TEXAS DEPARTMENT OF MOTOR VEHICLES
FINANCE AND AUDIT COMMITTEE MEETING

Wednesday,
August 16, 2017

Lone Star Room
Building 1
4000 Jackson Avenue
Austin, Texas

COMMITTEE MEMBERS PRESENT:

Johnny Walker, Chair
Robert "Barney" Barnwell, III
Kate Hardy
1. Roll Call and Establishment of Quorum 3

2. Comments and Announcements from Committee Chair, Committee Members, and Executive Director --

BRIEFINGS AND ACTION ITEMS

3. Consideration and Possible Recommendation for Action to the Full Board:
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EXECUTIVE SESSION

5. The Board may enter into closed session under none of the following provisions of the Texas Open Meetings Act, Government Code, Chapter 551:
   - Section 551.071
   - Section 551.074
   - Section 551.076

6. Action Items from Executive Session none

7. Public Comment none

8. Adjournment 90
Mr. WALKER: Good afternoon. My name is Johnny Walker, and I'm pleased to open this meeting of the Finance and Audit Committee of the Texas Department of Motor Vehicles.

It is now 2:17. I'm now calling the committee meeting for August 16, 2017 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 Secretary of State on August 8, 2017.

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

Since the Finance and Audit Committee's last meeting, Board Chairman Raymond Palacios appointed Board Member Luanne Caraway to serve as the committee chair, he also appointed Members Brett Graham, Kate Hardy and myself to serve on this committee. Members Caraway and Graham are unable to attend today's meeting, so Chairman Palacios has asked that I temporarily serve as committee chair and to appoint Mr. Barnwell to serve as a temporary member on this committee so we would have a quorum.

Now I'd like to have a roll call of the committee members present today.

Member Hardy?
MS. HARDY: Here.

MR. WALKER: Mr. Barnwell?

MR. BARNWELL: Here, and I, Johnny Walker, chairman of the committee, am present. Let the record reflect that we have a quorum.

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

Thank you very much.

Let's get started. The first thing on the agenda today is we will begin on agenda item number 2, comments and announcements from committee chair, committee members and the executive director. I do not have any announcements to make, I don't believe. Do you have any?

MS. BREWSTER: No, sir.

MR. WALKER: So can we move forward to item number 3.A, Interagency agreement between TxDOT and TxDMV.

Whitney, do you want to brief us on that real quick?

MS. BREWSTER: Yes. Thank you, Mr. Chairman, members of the committee. For the record, my name is Whitney Brewster, executive director of the department.

Annually, the agency reviews the interagency
contracts that it has with the Texas Department of Transportation regarding shared services. The agencies both have dependencies upon one another, and the interagency contract lays out the roles and responsibilities of each of the departments. It is that time of year again, and I'll just briefly go through the items that have changed since the last time the Board saw this document.

The agreement is now a biennial document which matches with the state budgeting structure and meetings of the legislature. The shared facilities and infrastructure issues between the two agencies are now well understood and routinely managed, allowing for a longer time frame between renegotiations of the interagency contract.

It removes references to shared IT infrastructure due to the successful completion of the TxDMV AMSIT project and other efforts involving separation of the two agencies. It lowers the TxDMV not-to-exceed payment amount to TxDOT by half. In the current version it is $2 million, the proposed reduction is $1 million per fiscal year, again, due to successful separation activities and TxDMV being able to perform those activities on its own. While the monthly assessment for facilities and maintenance paid by TxDMV to TxDOT increases slightly from $34,000 to $38,000, there are more
services explicitly covered in the two-year agreement. Those specifically are window washing, HVAC maintenance and elevator maintenance.

It establishes a facility management work group to begin the process of discussing a possible takeover of Camp Hubbard facility maintenance by TxDMV, if and when TxDOT transfers all or some of this property to TxDMV, as was contemplated this last legislative session and was successfully passed. It also clarifies information sharing and IT infrastructure relationships in the new environment where TxDMV is almost completely separated from TxDOT equipment. It also removes and updates language that is no longer correct, again, due to the successful separate activities that both agencies have undergone.

I am requesting that the Finance and Audit Committee recommend to the full Board to delegate authority to the executive director to finalize the interagency contract negotiations with TxDOT and to execute the contract with approval from the TxDMV Board chair.

Mr. Chairman, that is the end of my presentation and I'm happy to answer any questions.

MR. WALKER: So we need a motion to accept the interagency agreement.
MR. BARNWELL: I make a motion that the committee accept the interagency agreement and authorize the executive director to enter into negotiations to finalize the contract with TxDOT, with the approval of the chairman.

MS. HARDY: Second the motion.

MR. WALKER: So we have a motion and a second. Any questions?

I have a question. So when I read right here, there was a little bit of concern I had right here. This isn't the agreement but it says if and when TxDOT transfers. Why would you have the word "if"? Isn't that a done deal?

MS. BREWSTER: Mr. Chairman, the legislation that ultimately passed had permissive language that indicated that TxDOT may transfer the property to TxDMV.

MR. WALKER: So it's not a sure deal that they are going to transfer?

MS. BREWSTER: That is accurate. There is nothing that explicitly requires them to transfer the property to TxDMV. It was permissive language because TxDOT needed to secure its own headquarters facility for its employees that are currently residing at Camp Hubbard, and so until they are successful in that, they will remain in ownership of the property.
MR. WALKER: But we have been appropriated under the last appropriation for actually some of the maintenance costs of this building and the expenditures of operating these buildings, so how would that affect -- I guess this is a legal question, maybe go back to you, David, on this -- if the "if" applies, which I don't think it will apply, but if "if" applied and we did not get a transfer of the property, how would that affect this interagency agreement?

MR. DUNCAN: That's why we need this work group is we need to start talking about issues like this. Whitney is exactly right, that the contingency is TxDOT receiving sufficient funding for the entirety of their replacement complex, this big place they're going to build out by the airport, and what they got in this session was enough money to purchase the land and do design and soil studies, just the prep to construct, not the actual money to construct, and although TxDOT has a lot of money, the appropriations process is you can't spend it unless the legislature says you can spend it, so they've not been given full approval to construct those buildings.

MR. WALKER: But I don't really care what TxDOT has approval to do or not. My concern is how does this relationship affect the Department of Motor Vehicles in this interagency agreement. We're reducing some
expenditures that may not need to be reduced if they don't move out and we don't get the buildings, how would that affect this agency.

MR. DUNCAN: Again, it would be dependent on the outcome. They were the ones that really insisted on this language, and I see your point. Their management has not made a decision to transfer these buildings and they're not required to for some time, basically until the next session.

MR. WALKER: Excuse me. For simplicity's sake, let's directly the question, and the question is how does our agreement today affect us if the building doesn't go forward. If we don't get the transfer, how is this interagency affected? Does the Board have a concern if that didn't go through that this interagency agreement would be damaging to our agency?

MR. DUNCAN: No. There's nothing in there that anticipates --

MR. WALKER: That answers my question.

Barney, help me.

MS. HARDY: Good question.

MR. BARNWELL: Good question.

MS. BREWSTER: Mr. Chairman, if I may answer one of the questions that you asked earlier. You asked didn't we receive an appropriation for maintenance of the
facilities, and yes, we received an appropriation for
maintenance for Buildings 1 and 5 which we currently
reside in.

MR. WALKER: We also got it for the other
buildings, didn't we?

MS. BREWSTER: No, sir. 1 and 5, for those
that we current occupy, so that we could start standing on
our own and essentially addressing the maintenance issues
and have more control over those issues starting now. We
have been working with TxDOT on that, as well as the
formulation of this working group will help further and
help us develop a strategy with TxDOT long term what it
would look like in terms of transferring all or part of
the property to the agency.

MR. WALKER: So in the past, I think that we
can vote at this committee level to approve the
interagency agreement but it still has to go to -- we can
only advance it to the full Board for their approval. Is
that not correct?

MR. DUNCAN: That's correct, and that's the way
the motion was written. Yes, sir.

MS. BREWSTER: So we're requesting that this
body recommend it to the full Board in tomorrow's meeting.

MR. WALKER: Okay. So I would recommend that
the full Board tomorrow know the same thing that this
committee knows, and either I can make this or you can make this, but we need to make them aware of the fact that there is a potential that the transfer may not go through and that we have addressed that with our legal advice in-house, from our general counsel, that this interagency agreement will not damage us. Should the transfer not go through, we would still be covered.

MS. BREWSTER: I will be happy to do that, sir.

MR. WALKER: So any further questions?


MR. WALKER: Barney?

MR. BARNWELL: No. Sounds good. Good question.

MR. WALKER: All in favor signify by saying aye.

(A chorus of ayes.)

MR. WALKER: All opposed same sign.

(No response.)

MR. WALKER: Motion carries.

Let's go to item 3.B, recommended operating budget. Ms. Flores.

MS. FLORES: Thank you. For the record, my name is Linda Flores. I'm the chief financial officer for the Texas Department of Motor Vehicles, and I'm here
joined by Renita Bankhead to present the FY 2018 recommended operating budget. This is actually a second presentation of the operating budget. The first presentation occurred at the June Board meeting, and just as a refresher, this is year one of the agency's new appropriations for the 18-19 biennium. We requested $367.8 million but we actually received $332.9 million. This operating budget totals $168 million and is structurally balanced to support our recurring expenses.

It covers, as Chairman Walker indicated, new dollars for the headquarters maintenance for both Buildings 1 and 5, for those areas that we will occupy, $1.9 million for a special investigations unit, $1.7 million for the CVISN grant in Motor Carrier Division, and $800,000 in partial restoration of our baseline automation dollars. Things that were not approved were dollars for the ABTPA program. That 4 percent reduction was part of the very beginning of the appropriations process. Anything funded with general revenue were reduced by 4 percent automatically, and that was not restored.

MR. WALKER: Can I ask you a question right there?

MS. FLORES: Yes, sir.

MR. WALKER: When we got the $1.9-, did we also get FTEs to go with that?
MS. FLORES: Yes, sir.

MR. WALKER: And how many FTEs?

MS. FLORES: Thirteen.

MR. WALKER: And they're specific to that area or just overall?

MS. FLORES: No. They were specific for the special investigations unit. We also did receive three new FTEs associated with the headquarters maintenance item as well, and we will now have 779 full-time equivalents in the agency.

Some of the new riders that are attached to our bill pattern, one is a fund report which we already currently provide to the Board on a regular basis. The Legislative Budget Board has yet to give us written instructions on what they want to see with regards to the DMV Fund report. We also did receive UB authority, unexpended balance authority, to carry forward dollars from the Bull Creek relocation. Knowing that we wouldn't be moving until January of '18, we were allowed to carry forward from '17 into '18 any unspent dollars, and that appropriation was approximately $1.4 million.

Another couple of riders specific to the ABTPA program, we've been given direction to provide informational information on border security.

MR. WALKER: So that carryforward, that's the
lapsed money, that's not all the lapsed, is it?

MS. FLORES: No, sir, it's not, it's just a very small piece.

Again, with regards to border security, the Legislative Budget Board will give us a template to fill out and they're working on that at this time.

ABTPA was also reduced $109,750 regarding some cost containment efforts, and that was through an Article IX rider. Again, they were really looking at some contract containment efforts for programs that were funded through general revenue, and so because they're funded with general revenue, they were also reduced.

We are asking this committee to provide a recommendation to the full Board for three specific items: To approve the FY 2018 operating budget.

Second, to allow the agency to utilize Capital Budget Rider 2 to transfer unspent capital line items, allow us to transfer those unspent dollars into automation, and then carry forward those dollars into FY18, and Ms. Bankhead will go into more detail on that, that's item number two.

Third, we do have a couple of new contracts that we're asking for you all to consider and provide recommendation to the full Board to approve, one is the Southwest Research Institute contract, you've seen that
before, the Texas Commercial Vehicle Information Exchange Window, it's a federal grant program housed in Motor Carrier. The second contract is another contract that you're familiar with, it's the American Association of Motor Vehicle Administrators National Motor Vehicle Title Information System, also known as NMVTIS, and this allows the agency access to the NMVTIS system for the next fiscal year.

And you've also already addressed the TxDOT MOU in a separate discussion.

So at this point I'll turn it over to Ms. Bankhead to address the specific UB authority that we're requesting.

MS. BANKHEAD: Good afternoon. For the record, my name is Renita Bankhead, assistant chief financial officer. And what I'm going to talk about today is the unexpended balance authority, and as Ms. Flores indicated --

MR. WALKER: I know there's two Board members up here, I don't know about the third one over there, what he's done, but I know two of us are trying to find where you're at. A lot of times when you're going through here and if you could give us, because I've made notes in the book and I don't want to waste a lot of my time and yours trying to find the right page to see if I have any
questions on that, so if you could kind of just direct us maybe, Ms. Bankhead, what page, it will help the two of us over here.

MS. BANKHEAD: It's on page 50 of your information.

MR. WALKER: What page?

MS. BANKHEAD: Fifty.

MR. WALKER: Fifty. Okay, thanks. I'm sorry to interrupt you.

MS. FLORES: I apologize. Mine was just an overview and I should have just mentioned that. Mine is just an overview, I wasn't addressing specific items.

MR. WALKER: When you skip around, I've got different things marked in my book up here that I was going to ask questions about so I didn't want to interrupt your deal and maybe just go back to those, but if we're going to follow pages, let's be on the same page.

MS. BANKHEAD: The legislature allows the agency specific authority to transfer and carry forward unexpended balances for some of our capital programs, and as I said, the rider language is on page 50, there's quite a bit of language there on that.

The $10.5 million that we are planning to carry forward into fiscal year '18 consists of two different pieces. The first piece is using our current
appropriation authority in the current biennium, in fiscal year '17, and that is to transfer balances to three projects -- from five projects actually, into the automation capital project, and those projects are the county technology enhancement project that's $1.1 million, the AMSIT project, and physical security, and the regional service center relocation. We have some balances in the capital budget in those projects, and the rider allows us to transfer those balances without any limitation. Most state agencies are limited to 25 percent transfer authority between capital budget items; in our rider we do not have that limitation, so we can transfer those balances into automation. However, any transfer that we make, we have to notify the Legislative Budget Board and the Governor's Office of the Board approval, so the Board would have to approve this authority. That's one piece of the $10.5-.

MR. WALKER: So, Renita, this is only a one-time rider, though. Right? It doesn't go forever. Right?

MS. BANKHEAD: Yes, you're correct. It wasn't a one-time rider, it was a rider we had up until the new biennium, so beginning in fiscal year '18, that language has been stricken from our appropriation.

The second piece is basically the automation
rider that we've had every year to be able to UB money from one biennium to the next for automation, so that piece is $4.6 million of automation balances. That, along with the $5.9- we will UB all of that, carry forward all of that money into '18 to find automation initiatives.

Does anybody have any questions on that?

MS. FLORES: And just to reiterate, that first provision where you transfer from other different capital line items into automation without limitation, that's done after this fiscal year. After August 31 it goes away, it is done, we will not be able to do that anymore. After that, we will operate like other state agencies where there is a 25 percent limitation.

MR. WALKER: On the unexpended?

MS. FLORES: On transferring between capital line items, everybody has that.

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

MR. WALKER: Yes, ma'am.

MS. BREWSTER: But an agency can exceed that amount if there is approval from the Governor's Office and the Legislative Budget Board.

MS. FLORES: That is correct. There are some provisions to allow you to exceed that 25, but you will have to have approval from the Governor's Office.

MR. WALKER: So I should know this, and I'm
drawing a blank right now, but we had the automation fund
and the automation fund had a bunch of unexpended money in
it that was accumulating, and I think when we went to the
process and handling fee, that got kind of rolled away, so
we're not accumulating any more. Is that correct?

Explain to me how the automation dollars are being
accumulated now.

MS. FLORES: Well, in the past we did have an
automation fee of a dollar, and once we approved the
process and handling fee, that was reduced to 50 cents, so
out of the $4.75 that we're charging everyone, 50 cents of
that is still collecting revenue to help finance agency
operations.

MR. WALKER: But that money in the past did not
lapse, it was always a carryforward. Will it still be a
carryforward, the 50 cents?

MS. FLORES: It will be in the DMV Fund, so
anything that's not spent falls into the DMV Fund balance.
And we are tracking that specific fee separately so we
know what we're collecting.

MR. WALKER: So how much do we have in that
automation fund right now?

MS. FLORES: I believe I saw, was it $10
million? Hang on a second, I've got my revenue estimator.
Am I on target? $10 million.
MR. WALKER: And how much do we collect into that fund annually?

MS. FLORES: Well, we used to collect $24- and now we're collecting about half.

MR. WALKER: Twelve? Because at one time we had like $48 million in that account to fund RTC and that stuff.

So I guess here's a good way to ask the question: Going forward, let's just say ten years from now the agency needs to do a major automation project and it was going to be a $50 million automation, if we did a $50 million automation, we would obviously need an appropriation to do that, but could we stand on our own soapbox and say we already have this money because we have collected it through the automation fee for the last ten years and we have an accumulated balance of that to expend on an automation project of this scale.

MS. FLORES: Yes, sir.

MR. WALKER: So we do accumulate that in the fund?

MS. BREWSTER: Into the TxDMV Fund, yes.

MR. WALKER: It's not being spent on wages and buildings?

MS. FLORES: You know, I think over time we're going to have to look at if you want to specifically try
to segregate that fee in order to only finance automation, that would be one thing, but right now at this point it's just revenue coming into the DMV Fund and it's helping to finance whatever is needed.

MS. HARDY: So I mean, is there exposure as it grows and doesn't get used then?

MR. WALKER: That was my original questions, and now she's spending it

MS. FLORES: There is an exposure if it does fall into fund balance because we saw during the legislative session that if there are large fund balances in the DMV Fund, they are subject to use for other purposes.

MR. WALKER: So we don't have an accrual account set up that says we're accruing reserve income for a project going forward?

MS. FLORES: No, sir, not at this time.

MR. WALKER: So you wouldn't have the cash sitting in a savings account somewhere, so to speak?

MS. FLORES: Not in a savings account.

MR. WALKER: In a rainy day fund.

MS. FLORES: No.

MR. BARNWELL: Not in any kind of account.

MS. FLORES: Only the DMV Fund balance.

MR. BARNWELL: But it loses identity once it
hits the fund balance which means it's up to the legislature to take the money if they want to, so you don't have the money. We've got a bully pulpit to say if we collected this we ought to be able to use it, but you don't have the money.

MS. FLORES: Correct.

MR. WALKER: You said it perfect, Barney. And that's what I was trying to get to, I guess, was do we have the money set aside in reserve, but the answer, I guess, is no, we don't really.

MS. BREWSTER: Mr. Chairman, we would have to make a case before the legislature to inform that this is the purpose of why we're accumulating this balance. We would have to indicate we're saving up to do this major infrastructure project.

MR. WALKER: But we're not really saving up because somebody took the money and mixed it in with the big old pot.

MS. BREWSTER: It is in the TxDMV Fund and we are appropriated out of the TxDMV Fund. There are no other state agencies that are appropriated funds. It would take a special effort by the legislature to sweep those funds to be used for another state agency.

MR. BARNWELL: But as you pointed out a few minutes ago, if they see $10- or $15 million in that
account, they're going to be forced to take the money. You better have a good plan in advance ready to go for future automation if you want to have, but just to say some nebulous ill-defined future automation, they're going to laugh at us if that's the case. So basically, the money has no identity once it hits the general fund, or DMV's general fund.

MS. BREWSTER: The TxDMV Fund.

MS. FLORES: Duly noted.

MR. WALKER: But the reality is the money was appropriated when it was originally put out there for the purposes of automation for this agency, not to be used in general funds, and so somebody is, whether it's our agency or the state -- the state can't get it really, but the money is being used for other purposes other than an automation project.

MR. BARNWELL: I think the state just reduces your other appropriations and tells you to figure it out.

MR. WALKER: Okay. I'm good.

MS. BANKHEAD: Any other questions related to the unexpended balance authority? Your recommendation to the Board to approve this budget would include our recommendation to use these balances in this manner, so I just wanted to make that clear.

So moving on, one thing that's a little
different from the presentation that we added the contracts, and those contracts begin on page 55 of your document. The Board's approval of the operating budget also constitutes approval of the contracts listed on those pages. In summary, the FY 2018 operating budget includes 173 contracts, including renewal of existing contracts. There are 15 contracts in excess of $200,000 which I'll talk about later, eight contracts between $100- and $200,000 and those are listed on page 59 of your document, and they include the rent for the Dallas Regional Service Center and fleet maintenance and cell phones, that's a few of the things that are on there, there are a few more things on there as well.

On page 60 and 61 of your document there's a list of 128 contracts that are less than $100,000, and these include other contracts for regional service center rents, software maintenance, temporary staffing outside of the Department of Information Resources, and copier leases. And finally, there are 32 information technology staff augmentation contracts for contractors specifically for RTS refactoring, webDEALER and IT operating.

MR. WALKER: Does that also include like administrative assistants and so forth?

MS. BANKHEAD: Well, the staff augmentation does not include administrative assistants. Those are all
on the contracts that are less than $100,000, that's for administrative assistants, technical writers, that kind of thing. These staff augmentation contractors are basically developers and that kind of thing.

MR. WALKER: So as we wind down a lot of these projects, what do we anticipate these contracts -- we've got $11 million worth of staff annually and what do we anticipate that to go to and when do we anticipate a reduction in that number?

MS. BANKHEAD: Well, as the RTS project winds down, those contractors that we have dedicated to that project, those funds will not be there and so we will not have anything to fund those contractors with and we would just move on, they would move away.

MR. WALKER: So we have $11 million right now in expenditures in that area. What do you anticipate that to go to by the end of this year?

MS. BANKHEAD: I see what your question is. About half, maybe next year for '18, about $5 million, and it would be less than $5 million because a portion of some of that cost, that $5 million is for maintenance and some other things, so our contractor costs we're expecting to really shrink from the $11 million. And the $11 million that you're looking at there is not only RTS but also the webDEALER project and also IT operating.
MR. WALKER: Well, we've wound down a lot of these projects and so at the end of this we'll have three projects left after this year, I think. So all these contractors that are working on these projects, are they still offsite? We had an offsite location where a bunch of them were working at one time, I know.

MS. FLORES: From Deloitte.

MS. BREWSTER: They still exist, in Westlake Oaks. Deloitte is currently still housed there.

MR. WALKER: But we didn't have contractors working for the agency there also?

MS. BREWSTER: We did have some there, yes. And Mr. Chairman, just to point out that the agency is going through and planning the next set of projects to be considered, and so we'll share that information with you.

MR. WALKER: Tomorrow

MS. BREWSTER: No, sir. At a future board meeting. Yes, sir.

MR. WALKER: I'm sorry. Renita, keep going.

MS. BANKHEAD: In addition to 173 contracts, we also have 16 contracts that are statutorily required. These are contracts that we have to do and the agencies that we have to do them with are like the State Office of Administrative Hearings for the SOAH cases, and our
contract with NICUSA -- which I had to look up to find out it's the National Information Consortium, that's what that means -- but it's for our payments that we have to make for our online transactions, so that's a contract that we have to have, and plus the ones that have for TDCJ for license plate production, those are statutory contracts that we have to have.

Finally, and Linda alluded to this a little bit, this list has three contracts, one of them that you've already talked about with TxDMV and TxDOT, but the other two are with the Southwest Research Institute and the American Association of Motor Vehicle Administrators. The first one with the Southwest Research Institute is $1.5 million, and as Linda said, it's related to the data for the CVIEW project, and that's to help them move data into a cloud environment and update databases and that kind of thing. And the next one with AAMVA is $348,000 and that's our yearly online access to receive and report information for NMVTIS as required by the federal law.

So we're asking that you recommend to the full Board approval of these two contracts.

MR. WALKER: So we do not have a copy in our book, I don't think, of those contracts, do we? Is that correct? I don't remember seeing it when I read the book.

MS. FLORES: No. Our budget document does not
include the actual legal contract.

MR. WALKER: So I would kind be a little behooved that you would ask us to approve a contract that we haven't even reviewed or looked at. What we may be more appropriately asked is to authorize the executive director to enter into a contract, but not that we approve because I don't think I have seen a contract so I don't want to approve a contract that I haven't seen.

MS. FLORES: No, sir. You're correct. We're asking that you authorize the executive director to negotiate the contract because of the amount.

MR. BARNWELL: Well, actually, we're not authorizing anything, we're recommending to the Board that they authorized.

MS. FLORES: I stand corrected. Yes, sir, you're right.

MS. BANKHEAD: That concludes my presentation. Did you have any additional questions about the budget document?

MR. WALKER: Well, I have a question that I wanted to ask just out of my own curiosity since I'm a trucker. I saw this contract for IRP.

MR. BARNWELL: What page are you on?

MR. WALKER: Hold on. I've got to find it because I have it circled. It's on page 57. It's in the
one, two, three column over and it says purpose: IRP maintenance. And it's Explore. So I was just kind of going through these last night when I was reading them and we have a $1.2 million contract which is annualized to $200,000 which I guess means it's a six-year contract. But $200,000 to IRP, IRP is just where we go and apportion license plates through the different states. I can't imagine, there's 48 states out there, why is the State of Texas spending $200,000 and 48 other states are paying the same thing, I hope, for software maintenance on a program that just says -- who knows in this room?

MS. FLORES: From what I know about the software maintenance, we have this vendor, we've had this vendor for quite a while, and they created the application that we use for the International Registration Plan. This is the maintenance agreement that we incur every year, and what that provides is any programming changes that are needed for legislative mandates or any enhancements to our system that we're needing to make for the year, whether it's enhanced reporting or programming changes. That's the annual cost for maintaining that system, and it is through a private vendor, Explore.

MR. WALKER: So I may be getting out of line here, but it just seems to me like 50 states -- well, I don't know if Hawaii uses IRP but Alaska probably does --
do they?

MS. BREWSTER: No.

MR. WALKER: So it's just 48 states using IRP, 48 times $200,000 is $100 million -- or 10 million bucks, I guess.

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

MR. WALKER: Yes.

MS. BREWSTER: Not all states use the same vendor, there are different vendors that provide the services. Explore obviously is a major one, but not all states use the same private entity to provide the service.

MR. WALKER: Jimmy, do we get $200,000 worth of value there?

MR. ARCHER: Mr. Chairman, for the record, my name is Jimmy Archer, director of Motor Carrier Division.

To answer your question, yes, sir, we do. They built the system for us originally back in the 2000s when we first launched it. At the time they built it, it was one of a kind. The states that participate in IRP, all of them have to have some kind of system maintenance agreement, and all of them have some kind of system, whether it's homegrown or if they bought it from a vendor to have it build for them. They have to maintain those systems and that does cost money. I can't tell you how much the other states spend for theirs.
MR. WALKER: Why don't we find out.

MR. BARNWELL: So this is not put out for bid, it's just a renewal of an existing maintenance agreement.

How much did the original agreement cost, any idea?

MR. ARCHER: I can find out for you, I don't have that off the top of my head.

MR. BARNWELL: Kind of like my inkjet printer: they give me the printer and they charge me out the wazoo for the cartridges. That's a technical term.

(General laughter.)

MR. WALKER: It is a very, very basic program, I can tell you right now, because I know what it does. It just says that J.H. Walker Trucking drives this many miles and this many miles are in Texas, so what percentage of my revenue or my license plate should be appropriated to the State of Texas so Texas knows how much to take out of the bucket, and how much Louisiana gets out of the bucket, and how much Alabama. We used to do this, all motor carriers did it internally and reported to the states prior to IRP, so $200,000 to me to maintain a program like that just seems like sky high, because I have a software in-house that's $20,000, you can buy it and it does exactly the same thing, you don't need maintenance on it. But maybe yours does more than mine does, I don't know.

MS. BREWSTER: Mr. Chairman, we can certainly
provide the Finance and Audit Committee with additional information on both what the original IRP contract amount was for Explore.

MR. WALKER: I don't know if other people would want to see that but I would.

MS. BREWSTER: We'd be happy to provide it to you.

MR. BARNWELL: Well, if we're going to spend a couple hundred thousand dollars every year.

MR. WALKER: That's just maintenance, that's not buying a program.

MS. HARDY: How many other vendors do this?

MR. WALKER: I don't have any idea. I mean, we have an in-house system that does the exact same thing this does -- at least I'm pretty sure it does. Because we give the data to Texas under our IRP registration which tells the DMV here how many miles we go in all the different states and how many overall miles so we can apportion out to the different states. So Texas is just doing what I've already done in-house with my programs to apportion it out to all the states.

Renita, are you finished or do you have more?

MS. FLORES: Yes, sir.

MR. WALKER: So let me go back because I have a few questions, I think. Linda, can I go back to page 37?
MR. WALKER: And so I think this is part of your fiscal report here, and if you go to column FY 2016 DMV annual revenue and then go to 2017 estimated annual revenue.

MS. FLORES: Yes, sir.

MR. WALKER: So I was looking at those numbers and 2017 is one-half of 2016. Do you see what I'm talking about?

MS. FLORES: On the general revenue.

MR. WALKER: On page 37 if you go down to the revenue description, certificate of titles, motor vehicle registrations, the first section right there.

MS. FLORES: Yes, sir.

MR. WALKER: And then if I look under 2016 it says $74 million for certificates of titles, and then it says 2017 estimated annual revenue $35 million, it's half.

MS. FLORES: Yes.

MR. WALKER: Tell me why it's half.

MS. FLORES: Because the other half is now going to the DMV Fund.

MR. WALKER: Good answer. Okay. I was just curious why all those revenues were half.

Do you want to go over real quick the MyPlates highlights, or is that further down?
MS. FLORES: We can do that.

MR. WALKER: Do you want to do it now, or is it part of your program going forward?

MS. FLORES: There's also in the quarterly financial kind of an update on that, so we'll get into where we think they're going to hit their obligation in the next, I think it's 4.A, so if you want to kind of wait and go into that one.

MR. WALKER: That's what I was going to tell you when I was talking to earlier about you summarized everything on your report and then you went back into detail on some of the others, but I made notes in kind of the front up here on your summarization report.

MS. FLORES: I can address it at either time.

MR. WALKER: Let's go ahead and do it right now, the MyPlates.

MS. FLORES: Sure. So for the MyPlates contract on page 39 of your operating document, we just kind of give a highlight of that particular contract. The first contract ended, or actually the new contract began November 19, 2014. That contract changed up the splits between the state and the vendor. That new contract required that MyPlates generate a $15 million obligation to general revenue, but it was based on new sales versus renewals. There used to be different splits on how much
money they got for renewals, how much the state got. We turned it so that they had to go out and sell new license plates and they would receive a higher portion of that revenue, but renewals then became the revenue for the state. So we flipped because the first contract had it reversed, so this new contract requires that they generate at least $15 million within a five-year term.

   MR. WALKER: How many?
   MS. FLORES: Fifteen in five years. Later in the quarterly financial report, we do indicate that they've reached, as of May, it was, I believe, $13 million, $13.8-, so they're almost there. We were looking at it, we believe that they're going to hit that $15 million target before the end of the fiscal year.
   MR. WALKER: There's still another two years on the contract.
   MS. FLORES: Correct.
   MR. WALKER: So it's been a great deal for them.
   MS. FLORES: Yes.
   MR. WALKER: Great deal for us.
   MS. FLORES: Yes.
   MR. WALKER: Good. Those are the kind of contracts you like. Everybody wins.
   MS. FLORES: So page 40 just kind of gives you
an idea of what their biggest sellers are.

MS. HARDY: I see them advertised.

MR. WALKER: So that's the MyPlates. Did you have another question, Chair?

MR. WALKER: I did. When you go to page 40 under existing plate designs, I've circled 90 days we have 50 plates, 270 days, 150 plates, 180 days. I didn't understand that. Would you explain what that means?

MS. FLORES: That 200 plate minimum, there are certain milestones, so within the first 90 days they have to have at least 50 of the 200.

MS. FLORES: Fifty plates commitments.

MR. WALKER: Not plates, commitments.

MS. FLORES: I'm, sorry. Commitments.

Mr. WALKER: That's where you confused me. So it's not plates, it's actually commitments.

MR. BARNWELL: And this is for new plates?

MS. FLORES: Yes, sir.

MR. BARNWELL: Existing plate designs?

MR. WALKER: What she's trying to say here is that they have to have this many commitments in order to get a plate approved.

MR. BARNWELL: So you're talking about a new plate.

MR. WALKER: To get a new plate approved.
MR. BARNWELL: But if you look at page 39, new plates designs, they've got 180 days to be at 200. Maybe that's new and this is existing, but I don't understand what existing means.

MS. BREWSTER: Mr. Chairman, if I may. This is for plates that currently exist that are low performers that within a certain amount of time, 90 days, they have to at least hit 50 plates or else they risk being discontinued. So these are the thresholds that they have to meet to be able to retain that plate.

MR. WALKER: But they need 200 commitments in order to get a license plate approved to get it into the inventory.

MS. BREWSTER: Yes, sir, but that was under the new contract. That 200 threshold did not exist prior to, so there were plates that the Board approved through the MyPlates contract that did not meet that 200 threshold because that requirement didn't exist.

MR. BARNWELL: Do we lose money on existing plate designs that have less than 200?

MR. WALKER: No.

MS. FLORES: No. We don't lose money.

MR. BARNWELL: At what point do you pull the plug on an existing plate design?

MS. FLORES: If they cannot meet that 200 plate
commitment within a year.

MR. BARNWELL: Within a year?

MS. FLORES: Within a year.

MR. BARNWELL: Well, why do we have all these other milestones which are irrelevant if they don't matter. Fifty plates in 90 days. Okay, I've got 48. Well, we're going to cut you some slack on that and we're going to look at it again in another 90 days.

MR. DUNCAN: Apologies. This is David Duncan, the general counsel.

That was at the renegotiation of the contract, so we had to have a bright line from the old contract which had no numeric limits or deadlines.

MR. BARNWELL: I understand, but what's the enforcement?

MR. DUNCAN: MyPlates actually enforced it. They wrote letters to all of the sponsors of all of the specialty plates and said, You have some time to catch up and if you catch up you keep your plate, and if you don't we're going to cancel it and at your next renewal you'll have to get rid of it.

MR. BARNWELL: I understand, and I think that's fine. The 90 days, 180 days, 270 days targets I don't understand.

MR. DUNCAN: Again, because the thresholds were
different amounts, we thought that we would give longer. Basically what they could do is if somebody had 40 plates out there, if by the 49th day they could have 50 and they had another 90 days to get up to 100, they may go out and do a sales pitch.

MR. BARNWELL: Well, maybe they do, but what if they don't?

MR. DUNCAN: Then they get canceled.
MR. BARNWELL: So it's an automatic cancellation; if you don't hit 50 in 90 days, you're done.

MR. DUNCAN: Correct.
MR. BARNWELL: Okay. That's fine.
MS. BREWSTER: It incentivizes.
MR. WALKER: When do they pay the $4,100 to the agency for the plate design?

MS. FLORES: At the beginning.
MR. WALKER: Before the 90?
MS. FLORES: Yes.
MR. WALKER: So they lose the 4,100 bucks. We require a design fee to go ahead and design them.
MR. DUNCAN: That's correct. And I don't think we collect that money before they get the commitments on the new ones.

MR. WALKER: That's my question.
MR. DUNCAN: We don't ask for the money until
they have the commitments, because that would be pointless.

MR. BARNWELL: When do we get the money?

MR. DUNCAN: Once they have the 200 commitments.

MR. WALKER: So they don't have to pay us until they have the commitments.

MR. BARNWELL: So the design of the plate goes ahead. So the $4,100 cost is incurred by the agency, or by who?

MR. DUNCAN: We do the basic design, so we do a mock-up design but we don't do all of the layout necessary to do production in Huntsville. That's where the real money is spent is to get that ready to be printed on the fancy stickers and all of that. We can mock one up and make a picture of it, but actually putting it into production is when we charge the money, I believe.

MR. WALKER: Years ago when this program was created, which it was created right at the beginning of the agency, we came up with a cost number, and I think it's 4,100-something bucks, that said this is what it cost us to get it through our process, to get it to the printer to print it or to stamp it, whatever it was.

MS. HARDY: So that is a soft cost then?

MR. WALKER: But I think -- I may be wrong and
David maybe right, but I thought that the first thing they had to do was pay us that money on the front-end before we would go forward on those license plates. You might check on that, David.

MR. DUNCAN: We will.

MR. WALKER: I think they have to send an application and that money.

MR. DUNCAN: I'll confirm that before tomorrow.

MR. WALKER: When we redid the contract, it may have changed.

So what's really interesting that I'm looking at on here is what percent of the license plates that they're successful on are black. It looks like 90 percent of the success ratio is related to the color black. People love black license plates, it looks like. Because if you look at the top ten performers, seven of the top ten are all black, or six of them, the top six, and they're way, way out front on those compared to the rest right below those.

MS. FLORES: Other questions?

MR. WALKER: I'm looking.

MR. WALKER: On page 44, when I was going down that list of the operating budget numbers and I got down to trucking at $808,000. I live in that world and I can't imagine. Does that include FedEx also in there and a lot
of small package deliveries?

    MS. FLORES: I'm sorry. Which one?

    MR. BARNWELL: It's freight.

    MS. FLORES: Freight.

    MR. WALKER: That's the same thing.

    (General laughter.)

    MS. FLORES: Thank you. I didn't see trucking. I apologize.

    MR. WALKER: $808,000 trucking.

    MS. FLORES: $808,000 freight, that is where we utilize --

    MR. WALKER: Central Freight Lines it used to be to handle the shipments of the license plates from the prison system to all the tax assessor-collectors.

    MS. FLORES: Yes, sir, you're correct.

    MR. WALKER: It just seems like that's a lot, a lot of truckloads of license plates. I do trucking every day and that would be a big account.

    MS. FLORES: At one time we were shipping 7 million plates a year.

    MR. BARNWELL: How often do the plate go out? Do you have any idea?

    MS. FLORES: Every day.

    MR. WALKER: No, that's not true, because I visited the plant. They don't even produce every day
anymore up there. They produce like once a week because the volume has gone down so much, and it is automated today. Both of you that are on the Board, what you should do is you should request a tour of our facility there. I don't know if anybody in the room has been, but I went up there.

MR. BARNWELL: I'm trying my best to stay away from Huntsville.

(General laughter.)

MR. WALKER: It's a whole big floor up there in the prison in Huntsville where they make these plates, and because they told me it is so automated today that we don't do near the volume. It used to be all crashing machines where they did all the metal. Today it's all done on a computer, and the equipment is all abandoned, they don't even us it anymore other than the printing press.

MR. BARNWELL: What you're doing is identifying areas where there may be waste. And I'm not saying that there is waste, I said may be waste.

MR. WALKER: That's a lot of trucking

MR. BARNWELL: That's a lot of license plates.

MR. WALKER: That's a lot of license plates.

MR. BARNWELL: And the Explore contract is another one that gives pause. Are we just knee-jerk
reaction approving these things?

MR. WALKER: I don't think so.

MR. BARNWELL: Now, these are small contracts relative to the total budget of this outfit, this stuff is on the small side, and I know you're watching the big items very carefully and hats off to you on the work you've done on that, but there may be some areas where we're not vetting these costs and analyzing them the way we ought to do. And at some point I recognize that there's going to be a tradeoff in what it costs us to look at a $15,000 contract and the savings of $48 on it. There's a point at which it becomes less than profitable for the agency to look at these things. So I'm not saying that we should tear up every contract that's been made, that we ought to delve into it and find out exactly what's going on all the way down the line, but maybe we could develop some kind of a benchmark, some sort of a minimum where these contracts are periodically looked at.

The Explore contract bugs me a little bit, and I'm extraordinarily ignorant of these things, but from what Johnny said, it makes me want to look at it more thoroughly. The freight, again, it's his fault, if you get rid of this guy, I'll stop asking questions about things. The freight, he has a point about that. How often does the freight go out? Because if it's going out
every day on a truck, then you're going to have an extraordinary cost per plate. If it's going out every quarter or something like that, make the tax assessor-collectors store these things, then maybe that's different.

MS. HARDY: Is there detail behind that number?

MR. BARNWELL: I just don't know.

MS. HARDY: I mean, fuel.

MR. BARNWELL: What I'm saying is I have so little information, all I have is questions.

MR. WALKER: So who does the contract for trucking?

MS. FLORES: The vendor themselves.

MR. WALKER: The prison does.

MS. FLORES: No. We do the contract on the freight, and it was Central Freight but we have moved on to another vendor. I want to say it's SVA. I know the initials, I don't know the name of the company.

MR. WALKER: I mean, you might be surprised that in today's transportation deal there's lots of innovative ways out there to look at some of those kind of expenditures. You may want to do drop shipping and last mile deliveries. I mean, we may be shipping a pallet to Houston to the tax assessor office, a pallet to each office, and every office it's costing $800 a pallet to
drop, but you may be able to consolidate and drop ship three pallets to Houston for $800 and then last mile deliver those for $100 a pallet with a company like -- I'll just use my company, we have Superior Delivery Service that we do last mile delivery for people in the Houston market and we save people a lot of money. And maybe somebody has looked at those things and maybe we do that, but it's just some of the things we ought to look at.

Another thing we ought to look at, this agency, that we haven't done in a long darn time, and maybe we don't have the right to, is we ought to look at the license plates. It's what, a $30 million contract?

MS. FLORES: Yes, sir. Well, it's less than that now.

MR. WALKER: And I know it's a statutory contract, but we ought to question that statutory contract and say, hey, we can go to U.S. Steel or 3M or whoever and buy license plates for half the cost the state is charging us and take it to the legislature and say, Hey, we can save some money not having the prison do this.

MS. BREWSTER: Mr. Chairman, the agency did do a comparison between what it cost per plate set through the Department of Criminal Justice and what other states are charged using private vendors, and I will say the
comparison was surprising at how low the amount was for utilizing TDCJ.

MR. WALKER: So they're a cheaper source.

MS. BREWSTER: Yes, sir.

MR. WALKER: And that may be the case. But you may not go to other states because they may be a lot poorer managed than we are and don't make the right decisions. I mean, you might go to a private vendor and say, Hey, I want to buy this, how much would you charge me for it?

MR. BARNWELL: There are areas that should be identified in this huge company that we have here called DMV where there's undoubtedly waste. It would be Pollyannaish to assume that there's no waste. The question is is it significant. A further question is at what point do we attack that waste and how do we find it without killing ourselves for a dollar and 40 cents. And I know that everybody here is busy all the time, so I'm sensitive to the fact that what I'm proposing is not necessarily something that's easy to do and it's not something that we can drill down into in the smallest contract and find where we could save ourselves $50,000 on this contract or $20,000 on that one, but if we could save $50,000 on 50 contracts, we've done a good job and we've got some bragging rights with the legislature. Good
stewards of the money, et cetera, and all that hoo-ha.

MS. FLORES: I would like to mention as part of some of the efficiencies that we are looking at, the Board passed a rule last June regarding the automatic replacement of license plates. It used to be that everyone, if you kept your car longer than seven years, you automatically received a new set of license plates. Last June the Board did put into the rule that that would no longer need to occur, so we are anticipating some savings in license plate production.

I know firsthand that we have an eleven-month inventory in Huntsville of license plates.

MR. WALKER: Eleven months?

MS. FLORES: Eleven months. That is the largest inventory we've had.

MR. WALKER: So they're printing those things and sending us a bill and just keep printing them and sticking them there.

MS. FLORES: Because we knew that we would be forced to have a reduction in license plate production. We knew that going on, so we decided to utilize our contract and produce plates. We did put some extra money -- not extra money but we did have some savings within the contract so we chose to produce more plates, knowing that that rule was going to be in place.
MR. WALKER: Who made that decision?

MS. FLORES: I did. I knew that we would have some gap in that contract. I chose to go ahead and produce the plates, knowing that we could keep them in Huntsville and then just use them as we needed to for the next biennium. At one point we were needing more license plates because it seemed like we never had enough. When I started here at this agency, we had a three-month supply, we slowly built it up to a six-month and then a nine-month. Single sticker hit and the economy hit, things started to change, but we continued to produce license plates. With that rule in place now, we are not going to have to produce as many plates.

MR. WALKER: So I know how GAAP accounting work. Tell me how government accounting works because if this were General Motors, you have a prepaid expenditure inventory account there, so how do we record that on our books here?

MS. FLORES: We're a cash basis entity.

MR. WALKER: So we've expensed all that and we don't show that we have -- how many dollars worth of inventory do we have sitting out there?

MS. FLORES: You know, I'd have to get back with you on that, Chairman.

MR. WALKER: So this lady right here, ask her
how big an inventory General Motors keeps on car engines in a plant. I can answer the question better than she can, I bet.

MS. HARDY: Well, it's real-time inventory.

MR. WALKER: I have 15 trucks this week going down the assembly line at a plant in Charlotte, South Carolina. I'll bet you that the engines for those trucks were shipped the day before my trucks went down that assembly line. They don't inventory in the real business world today. It's called just-in-time is what they call it, and they inventory just in time to put the product together because it saves money not carrying inventory.

MS. FLORES: And the only thing that I can respond back to that is the private sector does have more flexibility than state government. We rely on the appropriations, so if we run short in any given year, we have to go through major hoops with the Governor's Office to get a budget execution process. That is not an easy task and that doesn't happen overnight. So we are not real-time. So in that respect, we're very different entities, and we are not a for-profit entity, at the same time. We're supposed to break even, we're not supposed to build big fund balances in our governmental accounts, we're supposed to keep our fees as low as possible. So there are some differences between the private and the
public sector.

MR. WALKER: But I don't know about having an eleven-month inventory. That just sounds way out in left field to me.

MS. HARDY: Well, the plates don't go bad. Right?

MS. FLORES: No, they do not go bad.

MS. HARDY: They don't depreciate.

MR. WALKER: So that's why when I went to the prison and they told me they didn't have to work. They brought guys in to run the plant the day we were there just to show us how it ran because they didn't have to make plates that day.

MS. HARDY: But this will get ramped down. Right?

MS. FLORES: Oh, absolutely, within the next year.

MR. WALKER: So my next question would be two questions. Number one is how much is that contract annually with the prison system?

MS. FLORES: $24 million.

MR. WALKER: $24 million.

MS. FLORES: And that's license plates, not just vehicles.

MR. WALKER: And how many license plates will
they make a year?

MS. FLORES: We were generating about 10 million.

MR. WALKER: Ten million license plates a year.

MS. FLORES: But again, we are going to modify that once we see the impact of that of not having to automatically renew license plates every seven years. So we will be seeing that ramp down slightly.

MR. WALKER: And I know you don't probably have the answer to this question, at lot of states only require a rear license plate instead of a front license plate. If we could get the legislature to say, hey, why do we have a front license plate and a rear, everybody else just uses a rear, how much would that save our state?

MR. BARNWELL: Well, we could use up that eleven-month inventory if we put them on each side of the car as well.

MS. FLORES: I believe that was contemplated at one time, and the DPS and law enforcement came out against that, and the toll authorities, so they were all against a one plate.

MR. WALKER: Did we tell them how much it could save maybe?

MS. FLORES: Yes.

MR. WALKER: Because you could take a $24
million contract potentially to a $12 million contract, saves the state $12 million a year.

MS. BREWSTER: Mr. Chairman, that was introduced by Representative Larry Gonzales and contemplated by the legislature and it did not pass.

MR. WALKER: This last session?

MS. BREWSTER: Yes, sir. And there were a couple of other bills that dealt with it, if there were sensors on the front, you wouldn't have to have a plate. Those were contemplated as well, none of them passed.

MR. WALKER: So license plates cost $2 apiece is what you're saying.

MS. FLORES: Roughly.

MR. WALKER: And that's FOB the penitentiary, Huntsville.

MS. FLORES: Yes, sir.

MR. WALKER: You can go ahead. I'm finished with my questions.

MS. FLORES: Well, that concludes our presentation on the operating budget.

MR. WALKER: I thought you said you had some more.

MS. HARDY: I'm good.

MR. WALKER: So that finishes your financial report?
MS. FLORES: The operating.

MR. WALKER: Operating. Okay. Do you want to approve that now or do you want us to go forward? Well, we do have an action item here.

MS. FLORES: This is an action item. So we are requesting that you recommend approval to the full Board.

MS. HARDY: So as it pertains to item 3.B, I move that the committee recommend that the full Board approve: number one, the recommended fiscal year 2018 operating budget as presented; two, the department use of the authority provided in the TxDMV capital rider number 2 to transfer $5,869,823 from TxDMV capital projects to the TxDMV automation for carryforward as outlined in the fiscal year 2018 operating budget, page 169 on the board briefing materials; and number three, the delegation to the executive director to negotiate, execute and sign the routine and required contracts contained in part 5 of the recommended fiscal year 2018 operating budget and specific approval of the following contracts, the Southwest Research Institute and the American Association of Motor vehicle Administrators National Motor Vehicle Title Information System.

MR. WALKER: What was the last one that we were recommending that we give authority to the director?

MS. HARDY: On number three to the executive
MR. WALKER: I'm okay now. I second.

So all in favor signify by saying aye.

(A chorus of ayes.)

MR. WALKER: All opposed same sign.

(No response.)

MR. WALKER: Motion carries.

Let's move forward to item 3.C, Internal Audit.

Sandra.

MS. MENJIVAR-SUDDDEATH: Good afternoon. For the record, my name is Sandra Menjivar-Suddeath, and I'm the Internal Audit director. I am presenting the fiscal year 2018 annual audit plan, and I am requesting the Finance and Audit Committee recommend to the full Board the approval of the fiscal year 2018 annual audit plan. The plan begins on page 77 of your board book.

It is required by the Texas Internal Auditing Act that the Governing Board approve the audit plan. In fiscal year 2018, the Internal Audit Division plans to do twelve proposed items which include eight audits, one advisory service, a special request placeholder which the special request placeholder is if something comes up through the year, we have an ability to add something to the plan without coming directly to the Board, and two required items which is the annual audit plan and the
annual report.

The annual audit plan was developed using a risk-based methodology that included looking at revenue and expense impacts, assets, liabilities, operational effectiveness and efficiency, law/regulations, brand reputation issues, the degree of the change if the program has changed significantly over the past year, degree of complexity, how complex is the issue, and then degree of centralization, if the issue or process is something that's done here in headquarters, there's less risk than something that requires more involvement.

So with that, on page 78 I will go through each of the audits that are on the audit plan. The audits are listed in what the division considers highest risk to the department and then going down. The first one is the TxDMV fund tables and process and handling fees. We estimate 800 hours for this audit. This was originally in the fiscal year 2017 audit plan. It was removed so we could do the PCI audit at the end of the year. Because the department changed its method of finance from general revenue to the TxDMV Fund, we still think we should be looking at this and making sure that the revenues are appropriately accounted for and that we're sending back to the counties exactly what they're supposed to be receiving. And so those are the preliminary objectives:
determine whether appropriate revenues are deposited into the TxDMV Fund and determine whether appropriate amounts of revenues are being transferred to the counties.

The next audit is inventory. This is a 1,000-hour audit so it's one of our larger items on the annual plan. The department has a lot of capitalized and controlled assets. Those are printers, computers, cameras, vehicles, and they're located throughout the state at tax assessor-collector offices, at the regional service centers and at full service deputy locations. In fiscal year 2017 the department had about 8,300 capitalized and controlled assets that had an initial cost of about $12,000. In addition, the department also upgraded equipment at tax assessor-collector offices, their computers in fiscal year 2017. And so we want to go in and determine if we have an adequate process to accurately and completely track our assets, as well as do we have enough controls in place to safeguard the assets, and then are we doing what we are required by law with inventory, are we meeting our compliance requirements.

MR. WALKER: Can I ask a question as you go?

So, Sandra, when you said that you're going to do this inventory deal at even the tax assessor-collector offices, does that mean that somebody in your division is going to get in a car, drive to Houston and go physically count the
inventory?

MS. MENJIVAR-SUDDATH: We are going to do inventory counts, yes.

MR. WALKER: Didn't answer my question. Is somebody in your division going to get in a car, drive to Houston and count the computers at the tax assessor collector offices?

MS. MENJIVAR-SUDDATH: We have not scoped the audit. I would assume that that would be part of it. To do the actual inventory counts, we'd have to go to the location of where the inventory is to actually review it.

MR. WALKER: We have 252 counties in the State of Texas.

MS. MENJIVAR-SUDDATH: Right. And it's going to be a risk-based approach, so we won't go to every county, we won't go to every regional service center. Based on the amount of computers we have, we'll pick a sample that is representative of where the inventory is, and based on that, use that information to do our audits.

MR. WALKER: So you will do a risk assessment sampling and send somebody to ten out of 252 places and do random tests.

MS. MENJIVAR-SUDDATH: Yes. So for us to understand the completeness and accuracy of our assets, we'd have to go out and actually do inventory counts. And
we also really want to focus in on the process internally. Let's say we do find an issue somewhere that the inventories don't match, what processes do we have to make sure that we can actually capture that information.

MR. BARNWELL: What are we going to be inventorying?

MR. WALKER: Everything we own.

MS. MENJIVAR-SUDEATH: We're going to be focusing on our capital and controlled assets. Those are the ones that there are concerns, the computers, the printers, those type of items.

MR. WALKER: But we're not going to go out and count -- we buy the toner packages.

MS. MENJIVAR-SUDEATH: No, we are not counting toners. Now, when we get to the Internal Audit Division followup, there is a recommendation right now that is related to kind of doing the allocation of toners and RTS paper that the Vehicle Titles and Registration and finance administrator will be responsible for reviewing, and we will follow up on that.

MR. WALKER: That's a pretty big job there.

MS. MENJIVAR-SUDEATH: The next item is eLICENSING. That's again, another 1,000-hour engagement.

As you're aware, eLICENSING changed how we do motor vehicle licensing, as well as motor vehicle complaints.
We went to an online system that is fully automated instead of having the manual processes that we had previously. So we want to go in and review whether eLICENSING is actually achieving its desired outcomes of faster service to customers, we want to look at the impact to the licensing process. In addition, we want to look at the adequacy of access controls within eLICENSING because eLICENSING has a lot of confidential and sensitive information. When you're applying for a license to be a dealer, you are required to background checks, that information, so we want to make sure that information is properly segregated and only those who need access to it have that access.

The next item is open records, that's a 500-hour audit. In fiscal year 2017, we received about 20,000 open records or information requests. These requests go through the Office of General Counsel, however, they require that each division handle the request as well, they help compile the information before they go out. Because we have a decentralized process and we have a significant number, about 20,000, we want to go in and review it. In addition, the department has upgraded their system for the handling of public information requests, it's a system called FOIA Express, so our objectives will be looking to determine if public information requests are
handled consistently through the department, the costs associated with it, and then are they handled in accordance with state law.

The next item is a fraud, waste and abuse risk assessment. This is an advisory service that will be a year-long project. The department has been working to combat fraud, waste and abuse throughout the past few years. This is just the next evolution of it is actually understanding what fraud, waste and abuse risk we have out there and what controls and processes we have in place to actually potentially mitigate those risks. We've been working with the department on understanding what their concerns are, and so that way we can start putting this into motion for next year.

The next item is the payment card industry compliance audit, the PCI. This year and for fiscal year 2017, the audit division focused on PCI related to electronically storing credit cards. There are other requirements of PCI, including maintaining a firewall, network segmentation, as well as maintaining an IT security policy. So we want to review one of the other items that are in the PCI requirements. In addition, the PCI audit did have some findings that we got recommendations on and we will be following up on those recommendations as part of this PCI audit.
MR. WALKER: So we did this last year.

MS. MENJIVAR-SUDEATH: We're doing it right now.

MR. WALKER: Okay. That was on last year's deal. So why are we redoing it, because we're just going back?

MS. MENJIVAR-SUDEATH: There's twelve different requirements for PCI. One of them was related to the electronic storage of data, the other items are firewall, network segmentation, and so for us to be fully PCI compliant, we have to follow all twelve requirements.

What we're doing is we're piecemealing it because doing full PCI compliance would be a significant audit item for us, and so what we're doing is just piece by piece, kind of reviewing, okay, how are we doing with the firewall and network segmentation, how are we doing with training, those items.

In addition, this upcoming fiscal year, the regional service centers are supposed to be obtaining the ability to get debit and credit cards. That changes our compliance level and that will require more requirements for us to make sure that we're in compliance with PCI, so we want to review that as well.

The next item is the travel and training audit. This is about 500 hours. This is more in response of the
85th Legislature. As you may be aware, the 85th Legislature was very concerned with the appropriateness of certain travel and training of one agency. The travel and training seemed to be compliant with state laws but the appropriateness did not seem to be there. And so we want to go in and kind of review and make sure that our travel and training is appropriate since we do travel and we do have a lot of training items.

MR. WALKER: This won't cut back on any of the board's use of the state's plane to fly back and forth to these meetings. Right?

(General laughter.)

MS. MENJIVAR-SUDEATH: No, sir. The chairman requested that we look at other state agencies on how they handle board travel since, as you know, all our board comes into Austin, so we're just going to go and ask other state agencies that are similar to use that have large boards that have to travel and how they handle travel requests, and so we can gain some best practices from that.

MR. WALKER: How much is the board? It can't be very much.

MS. MENJIVAR-SUDEATH: I'm sorry.

MR. WALKER: How much of our travel is board costs, $10,000?
MS. MENJIVAR-SUDDDEATH: It's not significant.

MR. BARNWELL: I can increase that, I volunteer.

MS. HARDY: If it's not high enough, we can help.

(General laughter.)

MS. FLORES: I know for several years you all have not used your travel budget. I would say if it was $12,000 a year, that was a lot.

MR. WALKER: So if the Board travels here, where is most of this travel, this $375,000 being spent? I know we have field service guys.

MS. MENJIVAR-SUDDDEATH: We have field service. Also, our Enforcement Division go out to dealers and do their investigations, they have to travel.

MR. WALKER: But that doesn't include their labor, does it? That's just reimbursement for auto?

MS. MENJIVAR-SUDDDEATH: This is just reimbursement for the actual travel, their hotels if they have to stay overnight, the per diem, things to that matter.

MS. FLORES: Let me stand corrected. We do have the Board's travel, you have a $35,000 budget, through the end of May 31, the Board has spent $19,738.

MR. WALKER: Where's Raymond been going?
(General laughter.)

MS. MENJIVAR-SUDDEATH: And like I said, it's more of a concern because of the 85th Legislature and how concerned they were about the appropriateness. I've spoken to Ms. Flores before. Overall, I think the agency has probably a good process for handling travel and training, but we want to just make sure that we do everything to make sure it's appropriate.

The next audit is social media. We estimate about 350 hours related to this. Social media is an emerging risk in the IT audit world, mostly because it's a good way for companies and departments to really discuss and contact their customers on a rapid basis. Unfortunately, though, it does carry a risk that if the department's brand is not considered when putting out those social messages, it could potentially misalign with the department's strategic goals and vision. The best example of that is United Airlines and what happened, their response to the issue they had with the person that got kicked off the plane and how they had a lackluster response on social media and they ended up having a lot of lost revenue and expenses related to that. So we just want to see how the department's social media policies and processes, how they're developed, if they're sufficiently developed to protect the department's brand.
The next item is the management or Board request that's 300 hours. Again, this is just time allotted, if something comes up, we can address it immediately; if not, we will do the contingency audits.

This past fiscal year, the audit that we did for the Board request was related to the IT organization review and that allowed us to go in and immediately look at that instead of waiting for Board approval on that.

The next item is the fiscal year 2018 internal audit followup. This past year, and as we'll talk about in the Internal Audit Division, we followed up only on internal audit recommendations. This upcoming year we'll follow up also on external recommendations. We will not be saying external recommendations are fully implemented as we are not the agency that sent out the recommendation, but we will make sure that we're on the right path for that. Our goal is to provide quarterly reporting to the Board on the followup as we're doing now continuous monitoring of followup recommendations, and we'll provide an annual report at the end of the year.

And then the final item is the fiscal year 2019 internal audit plan. We anticipate about 100 hours, and we are required to present the next year's plan to the Board before the end of the fiscal year.

Finally, the last item is the fiscal year 2017
annual internal audit plan. That's about 30 hours. That
talks about all the items we did in fiscal year 2017 and
what we plan to do in 2018.

The plan on page 83 shows other Internal Audit
duties. We'll be helping coordinate external auditors and
reviews, we'll be working on anti fraud, waste and abuse
items. In addition, the Internal Audit Division will be
going through another peer review in fiscal year 2018
which means someone else will come in and review us to
make sure we're compliant with our audit standards.
That's going to take time for us to prepare for that as
well as having them review because it requires Board
interaction, division interaction, kind of putting it all
together. Literally we're going through an audit.

MR. WALKER: Didn't we do that two years ago?

MS. MENJIVAR-SUDDEATH: We did it in 2015, so
the Yellow Book, our Generally Accepted Auditing
Standards, require us to do it every three years.

MR. WALKER: How many?

MS. MENJIVAR-SUDDEATH: Every three years, and
they just updated the standards that we have to do it
within six months of the last review, so if we don't our
review, I believe by March -- I think by August, actually,
we will be no longer in compliance with the Generally
Accepted Auditing Standards and we can no longer state
that our reports or anything are done in compliance with that.

MR. WALKER: And other agencies internal auditors audit our agency. Right?

MS. MENJIVAR-SUDETH: Yes. And we are in the process of identifying who that would be. We will bring it up to the Board for you guys to see who it is and if you're comfortable with it. The guidance has told us that we should look for agencies that are similar to us. I've reached out to TxDOT, as they are a similar agency. Their chief audit and compliance officer has said that they'd be willing to provide us a staff for our peer review, but we still need to find two other people for that.

MR. WALKER: Do we do any peer reviews of other people?

MS. MENJIVAR-SUDETH: Yes, we do.

MR. WALKER: Like who have we done?

MS. MENJIVAR-SUDETH: I've done the TCEQ, the environmental quality, and I will be doing the Texas School for the Blind, I can't remember their acronyms, but I will be doing another review in January for one of the smaller agencies.

MR. WALKER: And is that in our annual plan here? Is that what this is?

MS. MENJIVAR-SUDETH: Yes. That's part of
the hours that we have there for provide ad hoc
advisories, consultation, it's kind of some of that time
there.

MR. WALKER: But that's only 30 hours. Am I
reading it wrong?

MS. MENJIVAR-SUDDEATH: It's 250 hours. We set
aside 250 hours for other items that may come up
throughout the year, so that's part of it.

And then on the last page 84, we have the two
contingency audits, so these two audits, if we do not get
a Board request, we will be conducting one of these two
audits or if something happens to one of the other audits
that we cannot do our work, we will do one of these two
audits.

The first one is regional service centers.
This audit would review the monitoring done to ensure that
regional service centers are meeting the department's
objectives and customer needs. The next one is related to
Lemon Law investigation and resolution process. Lemon Law
was transferred over from the State Office of
Administrative Hearings to the department in 2014, and so
we want to make sure that we're achieving our outcomes.
We don't have preliminary objectives or hours with it
because we won't know when we would be doing those and how
many hours we would have at that point.
That concludes my presentation on the audit plan. Are there any questions?

MR. WALKER: I have maybe a kind of question or statement. You have five FTEs?

MS. MENJIVAR-SUDDDEATH: We will be getting two additional FTEs beginning September 1.

MR. WALKER: That what I was supposed to bring up in this meeting, I think. Linda, didn't you tell me I was supposed to bring that up? You said you had moved the FTEs from out of somewhere in the agency and moved them over to Sandra.

MS. FLORES: We are still in the process of finalizing that transfer, but we have identified a couple of vacant positions for Internal Audit's use as they move forward into their next audit plan.

MR. WALKER: So I'm trying to remember. Sandra, you have three FTEs. Right?

MS. MENJIVAR-SUDDDEATH: Including myself, yes.

MR. WALKER: Including yourself. And there's been a request and the chairman, I think, is supporting that we move two more FTEs out of somewhere else in the agency and into Internal Audit?

MS. MENJIVAR-SUDDDEATH: Yes, sir.

MR. WALKER: And I don't think that that requires an action by the Board or this committee, does
MS. MENJIVAR-SUDEATH: It does not. I checked with our general counsel. Because Internal Audit reports directly to the Board, you set my budget as well as my FTEs. Now, we did discuss it with Ms. Brewster and we had a conversation about the need and everyone agreed that the FTEs should be transferred over.

MS. BREWSTER: Mr. Chairman, if I may. I authorized the memo today transferring two FTEs to Internal Audit effective September 1.

MR. WALKER: Congratulations. I know that all your predecessors have tried to that and none of them have succeeded.

MS. MENJIVAR-SUDEATH: I appreciate it. You know, we'll talk about in the Internal Audit status update, we actually finished the audit plan this year.

MR. WALKER: First time ever, I think, that somebody has completed the audit plan.

MS. MENJIVAR-SUDEATH: Exactly. It's the first time we've ever done that. And as you can see from the audit plan, we do plan to do twelve items. Last year we had seven items, including carryovers, so there's a 70 percent increase in production just from those two FTEs, assuming we hire them and everything goes on. But we'll for sure be finishing the audit plan, assuming we stay
fully staffed.

MR. WALKER: So she has made a recommendation on this year's audit plan so we need to make a motion to present this to the full Board tomorrow for acceptance of the audit plan, unless we want to make any kind of changes here. Does anybody want to modify the plan or add to it or delete from the plan?

MR. BARNWELL: I move that the committee recommend that the full Board approve the fiscal year 2018 Internal Audit plan as presented.

MR. WALKER: I second. Any questions?

(No response.)

MR. WALKER: All in favor signify by saying aye.

(A chorus of ayes.)

MR. WALKER: Opposed same sign.

(No response.)

MR. WALKER: Motion carries. So we will present your plan tomorrow.

MS. MENJIVAR-SUDDDEATH: Thank you.

MR. WALKER: Thank you very much, Sandra. You've done a good job.

Let's go to item 4.A, quarterly financial report.

MS. FLORES: We are now moving into some
briefing items and these are things that we routinely report to the Board, no action is required, this is a briefing item only.

In your Board book starting on page 86, you will see the executive summary of this presentation. This is a quarterly update of our revenue collections and agency expenditures for the third quarter ending May 31, 2017.

Our year-to-date collections totaled $125.9 million. Even though we're still running short of our projection, we are still collecting more than we did -- well, in this particular case this is our first year for our fund.

MR. WALKER: Well, why would you say we're running short when the sentence says we are exceeding projections?

MS. FLORES: For the DMV Fund, yes, we're exceeding our projections. Overall, I think our revenues are still running slightly under our projected amounts, but we're bringing in more than we did in '16. Oversize/overweight is still lower than what we had projected, but certificates of title are exceeding our projections, so they all kind of tend to balance out.

On page 90 of your document, this is where you again will see the MyPlates revenue, and as we indicated
earlier, they've brought in $13.8 million out of their $15- obligation. We do believe that they're going to hit that $15- by the end of August 31.

This is a presentation of all of our revenues, and you can see that again on page 91 of your board documents. Our projected revenue was $1.37 billion, our actual year-to-date is $1.33 billion. Registration are coming in slightly under our projection. We have seen kind of a flattening, if you will, of those revenue deposits. You will hear a presentation tomorrow specifically on what might be driving that revenue collection as part of the staff review of the processing and handling fee update. So more to come on that tomorrow.

And with that, I'll turn it over to Ms. Bankhead on the expenditures side.

MS. BANKHEAD: For the record, my name is Renita Bankhead, assistant CFO, and I'm going to talk about the expenditures as of the end of the third quarter, May 31. That is on page 93 of your documentation.

As of the end of the third quarter, the expenditures were slightly over $102 million. The largest expenditure categories outside of salaries are professional fees, which includes expenditures for automation and the data center contract, and then contract
services associated with the production of plates and registration materials.

Back in May we were expecting a budget balance of $57.4 million and that balance includes about $21 million in GR which is specifically related to capital projects and about $2.1 million in Fund 6 UB and that's capital projects as well, and the rest of it is in the TxDMV Fund.

Capital projects, which begins on page 97 of your documentation, those expenditures are $25.1 million, and the majority of those expenditures are in automation, as you can see in the slide. As we discussed in the 2018 presentation, we will be carrying forward about $10 million in available balances to '18.

Finally, in conclusion, there have been no unanticipated expenses. We were able to reallocate dollars to address anticipated shortfalls in postage. We anticipated a shortfall in our postage budget for mailing out registration materials. We were able to fund that, we reallocated dollars. In addition to that, we also funded some one-time items such as furniture, like replacing chairs and that kind of thing, equipment and a round of one-time merits.

Staff anticipates at the end of the year the department will lapse about 3 percent of our revised operating budget, and that's not including the $1.6
million that we were required to lapse for the salary freeze. During the regular session, a bill was passed, House Bill 2, and the language said that all amounts appropriated to agencies that are unexpended because of the hiring freeze will lapse and the Comptroller shall credit those amounts to the funds from which the appropriation was made. What that means is any balances in the DMV Fund, even those related to the required freeze on positions, will revert back to the DMV Fund and will not be swept into some other place. They will be available for our appropriations in the future.

MR. BARNWELL: Would you say that again, please.

MS. BANKHEAD: That any remaining balances in the DMV Fund, including those related to the hiring freeze, will stay in the DMV Fund.

MR. BARNWELL: It's the revert that got me.

MS. BANKHEAD: I'm sorry, I shouldn't have used the term revert.

MR. BARNWELL: They'll stay in the DMV Fund.

MS. BANKHEAD: Yes.

MS. FLORES: At one time, Member Barnwell, there was some discussion that they would be sweeping those dollars and giving us directions later on. At the end of the day, any lapses remain in the account from
which they originated, so for us, the hiring freeze came from the DMV Fund so they're going to stay in the DMV Fund.

MR. BARNWELL: Okay.

MS. BANKHEAD: That concludes my presentation. Are there any questions?

(No response.)

MR. WALKER: Linda, you have facilities next? Is that what next is facilities?


MR. WALKER: Then with Ann you're going to do the facilities

MS. FLORES: And if I may, I know we kind of touched on the DMV Fund in the operating document, so we can go through this pretty quickly, I believe. This material starts on page 99 of your board documents, and this is a format that you've seen before, revenues and expenses. Collections include $102.9 million. If you add in that $23- one-time, it comes back to $125.9 million, plus the revenue that we generate for the convenience fees for Texas.gov for the processing and handling fee, comes to a total revenue deposits of $130.9 million through the month ending May 31. Our expenditures total $81- out of our operating, you add in fringe and those convenience
fees as an expense, that total $95.2 million. We have a net cash balance of $35.7 million through the end of May. That's primarily composed of that one-time $23 million that we have not had to touch, so that's in our fund balance at this time.

MR. WALKER: So have any of our friends over at the tax assessor-collector offices had to shut down because they don't get as much money, they think?

MS. FLORES: We will go into that in more detail tomorrow in that staff review of the processing and handling fee, and to fully address your question, no, sir, we are not aware of anyone going out of business because of the processing fee.

MR. WALKER: They were all going to go out of business, as I recall.

MS. FLORES: Yes, sir. Not that we know of. And that concludes the fund update. Again, that was a briefing item only.

MR. WALKER: Ms. Pierce, do you want to give the report or do you want Linda to give the report on the facilities?

MS. FLORES: Ms. Pierce is here to give the report on the regional service centers.

MR. WALKER: She built another one, I see.

MS. PIERCE: Thank you, Mr. Chairman.
For the record, I'm Ann Pierce, deputy division director of Finance and Administrative Services.

The facilities update briefing includes the completed relocation of the Corpus Christi Regional Service Center that included seven staff members, and the upcoming relocation of the San Antonio Regional Service Center that's going to occur the day after tomorrow and includes about 18 staff members.

Beginning on page 101 in your board materials, the Corpus Christi relocation was accomplished on time and under budget. The initial project budget was just under $254,000. We had about $144,000 in expenses. Of that, about $88,000 were one-time costs to initiate the move, and then we'll maintain the annual cost for that at about $56,000 a year. The unspent balance was just over $109,000.

On the first day at the new site, Corpus Christi staff reported handling 162 RTS transactions and 124 phone calls. That does not include other work that they also performed outside of the registration and titling system, like salvage title processing.

And as I mentioned, we are moving the San Antonio Regional Service Center the day after tomorrow. We'll begin relocating them after business hours, starting at about five o'clock. We'll move them over the weekend.
and they will open for business on Monday, August 21, at the new location at 15150 Nacogdoches Road in Suite 100 in San Antonio. The new location is just over 15 miles from the current location, and we did send out communications prior to the move to area legislators, and we made a formal notice to TxDOT Executive Director James Bass with our intent to move since we are currently on TxDOT property, and that was sent out in mid June.

Both of these relocations we executed ten-year leases and everything was accomplished through the efforts of facility services, information technology, vehicle titles and registration and enforcement staff, so it was definitely collaborative efforts to get all of these done. And following the move to San Antonio, we'll have a total of seven regional service centers that are on independent commercial property and we'll only have nine remaining on TxDOT property.

And that concludes this update. I'm happy to answer any questions.

MR. BARNWELL: On the Corpus Christi RSC relocation, the security guard is $19,500 a year. How often is a security guard there?

MS. FLORES: We had initially estimated that we would need a security guard, but the new location actually offers their own security setup, so we're not going to
have that as a recurring cost.

MR. BARNWELL: Does that also translate into the security system?

MS. FLORES: Yes, sir, like a badge system. We did put in a card reader.

MR. BARNWELL: There's a security system for $50,000.

MS. FLORES: Yes, sir. The badge system required programming and technical boxes.

MR. WALKER: We spent a bunch of money last year on security.

MR. BARNWELL: Well, it was in the original budget amount but it wasn't spent?

MS. FLORES: That's right. If there's a variance, if it's not a recurring cost or a one-time, it was not spent, it was a savings. So we had a $50,000 budget set aside for security system. We did not spend all of that, any of it, so it's a savings of $50,000.

MR. BARNWELL: And this is because there was a security system already there?

MS. FLORES: We thought we were going to need a security guard, but the facility themselves have their own security folks. We needed to put in cameras and badge readers but we certainly didn't spend $50,000.

MR. WALKER: We do that agency-wide, though.
Right?

MS. FLORES: Yes, sir.

MR. WALKER: We finished with that project; that was a capital expenditure.

MS. FLORES: And it did come out of the physical security project budget.

MR. WALKER: For the record, I saw in the paper in Houston the other day, you remember where we were going to go in Houston to that Greenspoint Mall, they're shutting it down and selling that whole thing. Be glad we didn't go there.

MR. BARNWELL: Greenspoint is also known as Gunpoint.

MR. WALKER: We had looked at putting our office in Greenspoint Mall at one time and I said no. It is Gunpoint, that's why we didn't go there. But it's being sold, they're shutting that deal down, I saw in the paper the other day. Good thing we didn't go there.

MS. FLORES: That concludes the presentation on facilities update.

MR. WALKER: I think that concludes. Internal Audit, we already did that, didn't we? You still need to do a status report, Sandra?

MS. MENJIVAR-SUDEATH: Only if you'd like to. I can go high level on what we have here, I won't go
through the recommendations if you choose.

So for the record, my name is Sandra Menjivar-Suddeath, director of Internal Audit. I am doing the Internal Audit Division status which is just a briefing item that starts on page 108 -- actually 110. The Internal Audit status update is made up of three different components. The first is the status of the fiscal year 2017 audit plan, the second one is State Auditor's fraud hotline coordination, and the third is the external recommendations related to the most recent State Auditor's report.

For the fiscal year 2017 internal audit plan, the report starts on page 111. The first engagement was the internal audit recommendation. This engagement was to verify the implementation status of internal audit recommendations that had a completion date prior to January 1, 2017 or had no completion date. And just to summarize it really fast, we reviewed 125 audit recommendations. Out of those 125, 106 of them were fully implemented by the department which is one of the highest implementation rates I've seen in my career, so congratulations to the department for getting those done.

Now, there were 15 recommendations that still need to be implemented related to developing a strategic management program, staff competency models, some IT
items, and there were four that were not applicable. Now, this is the first time the division has ever followed up on internal audit recommendations; this is something we'll be doing going forward. We have a total of about 33-34 audit recommendations that we'll be following up next year.

I won't go into the details of the report, but do you guys have any questions, unless you would like me to go into the details.

MR. WALKER: Barney?

MR. BARNWELL: No.

MR. WALKER: Kate?

MS. HARDY: No.

MR. WALKER: We're good.

MS. MENJIVAR-SUDEATH: The next item on the Internal Audit status is the letter on quality assurance. So we are required on an annual basis to review ourselves to see if we're in compliance with the audit standards. It's on page 24, the letter of compliance, it's an annual review. We are compliant with the internal auditing standards. We are required to follow two different auditing standards: one is the Generally Accepted Auditing Standards that are promulgated by the Government Accountability Office; the other one is the Institute of Internal Audit. Both of those we are in compliance with.
We did have three opportunities of improvement, it really was related to making sure our SOPs, our standard operating procedures completely spell out what we need to do related to independence and proficiency. Those have been corrected, and beginning in fiscal year 2018, all those opportunities have been cleared.

The last couple of items, in June we sent the State Auditor's Office the coordination of investigation letter. We are required to send letters to the State Auditor's Office on any internal referrals of fraud, waste and abuse we have, as well as any complaints that we receive from them. We received four complaints in the third quarter; we provided them a status on where those were. In addition, we provided an update on two internal referrals that we have sent. We'll be sending the fourth quarter coordination of investigation letter in September.

And then the final items the State Auditor's recommendation status. So in May of 2017, the State Auditor issued a report on our complaint process. It did find that we had sufficient evidence to show that complaints were properly investigated, however, they made eleven recommendations to improve our processes. Out of those eleven, we have closed everything but two, two of them are pending. The data is in the systems that we need them to be in. Unfortunately, we're having difficulties
pulling out the data, so the Enforcement Division is
working with the contractor of the system to get that
information that we need.

Are there any questions?

MR. WALKER: No. Thank you.

MS. MENJIVAR-SUDEATH: That concludes my
presentation.

MR. WALKER: Okay. It says the next thing on
the agenda is an executive session. I don't need an
executive session for any reason. Is there any purpose in
somebody needing one?

MR. DUNCAN: Just in case.

MR. WALKER: If there is no further business --
oh, I did have a question for you. I forgot I was going
to ask you this a while ago, Sandra. So would it be
appropriate for the Internal Audit Division, since you
work directly for the Board -- and do not take this in the
wrong way -- but would it be appropriate for the Internal
Audit Division to sometimes look, maybe, at some of our
corrections out there to see if not the specific contract
but to check and say are we getting the best deal on a
contract versus what maybe we could go get? Would that be
an appropriate audit or not?

MS. MENJIVAR-SUDEATH: That would be
appropriate. If it's something directed from the Board,
we can do that. I'm assuming this is concern from earlier
with the Explore and the freight contracts.

MR. WALKER: And even the license plate deal.
And I know Whitney does her job and the staff, but it
might be appropriate maybe to have our Internal Audit
sometimes to look and say what's a comparable. She's got
a lot of things to do on her plate, with maybe you guys
saying what's out there in the real market if we wanted to
go and go to the legislature and say, Hey, we're spending
$24 million at the penitentiary system and we could
probably go buy these are ABC Steel Manufacturing, or 3M,
whenever it might be, for 10 million bucks.

MS. MENJIVAR-SUDDEATH: Yes, sir. And so we
allocate hours on our audit plan, there's about 250 and
420 for fraud waste and abuse items for those items. If
something comes up from the Board that doesn't require a
full audit but just a review, we can do that. And we can
coordinate with Ms. Flores on those two contracts that you
were talking about specifically, just to kind of review
and make sure that we are getting our bang for our buck,
for lack of a better word.

MR. WALKER: But I do care, I guess, how Texas
compares to Louisiana on making license plates, but more
importantly, I'd rather be concerned with what does the
free market sell license plates for if I went to order a
million -- what did we buy, what did she say?

    MS. HARDY: Ten million.
    MR. BARNWELL: We have eleven million in
    inventory. We bought 24 million license plates?
    MS. BREWSTER: $24 million contract.
    MR. WALKER: Twelve million license plates. So
    if I wanted to go buy 24 million license plates, what
    would it cost to buy that on the open market.
    MS. HARDY: And how long is that contract good
    for?
    MR. WALKER: Two years. We renew it every two
    years with the appropriation.
    MR. BARNWELL: It's appropriate to look at the
cost of things, and it's appropriate for us to find out
and have that information available because one of the
things that's going to happen is the people in the
legislature are going to wonder what in the world we're
doing over here with all this money, and it makes sense
for us to be able to show them that we have tried and
succeeded in obtaining the best cost and the best, as you
said, bang for the buck that we can get. It makes it a
lot easier for us to go back and get future appropriations
and increases in what we want. If we're considered to be
spendthrifts, it's going to be a little hard.

    MR. WALKER: But my question is is it
appropriate for us to have you look at something like that in an audit.

MS. MENJIVAR-SUDDENATH: Yes. We can definitely look at it.

MR. WALKER: It's not because I'm saying she does a bad job, not at all.

MS. BREWSTER: And I'm not taking it that way.

MR. WALKER: I just think it might be a good use of your time to look and compare are we getting the best contract deal out there.

MS. MENJIVAR-SUDDENATH: Right. And for the specific ones that you mentioned, we'll work with Finance and review those and see if there's any cost savings or anything we can do to kind of get an idea of what other states are spending on license plates, because I would assume it would be only states that issue license plates.

MR. WALKER: I'm just thinking in the real world a piece of tin like that that runs through a machine, stamped out, you could probably make a license plate for 15 to 25 cents apiece, I bet.

MS. MENJIVAR-SUDDENATH: I have no idea, honestly, I'm the wrong person to ask that question. But we'll work with Finance and Ms. Brewster on that.

MR. WALKER: But it may be very hard to get that through. The legislature may say we want the money
to be funneled over there because we've got to pay for
those prisoners to eat over there and so this gives us
some money to support that through another agency. Who
knows their mental process.

If no further business, I will entertain a
motion to adjourn.

MR. BARNWELL: Motion made.

MR. WALKER: And a second?

MS. HARDY: Second here.

MR. WALKER: All in favor signify by saying
aye.

(A chorus of ayes.)

MR. WALKER: Thank you very much for coming
today, everybody, and your reports. Great job. Thank
you.

(Whereupon, at 4:16 p.m., the meeting was
adjourned.)
CERTIFICATE

MEETING OF: Audit & Finance Committee of TxDMV Board
LOCATION: Austin, Texas
DATE: August 16, 2017

I do hereby certify that the foregoing pages, numbers 1 through 91, 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.

/s/ Nancy H. King 8/21/2017
(Transcriber) (Date)

On the Record Reporting
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