 66, we do have a
23 breakdown of the processing and handling fee mix, whether
24 they're walk-ins, mail-ins, online, transactions processed
25 by the deputies. We are providing that for you moving

1 forward.

2 And on page 67 we also include the information
3 regarding the My Plates contract. As we previously
4 reported, they hit their \$50 million obligation in
5 November and they still have almost a full year left to go
6 in their current contract, so they're on board to deposit
7 more revenue into the general fund than we anticipated.

8 MR. WALKER: So we're tracking the comparison
9 to last year. I know that with the processing and
10 handling fee and some of the restructuring we were hoping
11 and anticipating that more people would not do walk-ins
12 but would do more mail-ins and more online processing, so
13 where would I see that differentiation? Where's our
14 expectation versus our reality of today?

15 MS. FLORES: Regarding the mix?

16 MR. WALKER: Well, we expected there to be some
17 movement into --

18 MS. FLORES: Twenty percent year over year,
19 yes, sir.

20 MR. WALKER: And where are we? Are we hitting
21 that projection, or no?

22 MS. FLORES: No, sir. We're holding steady
23 with online transactions, I think at about 13 percent, if
24 I remember right.

25 MR. WALKER: So why do you think that is?

1 What's our reason for that?

2 MS. BREWSTER: I would say we don't know
3 entirely why it is not shifting with the dollar discount.

4 I think certainly the efforts of the agency moving
5 forward, we need to take a look at that and drill down a
6 little bit as to why people are not using online services.

7 MR. WALKER: One of our projections were that
8 our costs would go down somewhat because of the shift to
9 online. Right?

10 MS. BREWSTER: Actually, the agency's costs
11 would be going up as the agency sees more online growth
12 because we are eating the credit card costs. We were
13 hopeful with the renegotiation of the Texas.gov contract
14 that we may see some reductions in credit card processing
15 fees, but that isn't till later on in 2018 that that will
16 be finalized.

17 MS. FLORES: And as more online transactions
18 occur, we also experience more costs associated with
19 printing the stickers because we've taken that on now as
20 well. But I'm happy to provide that kind of information
21 for you all.

22 MR. WALKER: I was just curious to know where
23 we were because I know we anticipated some changes and I
24 don't see a graph that shows where's the differences.

25 MS. FLORES: If I can have you all turn to page

1 69 of your book, I'll turn it over to Ms. Bankhead and
2 she'll cover the expenditure side of the house.

3 MS. BANKHEAD: For the first quarter the total
4 department budget was \$171.4 million. It increased about
5 \$3.1 million over the approved budget of \$168.3-. Those
6 adjustments were basically moving money forward from '17
7 to '18. One piece of it was the UB for automation, once
8 we finalized all of our bills and everything, we moved
9 that forward, and then the balances for Bull Creek
10 relocation, we moved that forward as well.

11 As you can see in the slide, most of our budget
12 is the TxDMV Fund, but we do have a little money in our
13 budget for ABTPA, there's a little UB in that blue slice,
14 and then Fund 6 is primarily carryforward balances in
15 automation.

16 On page 70 of your materials, you'll see first
17 quarter obligations and encumbrances. Those totaled \$84
18 million, that's about half of the revised budget.
19 Salaries are a major expenditure category. If you see on
20 page 69 we talk about vacancies. As of November we had 95
21 vacancies, as of January 31 that's down to 79 vacancies,
22 so we are filling positions.

23 MR. WALKER: So the freeze is off?

24 MS. BREWSTER: Yes, sir.

25 MR. WALKER: Okay.

1 MS. BANKHEAD: So our professional fees include
2 encumbrances for the RTS project and the Data Center
3 contract, and then we have a bar there, you see kind of
4 the third bar to the left on the slide on the second bar
5 chart, you'll see operating expenses. That's about \$48.4
6 million and it includes rent and utilities of about \$1.8
7 million. Contract services and services, that's the
8 biggest driver here, and that includes the contract for
9 our plates, the plate production, the encumbrance and some
10 expenditures, mostly the encumbrance.

11 Computer equipment, software and maintenance,
12 that's about \$5.4 million. Freight, postage, reproduction
13 and printing, and we detailed that on the bottom of page
14 70, and if you look at the bottom of page 70 you'll see a
15 little table down there that says First quarter budget
16 status detail for freight, postage, reproduction and
17 printing, the driver there is the postage for the renewal
18 notices and our titles.

19 The other thing if you look on page 70 you'll
20 see that there's a category called Advertising, travel,
21 memberships, training, fuel consumables, that's kind of at
22 the top of page 70 of your materials. It looks like
23 there's quite a bit of money there for what seems like a
24 small category, and basically what's there are some fees
25 that are really salary related that should have been in

1 the salary category, and for future months we'll move that
2 to the salary category, so it's not like we have \$2
3 million worth of advertising and that kind of thing. I
4 just wanted to make that clear.

5 MR. WALKER: Linda.

6 MS. FLORES: Sir.

7 MR. WALKER: So we got a one-time infusion of
8 cash of \$43 million.

9 MS. FLORES: \$23 million.

10 MR. WALKER: \$23, okay. Thought it was more
11 than that.

12 So did we track that individually and say how
13 much of it did we use, or did we just put it in and mix it
14 with all the rest of the money?

15 MS. FLORES: No, sir. We have tracked that
16 separately and it is sitting in our fund balance and it's
17 approximately -- at the end of 2017 the fund balance for
18 the DMV Fund was over \$40 million, or which \$23 million
19 was that one-time infusion.

20 MR. WALKER: So my question is since that was a
21 one-time infusion from the legislature to get us going and
22 if we don't expend that, it's kind of not like the Auto
23 Burglary and Theft deal where we're going to have to take
24 and give it back, is it?

25 MS. FLORES: You know, those fund balances are

1 subject to sweeps if the legislature so chooses. It will
2 be made available to the legislature when they come into
3 town next year. They normally do get a report from the
4 Comptroller and the State Auditor asking what kind of fund
5 balances are sitting out there. Those balances are also
6 eligible to finance our appropriations request and any
7 exceptional items that we may have on the table as well.
8 So there will be some give and take, I'm sure, when it
9 comes to our fund balances.

10 MR. WALKER: So I bet I already know the answer
11 to this, but let's just say that we have an unexpended
12 balance of \$50 million there, and the legislative
13 appropriations committee or budget committee comes over
14 and says we're going to sweep that and take that, that
15 money is going to go to the general fund or is it going to
16 go to Fund 6?

17 MS. FLORES: It would be up to the legislature
18 to decide where it goes and how it's used.

19 MR. WALKER: Because the intent of all of our
20 funds, basically, is to build roads in the State of Texas.

21 MS. FLORES: Yes, sir.

22 MR. WALKER: And that's where it needs to stay,
23 but we don't make that choice, I guess. Thank you.

24 MS. BANKHEAD: Another new schedule that we've
25 included is a comparison of prior years, and you'll see on

1 the slide there that our expenditures and encumbrances --
2 it's at the bottom of page 69 of your materials --
3 basically there were variances in operating expenses over
4 the last two years compared to this year, but the main
5 driver for the budget and our expenditures was the capital
6 budget.

7 In FY16 capital projects, specifically
8 automation, was the largest percentage of the department's
9 budget. If you see the \$95.7 million, that's the green
10 bar there on the very left one, of the \$95.7 million in
11 encumbrances, \$42.6 million was for capital projects, most
12 notably automation, consisting primarily of RTS and
13 eLICENSING, or the LACE project back then, that's what
14 they called it.

15 In FY17 the capital budget was a little less
16 than '16 and the encumbrances decreased by \$23 million, so
17 that's why you see the encumbrances go down from '16 to
18 '17, and then the same thing happened for '18 because our
19 capital budget is now only \$35.5 million, so as our
20 capital budget decreases as we complete projects and as
21 RTS winds down, you'll see that impact on our budget, but
22 our expenditures for the first quarter are pretty much the
23 same over the last two years. So that will give you a
24 little comparison.

25 I'll talk a little bit about the capital

1 budget. Beginning on page 71 we talk about the capital
2 budget. On this slide other capital projects include the
3 vehicles, both the replacement and the new vehicles for
4 the new CID division, plus the badge system, that's what
5 other capital projects includes. The Comptroller awarded
6 the new vehicle contract in November 2017, so we are now
7 in the process of getting ready to purchase the vehicles
8 for this year.

9 MR. WALKER: We haven't got those yet?

10 MS. BANKHEAD: We didn't get the contract until
11 November from the Comptroller and we can't order before
12 that.

13 MR. WALKER: So we as an agency don't go out
14 and get competitive bidding on that, do we?

15 MS. FLORES: No, sir. But again, that's where
16 the oversight has the --

17 MR. WALKER: The building facility commission,
18 they have some kind of other agency that buys cars.

19 MS. FLORES: And the Comptroller has to get the
20 statewide contract for vehicles and then agencies are
21 allowed to purchase off of that.

22 MR. WALKER: Is Bravo Cadillac of that list of
23 providers?

24 MS. FLORES: A mid-size truck is on the list.

25 MS. HARDY: General Motors.

1 (General laughter.)

2 MS. BANKHEAD: The other technology projects
3 include everything else besides automation which is agency
4 growth and enhancement, county technology replacement, the
5 cybersecurity initiative, the Data Center services
6 contract which is the largest portion of that little pie
7 there, that little block there.

8 On page 72 is detailed information on
9 automation projects. RTS refactoring is the major driver
10 with our automation projects, with \$5.7 million in
11 obligations, followed by webDEALER and eLICENSING. Also
12 included is the budget status for the planned automation
13 initiatives, that's on page 72.

14 And that concludes my presentation. Are there
15 any questions?

16 MR. WALKER: Good job. Don't let Linda take
17 all the credit.

18 MS. FLORES: I should have also introduced the
19 people who do support it, they've got my back. David
20 Chambers, purchasing director, Brian Kline, he is the team
21 lead for revenue estimation -- somebody left -- John
22 Ralston, he's the budget team lead for budget. They're
23 the folks who really put all of this stuff together, so
24 thank you.

25 MR. WALKER: They do a good job.

1 MS. FLORES: So moving on to item 4.C,
2 operating budget contracts, again this is a briefing item
3 only. This was in response to the operating budget
4 document that we had brought to you all for approval for
5 the current fiscal year. We had some questions that were
6 raised about our contracts and how we ensure that we
7 obtain the best value for the state agency, and we also
8 had a question about our license plate production and are
9 we getting the best deal for our money. We did provide
10 the Board with a survey that had been compiled of various
11 states. Our plate cost is \$1.50 which is one of the
12 lowest costs around the nation. There is no one size fits
13 all when it comes to plate production. Some states use
14 private vendors, a lot of states have the same business
15 model that we do where we have TDCJ convicts produce the
16 plates, but for our money we do get a good deal at \$1.50
17 per plate.

18 And I'm going to turn it over to Renita
19 Bankhead. She's kind of going to walk you through your
20 board book item starting on page 73, and if I could have
21 you turn your attention to page 75, this is where she's
22 going to pick it up.

23 MS. BANKHEAD: For the record, Renita Bankhead,
24 of your staff.

25 State agencies are subject to the Government

1 Code and the Administrative Code and those are the things
2 that govern contracting and procurement. The statutes are
3 in place to ensure state agency contracts and procurement
4 meet the needs of the agencies in an efficient,
5 responsible, and cost-effective manner. Basically, the
6 state basically kind of oversees most of the purchasing,
7 so the agencies have very little leeway on the things that
8 they can purchase. They do have some leeway but very
9 little.

10 One of the questions that came up was how do we
11 ensure that we're getting the best for our money, and
12 beginning on page 75, the state does have some criteria
13 for standard practices to ensure best value. In these
14 criteria they not only consider cost but contractor
15 performance, quality, reliability and the cost of future
16 maintenance, and these things are set out in statute in
17 the Government Code. There's also additional criteria for
18 automated information systems purchases, and that list
19 begins kind of on page 76, and that also includes price
20 but also compatibility with existing systems, capacity for
21 expansion, technical support requirements for maintenance
22 and support. So the state has quite a few guidelines to
23 make sure that agency procurement follow best practices
24 and that we get the best for our money.

25 The state also has preferences and you'll see

1 on the list that there are some things that have
2 preferential treatment, so preferences are given to
3 specific vendors for procurement of specific items. For
4 example, TIBH, this was formerly known as the Texas
5 Industries for the Blind and Handicapped, it's now the
6 Central Nonprofit Agency for the Texas State Use Program.

7 This program establishes a set-aside purchasing program
8 for commodities and service from community rehabilitation
9 programs which employ disabled Texans. State agencies are
10 required to use these services, basically for pens,
11 pencils, that kind of thing, and the prices are set and
12 monitored by the Texas Workforce Commission, and they do
13 this periodically just to make sure that the state is
14 getting the best deal.

15 Although statewide contracts are negotiated and
16 bid by oversight agencies, TxDMV does have the opportunity
17 for input. Oversight agencies, they do all the legwork.
18 They take advantage of statewide economies of scale to get
19 the best prices but the agency still has to be involved.
20 The statewide contracts are negotiated and monitored by
21 oversight agencies such as the Comptroller and the
22 Department of Information Resources. These contracts, if
23 you've heard the term before, I think some people call
24 them non-delegated, that's because they're not delegated
25 to the agencies.

1 TxDMV must have specific authority by statute
2 or rule to be able to solicit on the open market, and
3 that means even getting bids. So when you look at the
4 information that we provided, a lot of them do not have
5 any prices because we can't even go out and solicit to get
6 any information, we're not required to do that. We do
7 have the authority to competitively bid on information
8 resources technology services in excess of \$5 million, so
9 we do have that authority.

10 As far as the statewide contracts, I have a
11 couple of examples about that. We talked about the TDCJ
12 contracts, I'm not going to go back over that. One recent
13 example that we've all gone through was with the Texas
14 Facilities Commission with the Bull Creek relocation.
15 They provided us with a number of facilities and most of
16 those were not in our price range, so we went back to them
17 and said, This is not in our price range, and we explored
18 other options. The same thing happened in Pharr where
19 they provided us with a list and we said, No, we can't
20 deal with that. So it's not that the agencies are locked
21 into whatever the oversight agencies come up with, we
22 still have a seat at the table.

23 So beginning on page 77 of your materials is a
24 listing of the contracts that were presented at the August
25 Board meeting where this discussion came up, and the

1 contracts have been grouped based on the statute or code
2 by which they are governed, and I'm not really going to go
3 through those. The table does include FY17 actuals,
4 actual expenses, the FY18 contract amount, the procurement
5 method, the authority for the procurement either by rule
6 or by statute, and what's the determinate for best value.

7 Like I said before, there's a column for comparable
8 prices but in most cases this information was unavailable
9 either because we were unable to bid on the open market or
10 the item was a proprietary or sole source item.

11 So if you have any specific questions about
12 some of the contracts on the list, I can address those, or
13 David Chambers, who is here with me, he can address those
14 as well, but that concludes my presentation.

15 MS. FLORES: Moving on to item 4.D, facilities
16 update. Again, this is just a very quick briefing item.
17 I have some pictures for you. This is going to go very,
18 very quick.

19 As you know, our colleagues over at Bull Creek
20 were about to get evicted this month. The new landlord
21 was itching to get in there and do some boring and digging
22 and whatever, and so we successfully moved our staff,
23 over 100 people, on January 12. We estimated that we
24 would have a two-day move, we ended up getting everything
25 done on Friday, and I'm going to turn it over to Ann and

1 she can kind of walk you through all the logistics of
2 Friday evening.

3 MS. PIERCE: For the record, I'm Ann Pierce,
4 the deputy division director of Finance and
5 Administration.

6 We were very successful in completing the move
7 earlier than anticipated, and it was through a lot of
8 organization and cooperation from several different areas
9 of the agency, including a lot of information technology
10 staff, a lot of facilities services, staff, as well as all
11 of the Motor Carrier staff. This move was a little more
12 involved than a lot of the ones that you have participated
13 with us on where we've moved regional offices with between
14 12 and 32 employees, this involved 115 employees and a
15 whole lot of stuff, great amounts of equipment and
16 furniture, plus the project itself was composed of several
17 sub projects because the initial project involved working
18 with TxDOT and their contractors to ready the floor at the
19 new location here on campus at Building 6, so that was
20 kind of the first phase.

21 The second phase we worked with Texas
22 Correctional Industries and we did designs on the layout
23 of the modular and we ordered the product and made
24 whatever adjustments we needed and then we did the setup
25 of that.

1 The third phase was the move itself and we're
2 still finalizing the fourth phase which we will be
3 finishing Friday of this week where we had to go take all
4 of the stuff that was left behind for surplus purposes and
5 repurpose it or set it up for auction, we had to tear down
6 all of the old modular and organize it and get it ready,
7 which you see in some of the photos. In the photo to your
8 right there you'll see Jimmy is very happy in his new
9 location, he's smiling really big.

10 So it was definitely a great effort across the
11 agency and over the period of about a year and a half, and
12 this is the first time in the history of DMV, now that
13 they're on campus with us, that we're all actually
14 consolidated, the entire agency is consolidated on one
15 campus, so we wanted to celebrate that.

16 MR. WALKER: So, Ann, how much was our
17 appropriation for not the move but the furniture?

18 MS. FLORES: Well, the whole project was a
19 million four. We had actually set aside about \$250,000
20 for furniture but it ended up costing us twice, so it was
21 more like \$450-, I believe. And we're in the middle of
22 reconciling all of those invoices. We will have a
23 closeout report where we reconcile everything, but those
24 bills are still kind of ending.

25 MR. WALKER: So all of the old furniture is

1 either repurposed or sold?

2 MS. FLORES: Salvaged.

3 MR. WALKER: And we would get \$5 a table?

4 MS. FLORES: No, sir. Anything that's sold
5 goes to the general revenue.

6 MR. GRAHAM: You've heard that before, haven't
7 you?

8 MS. FLORES: We kept as much as we could that
9 was worth something.

10 MR. WALKER: So all I want to know is, Jimmy,
11 did you get that good coffeepot you had over there and
12 bring it over here, because we don't have a good one over
13 here.

14 MR. ARCHER: (Speaking from audience.) That
15 coffeepot went with the IT guys that left three years ago.

16 MR. WALKER: They took that with them? They
17 had the best coffee.

18 (General talking and laughter.)

19 MS. FLORES: That concludes our presentation.

20 MS. CARAWAY: Thank you, Ms. Flores and team.

21 MR. GRAHAM: I'll just add for the Board that I
22 actually inspected this facility earlier today, and it
23 looks really good. They've got almost everything put up,
24 everybody was operational, they were just stacking them up
25 and knocking them down. So it looks good, Jimmy.

1 MS. CARAWAY: Thank you all for your reports
2 today.

3 And we'll move on to agenda item 4.E and F, and
4 Sandra Menjivar-Suddeath.

5 MS. MENJIVAR-SUDDEATH: Good afternoon, Board
6 members. For the record, I'm Sandra Menjivar-Suddeath,
7 Internal Audit director, and I am presenting item 4.E
8 which is the peer review process. This is a briefing item
9 only and is found on page 86 of your board book. The
10 board book material includes the peer review engagement
11 letter, information on the peer review process, as well as
12 the consolidated version of the internal audit self-
13 assessment report, which I've consolidated into this
14 presentation.

15 So before we begin, just some background
16 information. The Texas Internal Auditing Act requires
17 that agencies that exceed more than \$10 million, have more
18 than 100 FTEs, or receive and process more than \$10
19 million in cash have an internal audit function. The
20 Internal Audit Act also requires that the internal audit
21 function go through a quality assurance process, including
22 external assessments, also known as peer reviews, on a
23 periodic basis according to the audit standards.

24 So the applicable audit standards are the
25 Generally Accepted Government Auditing Standards,

1 promulgated by the U.S. Government Accountability Office,
2 also known as GAGAS, the International Standards for the
3 Professional Practice of Internal Auditing, which is
4 developed by the Institute of Internal Auditors, the IIA,
5 and the Texas Government Code 2102 which the Internal
6 Auditing Act. The act itself has requirements on both
7 where the reporting of this function should be, as well as
8 qualifications for the chief auditor, specifically there's
9 requirements on certifications that I have to have; I have
10 to be either a certified internal auditor or a certified
11 public accountant.

12 The GAGAS and the IIA standards have both
13 compliance and performance standards. What that means is
14 the compliance standards are related to our independence,
15 objectivity, those type of items. And the performance
16 standards are things related specifically to our audit
17 work, how do we make sure that we get and collect
18 sufficient information.

19 So the peer review is required to be done at
20 least every three years, and without doing a peer review,
21 our work cannot be done under standards nor can it be
22 relied on by other auditors. So the State Auditor's
23 Office sometimes uses our work to review a function before
24 they come in; they wouldn't be able to rely on our work.
25 In addition, in our reports we have a specific statement

1 in the background that says: The Internal Audit Division
2 conducted this performance audit in accordance with
3 Generally Accepted Government Auditing Standards and in
4 conformance with the Internal Standards for Professional
5 Practice of Internal Auditing. We would not be able to
6 cite that in our reports if we did not have a peer review
7 every three years.

8 Our last review and our only peer review was in
9 2015, so this will be our second peer review, and it's
10 being done by the State Agency of Internal Audit Forum, or
11 SAIAF, at no charge. So this is other internal audit
12 directors, we get together and we do peer reviews, in
13 addition to discussing issues that are going on in the
14 internal audit community to kind of help each other out.
15 If we were going to go procure this in the private sector,
16 it would be anywhere towards \$10,000 to \$30,000, depending
17 on what we're asking. In addition, some of the private
18 sector people that provide this service either focus just
19 on one standard or the other standard, so it's really hard
20 to find auditors that can understand both audit standards
21 as well as the Internal Auditing Act, which is why we do
22 it through the SAIAF program.

23 So this year's peer review team is made up of
24 two individuals. One is a senior IT project manager from
25 the Texas Workforce Commission, Harold Rogers. He is a

1 certified information auditor, as well as a certified
2 information system auditor. He led his department's self-
3 assessment and he's worked as a peer review on other as a
4 team member. The other member is Patrick McKinney. He is
5 a certified information auditor. He is the external
6 section director for the Texas Department of
7 Transportation, and he has participated in his peer
8 review. And both the Texas Department of Transportation
9 and the Texas Workforce Commission follow the same audit
10 standards that we do.

11 So the peer review process, it first starts out
12 with me in consultation with the Finance and Audit
13 Committee chair, as well as the Board chair, selecting the
14 peer review team. In about the November-December time
15 period, I requested volunteers for the peer review team,
16 had a couple of selections, and then I forwarded that
17 information on to the chairs for their review and
18 approval. After that, the Internal Audit Division
19 prepared their self-assessment report and that was
20 provided to the peer review team. The peer review team is
21 reviewing the self-assessment report and the
22 documentation. In addition, they'll come in and actually
23 review our audit files, they'll be going into the files,
24 looking at them, seeing if we have sufficient evidence,
25 did we tie out our results, did we do everything we were

1 supposed to do. The peer review team will also be
2 interviewing Internal Audit staff, executive management
3 and the Board members. They've already set up some
4 meetings and they'll be setting up a couple more after
5 this Board meeting.

6 So once they review all that information,
7 they're going to evaluate our compliance with those audit
8 standards. They're going to provide us updates on how
9 they're progressing, any issues -- I already have a couple
10 of questions from them on some of our self-assessment
11 items, so I'll be responding to that -- but if you have
12 any questions on the peer review process or where they
13 are, please feel free to reach out to me and I'll make
14 sure they give you an update.

15 The peer review team will provide an assessment
16 and they'll give us an overall opinion. There's only
17 three possible ratings that they can give us: pass, pass
18 with deficiencies, and fail, and pass is the highest.
19 Pass means that we generally conformed, that our policies
20 and procedures and the actions we've taken with our
21 policies and procedures are in place to ensure conformance
22 with those auditing standards.

23 MR. WALKER: This is the second time we've gone
24 through one of those.

25 MS. MENJIVAR-SUDDEATH: This is the second

1 time. And the first time we've done this we did receive
2 pass/generally conforms.

3 Pass with deficiencies/partially conforms means
4 just that, we've mostly conformed but there were some
5 significant areas where the peer review team felt that we
6 were lacking and we were not conforming with audit
7 standards.

8 MR. WALKER: This is the one we got pass with
9 partial?

10 MS. MENJIVAR-SUDDEATH: No. We got pass last
11 time.

12 And then the final is fail, which fail means we
13 have absolutely no processes in place to actually ensure
14 conformance with those audit standards -- which I highly
15 doubt we'll get fail, but if we were, we don't have to
16 wait three years to get another peer review, we can
17 address this issues and fix it before and then that way we
18 will make sure that our work can be done under standards.

19 So the peer review timeline. In January we
20 finalized the engagement letter, we provided the self-
21 assessment report to the peer review team, and they are
22 starting to review it, so between now and April the peer
23 review team will reviewing the self-assessment report,
24 reviewing our audit files, they'll begin field work,
25 they'll conduct the interviews and they will provide us

1 updates. In the May-June time period they will be giving
2 us an overall opinion and they'll be giving us a draft
3 report on what they think of our conformance. I will be
4 looking at that and reviewing it with the Financial and
5 Audit Committee chair, as well as the Board chair,
6 especially if they have audit recommendations. And then
7 the report will be finalized and we will distribute it and
8 provide the Finance and Audit Committee, as well as the
9 Board, an update on it.

10 Any questions?

11 (No response.)

12 MS. MENJIVAR-SUDDEATH: That ends 4.E. I'll go
13 forward to item 4.F which is the internal audit status
14 update, and that begins on page 105 of your board book.

15 The audit status update has six items, six
16 engagements that we're currently working on or have just
17 finalized. The first item is the fraud, waste and abuse
18 risk assessment. This is an advisory service, it's a
19 year-long advisory service to identify and rank all fraud,
20 waste and abuse risk throughout the department. We are in
21 field work, we're working with 14 divisions on this, we're
22 about 50 percent complete on it, and we anticipate having
23 it done by August 2018, if not earlier.

24 The next item is the fiscal year 2018 internal
25 audit followup. This is also a year-long project, it is

1 to verify the implementation status of internal audit
2 recommendations. We're currently looking at quarter two
3 which is December 1 through February 28. We will provide
4 a memo to the Board on what has been completed, what has
5 not been completed at the probably early March time
6 period. It will be similar to the memo that we sent out
7 in quarter one.

8 The next audit we're working on is travel and
9 training. This is an audit to determine if training and
10 travel requests have appropriate approvals and
11 justifications, as well as determining if requests are
12 appropriate and meet the needs of TxDMV. We're also
13 looking at Board travel policies, as a special request.
14 We are in field work on this and we anticipate finishing
15 this in late April and providing the report to you at that
16 time.

17 The next item is the management request, the
18 Texas Commission of Law Enforcement, TCOLE. This was a
19 special request by the Enforcement Division. The
20 agreement is on page 129 of your board book. Basically
21 what we're doing is looking at the training that we
22 provide for law enforcement credit. For a training to be
23 eligible for law enforcement, it has to meet compliance
24 rules set up by TCOLE, and so we're reviewing our
25 compliance processes to make sure that we have good

1 processes, good policies and procedures to ensure that we
2 are compliant in the future for any requirements for that
3 law enforcement credit.

4 MR. WALKER: So question on that.

5 MS. MENJIVAR-SUDDEATH: Yes.

6 MR. WALKER: We've never done an audit before
7 on the enforcement of this stuff, have we?

8 MS. MENJIVAR-SUDDEATH: No. Internal Audit was
9 not aware of the training compliance requirements until
10 recently.

11 MR. WALKER: I wasn't either so that's why I'm
12 asking the question.

13 MS. MENJIVAR-SUDDEATH: So no, we haven't. So
14 the Enforcement director, Ms. Corrie Thompson, reached out
15 to us when she became aware of this Enforcement
16 requirement, and we are working with her on this advisory
17 service to make sure she gets that information.

18 MR. WALKER: But aren't we taking on some
19 additional roles with respect to law enforcement that we
20 weren't doing in the past?

21 MS. MENJIVAR-SUDDEATH: We have always been
22 approving the training. This was a function that
23 transferred over with TxDOT, from my understanding, so
24 this is something we've been doing since 2007.

25 MR. WALKER: So do our law enforcement people

1 need to be certified?

2 MS. MENJIVAR-SUDDEATH: No. This is for the
3 training we provide to law enforcement. So for them to
4 get credit hours for it, it has to be approved.

5 MR. WALKER: This is our training of law
6 enforcement?

7 MS. MENJIVAR-SUDDEATH: Yes. This is the
8 dealer training or the salvage training that we provide,
9 or recently we've been providing the ABTPA training. That
10 training has to go through this process internally for
11 approval so that way that it's certified TCOLE and that
12 way law enforcement can get the hours.

13 MR. WALKER: So it's not our Enforcement
14 Division.

15 MS. MENJIVAR-SUDDEATH: No.

16 MR. WALKER: Okay. I'm sorry.

17 MS. MENJIVAR-SUDDEATH: It is just being run
18 through the Enforcement Division currently.

19 MR. WALKER: Okay.

20 MS. BREWSTER: Madam Chair, if I may?

21 MS. CARAWAY: Yes.

22 MS. BREWSTER: And just to be clear, this is
23 not an audit, this is an advisory service, so there won't
24 be specific audit findings, as you would see in a typical
25 audit.

1 MR. WALKER: And you're saying that we were
2 just advised by somebody, I didn't hear you say who.

3 MS. MENJIVAR-SUDDEATH: Yes. The Enforcement
4 Division director, Ms. Thompson, reached out actually to
5 Internal Audit, me specifically, to discuss the TCOLE
6 training when she became aware of it.

7 MR. WALKER: And had we been doing this before?

8 MS. MENJIVAR-SUDDEATH: Yes. We've been doing
9 it since 2007, I believe, not 2009. I'll check on that.

10 MR. WALKER: I'm sorry. Thank you.

11 MS. MENJIVAR-SUDDEATH: With that, I'll move on
12 to the last two items on the audit status update, and
13 these are both reports that we have completed. The first
14 one is the TxDMV Fund report, and that's on page 109 of
15 your board book. Now, the audit's objective was to
16 determine whether appropriate revenue was being deposited
17 into the TxDMV Fund and whether appropriate fees were
18 being distributed to the counties. We found that the
19 department did have processes in place to ensure
20 appropriate revenue was being deposited and distributed to
21 the DMV Fund and the counties. We were not able to do a
22 transactional review because we did have some reporting
23 constraints, so a report did not exist where we could
24 actually pull the transactional information and do what we
25 like to do, a cradle to grave review.

1 But, however, we did review Finance's
2 processes. They do monthly, quarterly and annually
3 reviews of the DMV Fund and the distribution of what's
4 happening with that. Those processes go into depth,
5 especially for the P&H fund and they do significant review
6 on that. The only thing we found that they were not
7 documented, so we asked them to document those processes
8 to make sure that if there was any turnover in that
9 division or that section, people would know what to do.

10 The other recommendation we made was looking at
11 changes made to the DMV Fund table. So when there's a
12 change made to the DMV Fund table, such as a new permit or
13 we get a new split, those changes are validated in the
14 testing environment, it is reviewed, however, no one
15 reviews them once they go into production environment, and
16 it's just a best practice to make sure that they are
17 reviewed in production because sometimes the testing
18 environment doesn't always match specifically the
19 production environment.

20 And so FAS has agreed to both audit
21 recommendations and they're in the process of addressing
22 those issues. Overall we gave this audit a rating of
23 three which means that they have standardized,
24 communicated and they are following processes, but there
25 is some area of improvement.

1 Any questions on the DMV Fund audit?

2 (No response.)

3 MS. MENJIVAR-SUDDEATH: The next audit that
4 we're closing out is the open records public information
5 process audit, and that's on page 117 of your board book.

6 The audit's objective was to determine if public
7 information requests were being handled consistently, in
8 accordance to state law, and whether they had overall
9 appropriate costs. We found that overall the department
10 was handling these public information requests
11 appropriately, handled consistently in accordance with
12 law, and had appropriate costs. However, we did make four
13 audit recommendations to help ensure the consistency
14 continues on, as well as to gain some efficiencies, and
15 I'll let Derek Miller, the senior auditor who led the
16 engagement, give more detail on it.

17 MR. MILLER: Good afternoon. Derek Miller,
18 senior internal auditor.

19 We did review the Texas Department of Motor
20 Vehicles public information request processes. The entire
21 process is overseen by the Office of General Counsel, and
22 they're responsible for overseeing the receipt, responding
23 to and reporting on public information requests received
24 by the department. OGC has a designated open records
25 attorney on staff that provides guidance to the division

1 staff that are actually responding to the requests
2 received for the related information in each division, and
3 OGC also provides guidance on the statutory requirements
4 and obligations of the department when responding to
5 those.

6 On march 9,2017, so last year, OGC implemented
7 what is called the FOIAXpress system. It's a public
8 information request management system, and that provides
9 sort of a central hub for the public to submit requests
10 and for the department staff to track and coordinate their
11 responses and the work flow as they're working on it. It
12 also allows the department to invoice the requester based
13 on a standardized fee table. OGC also provides training
14 to staff using the system and also works with the vendor
15 if any troubleshooting bugs or anything like that comes
16 up.

17 We did find that the DMV complies with the
18 requirements of the Texas Public Information Act,
19 including response times, confidentiality, and applicable
20 fees when applying or waiving fees for requests. As
21 Sandra mentioned, we did make four requests related to
22 streamlining some processes. One recommendation was
23 related to multiple divisions having general email boxes
24 open for the public to submit requests. We recommended
25 those be consolidated to run through the Office of General

1 Counsel's email box.

2 There was a separate work stream for title
3 history requests which was resulting in some redundant
4 manual data entry that was causing some minor reporting
5 errors when reporting the volumes to the Office of
6 Attorney General. OGC corrected those as we found them
7 and management will be working to try to consolidate some
8 of the data entry to avoid some of those reporting errors
9 in the future.

10 MR. WALKER: Let me ask you a question, and I'm
11 kind of lost here. I'm reading it says here
12 Recommendation: the Internal Audit Division has made four
13 recommendations related to consolidation of multiple PIR
14 intake points and development of uniform guidelines it
15 issues. Where do I see that, where are those four
16 recommendations?

17 MS. MENJIVAR-SUDDEATH: So the four
18 recommendations -- well, the summary is on -- I'm assuming
19 that you're looking at the summary on page 119, so the
20 actual recommendations are per audit results, so they
21 start on page 123, so the first audit result was: The
22 TxDMV has multiple methods of PIR. On page 124 there's a
23 section called recommendations, those are the two
24 recommendations to that issue. And then on the second
25 issue, The TxDMV applies different processing and response

1 practices across multiple divisions, the recommendations
2 are on 126. But in future we'll put that in the executive
3 summary, the specific recommendations so that way it's
4 there.

5 MR. WALKER: Because it's hard. If I read an
6 audit report, generally I want to see the recommendations
7 and see how they list out what they are. It's kind of
8 difficult to look at this and see what your
9 recommendations are, in my mind. And it may be just that
10 I'm an Aggie, too.

11 MS. MENJIVAR-SUDDEATH: No, no. We try to
12 summarize just the basic information in the executive
13 summary but we'll make sure to add the actual
14 recommendations in that section so that way you have them
15 there.

16 MR. WALKER: Thank you.

17 MR. MILLER: The two remaining recommendations
18 in the report were related to developing additional
19 guidance for staff related to identifying what would be
20 considered a law enforcement request, guidance on when to
21 charge certain requesters or for certain requests, make
22 that a little more uniform throughout the department, and
23 also when to bring certain items to executive management's
24 attention as some division-specific requests may be
25 critical to one division but may not necessarily be

1 recognized by another division as critical.

2 And that covers all four of the recommendations
3 and end of the report, so any other questions on the
4 report?

5 (No response.)

6 MS. MENJIVAR-SUDDEATH: With that, we conclude
7 the Internal Audit Division status. Thank you.

8 MS. CARAWAY: Thank you, Sandra.

9 So we need no executive session. Correct?

10 MS. BREWSTER: No, ma'am.

11 MS. CARAWAY: So that means we get to adjourn.

12 MR. GRAHAM: Move to adjourn.

13 MS. CARAWAY: I think we get to adjourn. It's
14 approximately 4:23, and the Finance and Audit Committee of
15 the Board of the Texas Department of Motor Vehicles is now
16 in closed session. Sorry, I'm on the wrong one.

17 MR. WALKER: We're going back in closed
18 session?

19 MS. CARAWAY: No, we're not.

20 If no members have any further items of
21 business, I would like to entertain a motion to adjourn.

22 MR. GRAHAM: So moved.

23 MS. CARAWAY: I have a motion by Member Graham,
24 and a second by?

25 MS. HARDY: Second.

1 MS. CARAWAY: Member Hardy.

2 All in favor?

3 (A chorus of ayes.)

4 MS. CARAWAY: Let the record reflect that the
5 vote is unanimous. It is now 4:24 and we are adjourned.

6 (Whereupon, at 4:24 p.m., the meeting was
7 adjourned.)

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C E R T I F I C A T E

MEETING OF: TxDMV Board Audit & Finance Committee
LOCATION: Austin, Texas
DATE: February 8, 2018

I do hereby certify that the foregoing pages, numbers 1 through 64, 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.

Date: 02/13/2018

/s/ Nancy H. King
(Transcriber)

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