TEXAS DEPARTMENT OF MOTOR VEHICLES

FINANCE AND AUDIT COMMITTEE
MEETING

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

Wednesday,
August 5, 2020

COMMITTEE MEMBERS:

Brett Graham, Chair
Charles Bacarisse
Stacey Gillman
John Prewitt

ON THE RECORD REPORTING
(512) 450-0342
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MR. GRAHAM: Good afternoon. My name is Brett Graham, and I am pleased to open the Finance and Audit Committee of the Board of the Texas Department of Motor Vehicles.

It is 2:02 p.m., and I am now calling the committee meeting for August 5, 2020 to order. 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 the Secretary of State on July 28, 2020.

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

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

Under that suspension, the public will not be
able to physically attend this meeting in person. Instead
the public may attend this meeting by using the link or by
calling the toll-free telephone number, which are both
posted in our agenda which was filed with the Office of
the Secretary of State on July 28, 2020. All committee
members, including myself, will be participating remotely
via WebEx.

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

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

First, department staff and any commenters
should identify themselves before speaking. Second, speak
clearly and remember that there might be a slight delay
due to the telephone conference call meeting, so please
wait a bit longer than usual before responding to
participants. Do not speak over others, and speakers
should ask the committee chair permission to proceed and be sure to get recognized before speaking.

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

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

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

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

Member Bacarisse?

MR. BACARISSE: Here.

MR. GRAHAM: Member Gillman?

MS. GILLMAN: Present.
MR. GRAHAM: Member Prewitt?

(No response.)

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

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

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

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

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

Tracey, are we aware that Chairman Treviño is present?

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

Chairman Treviño might be listening in to some portion of the committee meeting today. Thank you.
MR. GRAHAM: Okay. Very good. We welcome the chairman and any other board members that may be listening in. As I stated before, they will take no action but are always welcome to attend.

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

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

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

MR. GRAHAM: All right. Thank you.

CONNER KUNTZ: Thank you.

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

All right. With that, we will move on to -- let me make sure everybody makes it back here. All right.

I see Member Bacarisse and just make sure Member Gillman
makes it. You there, Member Gillman? Yep, I got you.

Excellent.

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

There you go, the floor is yours.

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

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

Next slide, please.

This is the second presentation of the departments FY22-23 appropriations request. I would like to mention that budget instructions from the Legislative Budget Board have not been received as of today. The department's recommended appropriations request may be modified to adhere to guidance from state leadership once
instructions are distributed that include guidance and perhaps policy changes that affect all state agencies.

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

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

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

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

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

Next slide.

The recommended appropriations request is,
again, similar to the preliminary we presented to you in June. We continue to expect sufficient collections in the Texas DMV Fund to support the agency's operations, including the staffing of our 802 full-time equivalent employees.

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

Next slide.

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

In comparison to our preliminary request last June, the processing and handling fee reflects the highest impact with a drop in fiscal year 2020 and an increase in
fiscal year 2021 when the current registrations become due once more. More insight on the revenue impacts of the COVID-19 will be discussed in a future agenda item.

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

MS. FLORES: Next slide, please.

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

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

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

It also includes transfers and changes to
accommodate the creation of a new ombudsman and a new deputy director who oversees the administrative functions of the department.

Next slide, please.

MR. GRAHAM: Ms. Flores?

MS. FLORES: Yes, sir.

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

Welcome, Member Prewitt.

MS. FLORES: Thank you.

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

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

Next slide, please.

As Mr. Rey mentioned, we still have six
exceptional items requests that we're requesting for the next biennium. This slide does allow you to see the priority for each of those six items.

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

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

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

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

And finally, the last three exceptional items, two substations, one in Dallas, one in Houston, and the
Motor Vehicle Crime Prevention Authority's refund unit, have been refined to include better cost estimates for the next biennium.

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

Next slide, please.

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

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

Next slide, please.

That concludes our presentation not the department's FY22-23 Legislative Appropriations Request, and as I previously mentioned, we are still waiting on
instructions from the Legislative Budget Board.

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

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

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

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

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

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

But a little more information on this item. This is an item that came through the Sunset process. There were no additional funds associated with this project, and it was to combine the two complaint systems in MCCS and eLICENSING into a single system so that there
could be consistency in reporting and in our assessment, a more modern platform for it to reside.

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

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

MS. FLORES: This is Linda Flores.

MS. BREWSTER: Go ahead, Linda.

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

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

MR. PREWITT: Okay.

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

MR. PREWITT: Okay.

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

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

MS. FLORES: I'm sorry.

MR. PREWITT: That's all right.

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

MR. PREWITT: No.

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

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

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


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

MS. BREWSTER: Chairman Graham, if I may?

MR. GRAHAM: Yes, ma'am.

MS. BREWSTER: Whitney Brewster for the record. Member Prewitt, we do anticipate that we will continue to look to refine this number. We are looking
for other estimates in terms of trying to rein this cost in, and so we do not believe that we will need to go above this amount. We do believe we're continuing, like I said, to explore the technological solutions out there that may bring that cost in.

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

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

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

(No response.)

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

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

There are no public comments.

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

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

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

MR. GRAHAM: Okay.

MS. GILLMAN: I move that the committee recommend that the board approve the fiscal year 2022-2023
Legislative Appropriations Request as presented by staff, subject to any technical corrections that are approved by the department's chief financial officer and executive director to comply with the instructions from the Legislative Budget Board.

MR. GRAHAM: Okay. Thank you, Member Gillman. Do we have a second?

MR. PREWITT: Second.

MR. GRAHAM: Member Prewitt second.

Is there any further discussion?

(No response.)

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

Member Bacarisse?

MR. BACARISSE: Aye.

MR. GRAHAM: Member Gillman?

MS. GILLMAN: Aye.

MR. GRAHAM: Member Prewitt?

MR. PREWITT: Aye.

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

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

MS. FLORES: Thank you.
Next slide, please.

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

Next slide, please.

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

MS. FLORES: Thank you, Chairman.

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

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

The budget finances 802 FTEs, as well as the
operating and capital costs that are currently in flight and planned expenditures for the new year.

Next slide.

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

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

Next slide.

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

As I previously mentioned, by far the largest fee collection is from the motor vehicle registration fees. This is followed by oversize/overweight permits, followed by motor vehicle titles, the processing and handling fee which is associated with the motor vehicle
registrations, and last but not least, business license fees, which includes fees for dealer licenses and fees for general distinguishing numbers.

Next slide, please.

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

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

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

Next slide, please.

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

The total fiscal year 2021 budget of $181.7 million is broken up into five main categories.
The largest category starting with our core program activities of $88.6 million. These core programs are Vehicle Titles and Registration, Motor Vehicle section, Motor Carrier, Enforcement, Compliance and Investigation, Consumer Relations, Administrative Hearings, and the Motor Vehicle Crime Prevention Authority.

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

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

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

Next slide.

Our capital budget, the detail for this
information of the capital budget is found on page 66 of your board book. The following chart of this presentation is on page 67.

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

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

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

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

Next slide.

As part of the operating budget we also present to you a list of contracts that will be executed or plan to be executed by the agency in this next fiscal year.
This information begins on page 79 of your board material.

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

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

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

Next slide.

And at the end there was 16 statutorily required contracts. These are the ones that by statute we are working with specific vendors or other state agencies to procure these services. Such examples are the State Office of Administrative Hearings for our contested cases, the State Office of Risk Management, or SORM, which we
coordinated our workers' compensation, our vehicle liability and property insurance, the Texas Department of Criminal Justice for the manufacturing of license plates, registration stickers and placards, and the Texas Department of Information Resources for their data center services.

Next slide.

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

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

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

Our second item here is an approval to request from the Legislative Budget Board and the Governor's Office the ability to transfer funds from automation capital to the data center consolidated capital
appropriation. This is the nexus of the 25 percent permitted by the General Appropriations Act.

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

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

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

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

The data center consolidation for fiscal year 2020 is just over $10 million. The $2.7 million transfer
exceeds that 25 percent limitation. To fulfill this transfer, we are asking this committee and the full board their approval to request authorization from the Legislative Budget Board and the Governor's Office Budget and Planning Division to exceed the 25 percent threshold. With your support and once authorized, the transfer will allow us to initiate the procurement of managed application services contracts for these two projects.

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

MS. GILLMAN: I have a question, Sergio.

MR. REY: Yes, ma'am.

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

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

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

This has been in place for several years. It is what we call title check, and we utilize the nationwide
database system, if you will, so we have an agreement with AAMVA for that service, and it has been in place for several years that I'm aware of.

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

MR. GRAHAM: Yes, ma'am.

MS. BREWSTER: Whitney Brewster, executive director.

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

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

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

MS. GILLMAN: So it's not new.

MS. BREWSTER: No, ma'am.
MS. GILLMAN: It will be a regular part of budget every single year?

MS. BREWSTER: Yes, ma'am.

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

MS. FLORES: It does require approval every year.

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

MR. GRAHAM: Thank you.

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

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

MS. BREWSTER: Member Graham, it's actually parallel, I would say. I wouldn't say that it influences the other. I will just mention that the American Association of Motor Vehicle Administrators has developed an eTitling working group specifically to address what you are talking about, and that's consistency and
standardization across the states when it comes to
eTitling and other controls.

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

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

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

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

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

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

There are some very large projects, and as Mr.
Rey mentioned, that's why we know that some of these require more staff resources than we are capable of providing, so we are looking to move some of those dollars from automation to DCS to help us out to actually take those over and complete them in a timely manner.

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

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

Are there any other questions from the committee?

(No response.)

MR. GRAHAM: Do we have any public comments?

MS. BEAVER: Tracey Beaver, general counsel.

There are no public comments.

MR. GRAHAM: Okay. Thank you.

I will entertain a motion for agenda item 4.B at this time.
MR. BACARISSE: Mr. Chairman?

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

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

MS. BEAVER: Tracey Beaver, general counsel. That's fine to do them separately if you would like, either way.

MR. BACARISSE: I think it would be helpful just so we all know what we're doing here. I'd like to move, Chairman, that the committee recommend that the full board approve the FY 2021 operating budget as presented, which includes item 1, the list of contracts that require board approval, as well as the designation of signature authority to the executive director or the executive directors designee, subject to the restrictions in Government Code Section 2261.254, subsection (d), for the approved contracts that were discussed.

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

And do I have a second?

MR. PREWITT: I will second.
MR. GRAHAM: Okay. Member Prewitt. Thank you, Member Prewitt.

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

(No response.)

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

Member Bacarisse?

MR. BACARISSE: Aye.

MR. GRAHAM: Member Gillman?

MS. GILLMAN: Aye.

MR. GRAHAM: Member Prewitt?

MR. PREWITT: Aye.

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

Let the record reflect the vote was unanimous for.

And I will now entertain a motion for part B.

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

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

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

MR. GRAHAM: Okay.

MS. GILLMAN: I'll second the motion.

MR. GRAHAM: Second by Member Gillman.

Any further discussion?

(No response.)

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

Member Bacarisse?

MR. BACARISSE: Aye.

MR. GRAHAM: Member Gillman?

MS. GILLMAN: Aye.

MR. GRAHAM: Member Prewitt?

MR. PREWITT: Aye.

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

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

MS. MENJIVAR-SUDDEATH: Good afternoon, Finance and Audit Committee members. For the record, Sandra Menjivar-Suddeath, and I am presenting item 4.C., the fiscal year first six-month Internal Audit plan.
The material is on page 104 of your committee book. This is an action to recommend to the full board to approve the audit plan.

Next slide, please. Thank you.

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

Next slide.

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

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

Something to note that's different in our risk level guidance this year is that we moved from a three-tier risk level to a five tier. The five tier is depicted
on the slide. The previous three-tier risk level was high, medium, or low.

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

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

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

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

So through that process this year we reviewed and identified 247 risks. We also identified 181 unique controls, and I say unique because the control can be used multiple times to mitigate multiple risks.
Now, out of the 247 risks, we had about 48 that were in the high and the very high categories, the rest were in the middle, low or very low, and I'll go into a little bit more discussion about that in the next slide.

Next slide, please.

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

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

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

The other 28 risks are either risks that have been evaluated in previous engagements or they're being covered through the divisions in a combined assurance approach. That basically means that division management and Internal Audit have had discussions on these high and
very high risks and they're taking action to mediate it before Internal Audit has to go in to do an engagement.

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

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

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

Next slide, please.

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

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

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

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

The next engagement on the slide is telecommuting. Telecommuting is on here because of the current environment that we're in. Currently about 73 percent of our workforce in the department are working remotely due to COVID-19.
Prior to COVID-19 we had about 18 percent of our workforce that was working somehow, some way telecommuting. Now, we do anticipate that the number of 73 percent will go down, but the number of 18 percent will go up after COVID-19, so we'll have more employees wanting to telecommute, probably not in the degree that we have now.

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

Next slide, please.

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

In addition, we're going to look at the monitoring components that we have established to make
sure that our stakeholders, such as the tax assessor-collectors' office or dealers, have the plates and the items they need to service the customers when they come in.

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

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

Now, this engagement does not have any hours associated to it, because it is going to be a co-sourced engagement. The vendor will be coming in and will be doing most of the work; while our staff will have some work, we don't know what that work looks like because we have not been able to discuss those areas with the vendor yet, but we will provide an update to the Finance and
Audit Committee once we have more concrete numbers on how many hours this will take.

Next slide.

Then we'll go into the required engagements.

The first two required engagements on this slide include the auditor's recommendation implementation status, which you are familiar with.

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

We'll also have the annual activity report. This is a statutorily required report where we summarize our Internal Audit activities. The guidance is provided by the State Auditor's Office and is due in November.

Typically by this point we also have guidance on what that report should include, and we do not have that so we're still waiting on that.

Next slide, please.

And then last two required items are related to our quality assurance and improvement program. The first is the internal assessment, which you are aware of, familiar with. This is our annual review of ourselves to make sure that we are in compliance with audit standards.
and how we're doing and performing as a function.

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

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

Next slide, please.

So with nine engagements, there were some questions about how will we do all this with our small staff, and so we put together a preliminary schedule. I will say it is preliminary because things change that will impact our environment that we may not be able to achieve the time frames that we want, but this slide denotes where we plan to start and end the engagement. And what you will notice is that for audit recommendation implementation status and quality assurance external
assessment, we're only asking for approval for work for
the first half. We'll come back and ask for approval for
the second half in February-March time frame.

Next slide, please.

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

In those cases we work, obviously, with the
committee as well as the committee chair and board chair
to ensure that everyone is in agreement that we should go
in and look at that.
Next slide, please.

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

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

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

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

And finally, we have board communication, which we're trying to standardize and streamline all communications to the board so that way you have an
expectation on what communication will come from us when.

Next slide.

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

Next slide, please.

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

MR. GRAHAM: Okay. Thank you, Sandra.

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

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

For example, the law enforcement advisory service occurred in December, the risk related to those engagements occurred in December. Had those risks
occurred -- if we had come to understand those risks in February, it wouldn't have changed our audit plan, we would have just added it to the second six-month audit plan.

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

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

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

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

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

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

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

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

What happens next?

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

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

So it's not a part of our audit engagement at this point. We really just monitor them as we update our risk assessment; as we do our risk assessment we update
them to see if action has been taken. If action isn't taken, the typical view is that will become a priority for our audit plan next year.

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

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

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

MS. BREWSTER: Chairman Graham, if I may?

MR. GRAHAM: Yes, ma'am.

MS. BREWSTER: Whitney Brewster, executive director.

Now that Sandra and her team have completed this review and developed the Internal Audit plan addressing, I believe, 20 of the high or very high risk areas, we then as agency staff are going through each of
those remaining risks to determine what the next steps are.

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

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

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

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

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

MR. GRAHAM: Member Gillman, I'll add that I certainly without a doubt believe it's a discussion that's appropriate for Finance and Audit, and you know, once we go through that process and see how that looks, we can make a decision what we believe should also be presented to the full board, in our opinion.
We may not know that till we get there, but at
a minimum, I certainly think it would be something to
cover in Finance and Audit.

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

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

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

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

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

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

MR. BACARISSE: Mr. Chairman, if I may just
echo your points, I totally agree that this is the
committee where we should be working with Sandra and the

 team. The dashboard is critical. I think it helps the

 entire agency, and it helps our board too.

   Member Gillman, thanks for your interest and

   focus on these issues.

   And Mr. Chairman, I appreciate your response as

   well. I think we're going to head in the right direction

   with this. Thank you.

   MR. GRAHAM: Excellent. You bet.

   Okay. Well, at this point, if there's no

   further questions, we'll see if we have any public

   comment.

   MS. BEAVER: Tracey Beaver, general counsel,

   for the record.

   No public comment. Thank you.

   MR. GRAHAM: Okay. Being no public comment,

   this is an action item, and I will entertain a motion on

   item 4.C. Or I can make a motion that we approve the

   first six-month Internal Audit plan as presented.

   MS. GILLMAN: Second.

   MR. GRAHAM: Okay. Motion made by Chairman

   Graham and a second by Member Gillman. Is there any

   discussion?

   (No response.)

   MR. GRAHAM: One item of discussion I would
have is, Sandra, do you believe that motion is worded in a way that is suitable?

Tracey, is that motion worded appropriately?

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

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

MR. GRAHAM: Thank you.

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

Member Bacarisse?

MR. BACARISSE: Aye.

MR. GRAHAM: Member Gillman?

MS. GILLMAN: Aye.

MR. GRAHAM: member Prewitt?

MR. PREWITT: Aye.

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

Let the record reflect that the vote was unanimous for.

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

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

MS. FLORES: Thank you, Chairman.

Agenda item 5.A is a briefing item, and no action is required. The materials for this agenda item is
found on page 119 of your board materials.

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

Thank you.

The department provides a monthly fiscal impact to the Legislative Budget Board and the Governor's Office. The information in the board book is for the month ending June 30, 2020. It provides not only revenue impacts but expenditure obligations that the department has incurred in response to the pandemic in Texas.

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

Mr. Kline.

MR. KLINE: Thank you so much, Chief.

Good afternoon, honorable board members. My name is Brian Kline, and I work in the Finance and Administrative Services Division here at TxDMV, and the CFO has asked me to do something similar to what I did at the meeting that y'all had a couple of months ago and talk about some of the revenue highlights of what we're seeing so far this fiscal year, as well as some of the variances in revenue collections that we expect by the end of the fiscal year, not necessarily a loss in some cases but a
variance in revenue collections as compared to what we anticipated at the beginning of fiscal year 2020.

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

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

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

You'll see in the rightmost column that's the expected variance from FY 2020. We expect at this point a $210.9 million drop in revenues from what we projected for FY 2020, and that's broken down in the GR Fund 0001, $12.7 million loss, the big one is State Highway Fund
0006, $175.9 million variance, and then our own TxDMV Fund 0010 variance of $22.2 million.

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

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

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

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

Under business dealer licenses, we're seeing fewer dealers purchasing licenses than we did at the beginning of the year.
And a couple of big ones under miscellaneous revenue, fewer transactions for purchasing permits or dealer licenses brings in less credit card service fee revenue, and so that's why you're seeing part of that drop, and also the interest on the DMV Fund has been cut in half each month because of lower interest rates.

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

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

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

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

For this particular exercise we had to assume a date to start the calculations here, and the exercise you see here in your board book on page 121 assumed that
announcement date would be August 1, with the various fees and deferments ending on September 30.

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

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

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

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

    So we did not have a "Postponed" column in June because we were using a start date of June 1, which would have allowed all of those registration revenue collections to be captured within the fiscal year, so right now many people are indeed registering their vehicles online and by
mail or at deputies, but some people, for whatever reason, are not doing that.

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

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

So I'm happy to answer any questions.

MS. GILLMAN: I have a comment.

MR. KLINE: Yes, ma'am.

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

So I guess what I am hopeful of is that everyone is going to have a pile of work in the third and
fourth quarters because things are not that bad. I'm saying that's my glimmer of hope and it's good, so just kind of wanted to let you know that I think you're going to collect a lot more than you think.

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

MR. KLINE: Yes, sir.

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

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

Thankfully, our dealers are doing their part, they're selling vehicles, they're titling vehicles, but the citizenry maybe is waiting a bit before they come and renew their tags.
Is that what y'all believe is happening out there?

MS. BREWSTER: Member Graham, if I may?

MR. GRAHAM: Yes, ma'am.

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

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

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

MS. GILLMAN: That's great.

Jeremiah, do you see it?

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

MR. GRAHAM: Yes, sir.

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

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

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

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

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

And so we're pretty good, we're within about 300,000 registrations for just that one month of March, and we're looking at it for all the other months as well. It's just the one that we've got the most data on since it was really the first month that COVID had really kind.
of impacted registrations.

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

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

MR. GRAHAM: Good, awesome.

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

Are there any other questions for Brian?

(No response.)

MR. GRAHAM: This is not an action item, so it will not require a vote, but I will ask Tracey Beaver if we have any public comment.
MS. BEAVER: Thank you, Chairman. No public comment.

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

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

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

MS. FLORES: Thank you, Chairman.

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

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

Next slide, please.

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

All of the collections mirror the impact of the
pandemic on the state's economy for this fiscal year. The
percentage declines hover at approximately 7.1 percent to
7.2 percent, and we do not expect to meet our projections
for the current year.

Next slide.

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

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

Next slide, please

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

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

Next slide, please.

MR. REY: For the record, Sergio Rey, assistant
chief financial officer.
In this slide this graph, which can also be found on page 138 of your board material, reflects the expenditures and encumbrances through the end of May.

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

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

Next slide.

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

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

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

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

(No response.)

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

MR. REY: Yes, sir.

MR. GRAHAM: Glad to hear that.

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

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

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

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

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

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

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

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

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

The external coordination effort, we have two audits that we're kind of monitoring. The first is the Texas Department of Public Safety did a Criminal Justice
Information Services security technical audit in July. They came in to evaluate if we were in compliance with the CJIS policies and procedures. We are waiting for their report for our review.

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

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

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

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

(No response.)

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

Tracey, do we have any comments from the
There are no comments from the public comment on any of the agenda items or the public comment period for today's committee meeting.

MR. GRAHAM: Okay. Awesome.

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

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

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

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

MEETING OF:     TxDMV Finance & Audit Committee
LOCATION:      via telephone conference call
DATE:      August 5, 2020

I do hereby certify that the foregoing pages, numbers 1 through 72, 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:  August 11, 2020

/s/ Nancy H. King
(Transcriber)

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