

TEXAS DEPARTMENT OF MOTOR VEHICLES  
FINANCE AND AUDIT COMMITTEE  
MEETING

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

Wednesday,  
March 31, 2021

COMMITTEE MEMBERS:

Brett Graham, Chair  
Charles Bacarisse  
Stacey Gillman  
John Prewitt (absent)

*ON THE RECORD REPORTING*  
*(512) 450-0342*

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5. The Committee may enter into closed session under one or more of the following provisions of the Texas Open Meetings Act, Government Code Chapter 551: Section 551.071 Section 551.074 Section 551.076 Section 551.089	none
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P R O C E E D I N G S

1  
2 MR. GRAHAM: Welcome, everyone. This is the  
3 Finance and Audit Committee meeting for March 31, 2021.

4 My name is Brett Graham, and I am pleased to  
5 open the Finance and Audit Committee of the Board of the  
6 Texas Department of Motor Vehicles.

7 Will all board members please make sure their  
8 video is turned on throughout the meeting and use their  
9 unmute button prior to speaking.

10 It is 2:00 p.m. and I am now calling the  
11 Finance and Audit Committee meeting for March 31, 2021 to  
12 order.

13 I want to note for the record that the public  
14 notice of this meeting, containing all agenda items, was  
15 filed with the Office of the Secretary of State on March  
16 23, 2021.

17 And let me also make sure that everyone can  
18 hear me all right.

19 MS. BEAVER: This is Tracey Beaver, general  
20 counsel, for the record.

21 I am hearing some feedback.

22 MR. GRAHAM: Yes, as am I as well. That's why  
23 I thought I'd make sure, but I think it's gone now, so  
24 that's great.

25 All right. Before we begin today's meeting,

1 please place all cell phones and other communication  
2 devices in the silent mode, and please, as a courtesy to  
3 others, do not carry on side conversations or other  
4 activities during the call.

5 This meeting is being held by telephone  
6 conference call in accordance with Texas Government Code  
7 Chapter 551, as temporarily modified under Governor Greg  
8 Abbott's authority to suspend certain statutes due to  
9 COVID-19. Governor Abbott suspended various provisions  
10 of the Texas Open Meetings Act that require government  
11 officials and members of the public to be physically  
12 present at specified meeting locations. Under that  
13 suspension the public will not be able to physically  
14 attend this meeting in person. Instead the public may  
15 attend this meeting using the link or by calling the toll  
16 free telephone number, which are both posted in our  
17 agenda which was filed with the Office of the Secretary  
18 of State on March 23, 2021.

19 All committee members, including myself, will  
20 be participating remotely via Webex.

21 At this time please mute your phone for the  
22 entire duration of this meeting. I am asking our Webex  
23 meeting host to make sure all participants' phones are  
24 muted and their video is turned off except for committee  
25 members and those who are presenting. Callers will be

1 removed for any disruption, including background noise.

2 I would like to remind all participants that  
3 this is a telephone conference call meeting. Because  
4 this meeting is being held by telephone conference call,  
5 there are a few things that will assist in making the  
6 meeting run smoother and assist the court reporter in  
7 getting an accurate record. Board members, please speak  
8 slowly and clearly, do not speak over others, and be sure  
9 to ask me, the committee chair, for permission before  
10 speaking. Department staff and any commenters should  
11 identify themselves before speaking. Remember to speak  
12 clearly, and there may be a slight delay due to the  
13 telephone conference call meeting, so please wait a bit  
14 longer than usual before responding to participants. Do  
15 not speak over others and speakers should ask the  
16 committee chair for permission to proceed and be sure to  
17 get recognized before speaking.

18 If you wish to address the committee or speak  
19 on an agenda item during today's meeting, please send an  
20 email to [GCO\\_General@TxDMV.gov](mailto:GCO_General@TxDMV.gov). Please identify in your  
21 email the specific item you are interested in commenting  
22 on, your name and address and whether you are  
23 representing anyone or speaking for yourself. If your  
24 comment does not pertain to a specific agenda item, we  
25 will take your comment during the general public comment

1 portion of the meeting.

2 In accordance with department administrative  
3 rule, comments to the board will be limited to three  
4 minutes, then your line may be muted by the meeting host  
5 when your time is up. Comments should be pertinent to  
6 the issues stated in your email. When addressing the  
7 board, please state your name and affiliation for the  
8 record.

9 All right. We will now move to agenda item 1.  
10 Roll call and the establishment of a quorum.

11 Now I'd like to have a roll call. Please  
12 respond when I call your name.

13 Member Bacarisse?

14 MR. BACARISSE: Aye.

15 MR. GRAHAM: Member Gillman?

16 MS. GILLMAN: Aye.

17 MR. GRAHAM: Member Prewitt?

18 (No response.)

19 MR. GRAHAM: And I do recognize Member Prewitt  
20 will not be able to be with us today, and let the record  
21 reflect that I, Brett Graham, am here too. We have a  
22 quorum.

23 The posted agenda stated that a quorum of the  
24 board may be present at this meeting, however, board  
25 members who are not members of the Finance and Audit

1 Committee will not vote on any committee agenda items  
2 today nor will any board action be taken.

3 And I would also like just to recognize that  
4 Chairman Treviño is present and listening for information  
5 gathering. Welcome, Chairman Treviño.

6 All right. We will now go to agenda item 2,  
7 the pledges of allegiance, U.S. and Texas. Before we  
8 begin I ask that the board and other panelists please  
9 turn off their audio and video, I will also turn off my  
10 video as I lead you in the pledges. We will pause to  
11 give presenters and board members a moment.

12 Please all stand to honor our country and  
13 state with the pledges of allegiance.

14 (The Pledge of Allegiance and the Texas Pledge  
15 were recited.)

16 MR. GRAHAM: Members, please turn your video  
17 back on. All right, it looks like we're back up and  
18 rolling. Outstanding.

19 Okay. With that, let's get to it. We will  
20 now move to agenda item 4, item 4.A actually, fiscal year  
21 2021 second six-month internal audit plan and risk  
22 assessment report from Sandra Menjivar-Suddeath.

23 MS. BEAVER: Member Graham?

24 MR. GRAHAM: Yes.

25 MS. BEAVER: Tracey Beaver, general counsel.

1 If I could have the floor for a moment?

2 MR. GRAHAM: Certainly.

3 MS. BEAVER: I just wanted to mention that  
4 there is an agenda item 3 as well, comments and  
5 announcements but there weren't any comments or  
6 announcements for today's meeting so that item would be  
7 skipped over to go to 4.A.

8 MR. GRAHAM: As always, thank you, Counsel,  
9 for keeping me out of trouble. Anyway, we're good, so  
10 thank you for updating us on 3.

11 We will move to 4. Sandra, it's all yours.

12 MS. MENJIVAR-SUDDEATH: Thank you, Chairman.

13 Good afternoon, Finance and Audit Committee  
14 members. For the record, Sandra Menjivar-Suddeath,  
15 Internal Audit director.

16 I'm presenting item 4.A which is the fiscal  
17 year 2021 second six-month internal audit plan and risk  
18 assessment report. This is an action item and it is on  
19 page 6 committee book. I also have a slide presentation  
20 that will cover the material in your committee book.

21 Next slide, please.

22 So the six-month internal audit plan includes  
23 value-added services, divisional initiatives, required  
24 engagements and risk-based engagements. Now, just a  
25 refresher, the required engagements are engagements that

1 we have to do to stay in compliance with either our audit  
2 standards or our state statutes. The risk-based  
3 engagements are the ones that we actually derived from  
4 the risk assessment process that I will go into detail  
5 next.

6 Next slide, please.

7 Now, the risk assessment process begins with  
8 collecting and identifying risks from various sources.  
9 This six-month risk assessment included the risk  
10 assessment from the previous fiscal year, the previous  
11 six months, audit engagements and new high risk areas  
12 that we've identified through our research and review.  
13 Now, some of the high risk areas that we considered were  
14 business operations during and after a crisis, broad  
15 application governance, communication and monitoring  
16 function, incident response and communication, as well as  
17 board information.

18 Through that process we were able to identify  
19 315 risks. Now, these 315 risks were reviewed and  
20 evaluated using the same risk guidance from the first six  
21 months. Each one was evaluated and determined whether  
22 they were very low, low, medium, high or very high using  
23 the risk rating that you see on the slide, so anywhere  
24 from zero to above 4.5. In total we identified 238  
25 controls with those 315 risks and we identified 39 high

1 and very high risks.

2 Next slide, please.

3 So this slide kind of breaks down where those  
4 risks ended up in the six-month risk assessment. As you  
5 can tell, we have two in the very high, 37 in the high,  
6 and then the rest are in the medium and very low. A  
7 couple of things I want to point out, we're seeing a good  
8 distribution of the risks. We don't see many in the very  
9 low, we see some in the low and very low, which is good,  
10 we don't see an abundance of that because having an  
11 abundance of that may mean we are over-mitigating risk  
12 and that could be very costly.

13 We have a lower number in the high and very  
14 high, and I'd like to point out that although in this  
15 presentation and in your board book we don't have the  
16 specific very high and high, that information is  
17 available on the board's Share point site and was also  
18 emailed to you. And the reason we don't include it is  
19 because it includes confidential information.

20 Next slide, please.

21 So as part of the second six-month risk  
22 assessment we went back and reevaluated all 247 risks  
23 that were identified in the first six months. This chart  
24 kind of gives you a breakdown of where those risks ended  
25 up. As you can tell, in the first six months we had six

1 very high risks that actually was reduced to two, we had  
2 42 very high that was reduced to 30. Now, these were  
3 reduced for two reasons. One, we went in and tested some  
4 of these risks and we identified better controls and  
5 control effectiveness that reduced the overall risk, and  
6 two, management took on many of these risks and developed  
7 their own action plans to reduce the risks and we  
8 reevaluated their prompts during the second six months.

9 Next slide, please.

10 So this chart actually just gives you a  
11 snapshot of where those second six months risks ended up  
12 in our audit plan. So in total we have about 60 risks  
13 that we are covering either in the first half or the  
14 second half of the engagement. Those are highlighted in  
15 either the orange or the gray. We have some in blue  
16 which are contingencies so those risks are if something  
17 happens and we can't do those audits that are being  
18 planned for the second six months, we can audit them in  
19 the contingency or we can carry them forward and review  
20 them in the next risk assessment. The rest of the risks  
21 are things that are not high risk and so we're not  
22 reviewing them.

23 Something to kind of look at from the chart  
24 perspective is we're getting good coverage from both on  
25 the low to the very high. Just because we initially set

1 something as low doesn't necessarily mean that it's  
2 actually low once we go in there, so this kind of gives  
3 you a good view that we're covering all the risks.

4 Next slide.

5 So that risk assessment leads us to the second  
6 six-month internal audit plan, and this slide is a  
7 snapshot of what we're planning to do. There are two  
8 risk-based engagements that are in the information and  
9 transformation bucket, we have three required  
10 engagements, as well as multiple value-added services and  
11 divisional initiatives, and I'll get into the details of  
12 those in the next slide.

13 Next slide, please.

14 So the two risk-based engagements that we  
15 identified for the second half were strategic  
16 communications and payment card industry review.

17 So strategic communication is a 900-hour  
18 engagement and this is going to review the effectiveness  
19 of our communication with our external customers -- this  
20 is not an internal review but external. Because  
21 strategic communications is becoming very critical since  
22 we communicate in multiple different fashions where we  
23 have traditional media, we have digital, we have social  
24 media, people can get confused on what is our message and  
25 what are we trying to say, and so this is kind of a

1 review of our processes to ensure that we're effective in  
2 our communications.

3           The next engagement is the payment card  
4 industry requirement 1. So the department processes  
5 credit cards so we are required to be in compliance with  
6 payment card industry standards. One of the requirements  
7 is looking at the firewalls. Now, firewalls are very  
8 important to any department, any network because they are  
9 the gateway, they're the first line of defense to prevent  
10 inappropriate actors, malware, things of that regard  
11 entering the system. And so we estimate that the audit  
12 will take about 600 hours and we'll look at our overall  
13 firewalls and see our compliance with payment card  
14 industry.

15           Next slide, please.

16           So then we get into the required engagements.

17           We have three required engagements, and two are listed  
18 here and one is listed on the next slide.

19           On the required engagements we have the  
20 internal audit implementation status followup. This is  
21 the quarterly audit we do to review things to ensure that  
22 the recommendations we issued are being addressed, if the  
23 actions taken by management are actually mitigating the  
24 risks and the recommendations we identified.

25           The second one is the quality assurance

1 external assessment. This is the peer review process.  
2 I'll get into more details in my next slide about the  
3 peer review process but we're still in the process of our  
4 external assessment and it will impact our second six-  
5 month audit plan because we have recommendations we need  
6 to address in addition to just closing out that  
7 engagement.

8 Next slide, please.

9 The final item is actually the fiscal year  
10 2022 risk assessment and first half internal audit plan.

11 So we're constantly planning for the next audit plan and  
12 this is an engagement we'll start probably in April.  
13 It's about 200 hours to identify the high risk areas and  
14 it will include an update on the additional 315 risks we  
15 identified.

16 Next slide.

17 So this slide just gives you an estimate of  
18 our schedule of the whole year and where we are compared  
19 to the first half versus second half, and as you can  
20 tell, we'll start payment card and strategic  
21 communication in late April, early May. That's about the  
22 same time we'll kick off the fiscal year the risk  
23 assessment, and we'll be doing monitoring of the  
24 implementation status throughout the year.

25 Next slide.

1           So divisional initiatives is also part of our  
2 internal audit plan. I'm going to highlight just a  
3 couple of them. One is board and executive  
4 communication. We continue to perfect and improve our  
5 dashboards and so that's an ongoing divisional initiative  
6 and we list that here in our audit plan.

7           Next slide.

8           And finally, it's our value-added services.  
9 These are the things we do on a regular basis to help the  
10 department in governance and ensure that risk is  
11 mitigated and doesn't require necessarily an audit every  
12 single time. That includes fraud, waste and abuse items  
13 such as detection programs and investigations, our  
14 external coordination efforts when external entities  
15 audit us, ad hoc advisory, work group participation, and  
16 then also department training, helping the department  
17 understand risk controls and what audit does.

18           So that concludes my presentation. I'm open  
19 to any questions you may have.

20           MR. GRAHAM: Thank you.

21           Do any of the members have any questions for  
22 Ms. Menjivar-Suddeath?

23           MS. GILLMAN: Not at this time. Thank you,  
24 Sandra.

25           MR. GRAHAM: All right. Tracey, are there any

1 public comments on this agenda item?

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

4 There are no public comments on this agenda  
5 item or any other agenda items. Thank you, Chair Graham.

6 MR. GRAHAM: Thank you.

7 All right. With that, I would entertain a  
8 motion for agenda item 4.A.

9 MS. GILLMAN: So moved.

10 MR. BACARISSE: Second.

11 MR. GRAHAM: We have a motion for approval of  
12 item 4.A from Member Gillman, and a second from Member  
13 Bacarisse. Great. Any further discussion?

14 (No response.)

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

17 Member Bacarisse?

18 MR. BACARISSE: Aye.

19 MR. GRAHAM: Member Gillman?

20 MS. GILLMAN: Aye.

21 MR. GRAHAM: And I, Chairman Graham, also vote  
22 aye. Let the record reflect that there are three votes  
23 for and zero votes against, so it moves forward with  
24 unanimous approval. Thank you.

25 That is our only action item of the day but we

1 will move forward with item 4.B which is our Internal  
2 Audit Division status update, peer review process and  
3 self-assessment. Again this is for briefing only, and I  
4 will turn the mic back over to Sandra.

5 MS. MENJIVAR-SUDDEATH: Thank you. Again,  
6 Sandra Menjivar-Suddeath, Internal Audit director, for  
7 the record. And as mentioned, I'm presenting item 4.B  
8 which is the Internal Audit Division status update, and  
9 that's on page 22 of your committee book.

10 Something I want to highlight here is we have  
11 updated the format of the division status document to  
12 kind of help provide a better snapshot and information on  
13 all the things we were tracking. We've identified in the  
14 past what we only come to you when we have a new external  
15 engagement and when that external engagement is  
16 completed, and some of these external engagements take  
17 anywhere from nine months to two years to complete, and  
18 so it sometimes comes as a surprise when we're like  
19 here's an audit that was done.

20 Next slide, please.

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

23 There's a little bit of feedback and I  
24 believe, Sandra, the last few sentences did not come  
25 through.

1 MS. MENJIVAR-SUDDEATH: I'll just repeat  
2 myself.

3 So we went with a new snapshot for the  
4 Internal Audit Division status update to make sure that  
5 the board is aware of everything we're tracking because  
6 some of the external engagements can take up to two years  
7 to review, and we'll have that in the status update, so  
8 we didn't want to surprise you when we said two years ago  
9 we had an engagement from X division or X external entity  
10 and it's been two years and now they're finally giving us  
11 a report. So the snapshot, the new division status  
12 update is really to provide you that overview of  
13 everything we're tracking regardless of whether it's  
14 completed or not, which is what you have right now in  
15 front of you in the slide show. The light blue are the  
16 external engagements that we're currently monitoring and  
17 the dark blue is the internal audit things that we're  
18 monitoring.

19 So on the light blue is the external  
20 engagements, right now we're monitoring five. The first  
21 one that I want to highlight is the State Auditor's  
22 Sunset report, and this was issued in February 2021.  
23 Sunset is required to come in and review our management  
24 actions from the Sunset Commission. Just as a reminder,  
25 the Sunset Commission report has two parts to it: the

1 statutory requirements and the management actions. The  
2 statutory requirements always do require legislative  
3 action, the management actions do not. Once the Sunset  
4 Commission adopts them then the division of the  
5 department is directed to implement those  
6 recommendations, and the State Auditor's Office comes in  
7 after the Sunset review to look at the management  
8 actions.

9 In total they looked at 16 -- or they asked  
10 for a status update on the 16 management actions. I'm  
11 happy to report that the department has implemented 15 of  
12 the 16, we have one left related to IT that is currently  
13 being worked on. Now, the State Auditor's Office did  
14 substantively test two of the management actions and  
15 those were related to the red flag rules and the advisory  
16 committees, so the State Auditor's Office asked us for  
17 documentation, we provided them documentation showing  
18 that it was fully implemented, and they agreed with our  
19 status and reported that in the report. The documents  
20 that you have actually have a link to the actual report,  
21 they are just one component of that report, but it does  
22 give you every piece of information on when we said it was  
23 implemented and any comments that either we had or the  
24 State Auditors had.

25 Now, other engagements that are completed

1 include the motor vehicle criminal background review.  
2 This was done by the Department of Public Safety. They  
3 came in and audited us to make sure that we were properly  
4 managing any criminal history information we used for  
5 motor vehicle licensing. They found us mostly compliant.

6 Now, we do have some recommendations to implement  
7 related to the monitoring of that usage. Motor Vehicle  
8 Division has said that they've implemented all the  
9 recommendations; Internal Audit is in the process of  
10 reviewing those and we will provide a disposition that  
11 they've been implemented in our next year quality  
12 assurance internal assessment.

13 Another completed report was the Texas  
14 International Registration Plan peer review. Our Motor  
15 Carrier Division gets audited, I believe, every few years  
16 on the IRP program to make sure that they're following  
17 all requirements. Now, they were mostly compliant. They  
18 did have a couple of areas of improvement related to  
19 audit documentation because they do audit the carriers  
20 and that information. My information from Motor Carrier  
21 Division is that they're actively working on implementing  
22 those recommendations.

23 Now, ongoing engagements is the next bucket.  
24 This is the Texas Comptroller contract audit. This is an  
25 audit that I mentioned as one of those that has been

1 going on for a while. The audit began in June 2019. We  
2 did receive an initial draft report in early February;  
3 we're hoping that that report will be finalized and we  
4 can share the results with you in the next month or so.

5 The new engagement from the external side, the  
6 State Office of Risk Management came in and reviewed our  
7 risk management program, and when I say our risk  
8 management program, they're looking more at the safety  
9 risk management program, not necessarily the operational  
10 risk management that we do. The review occurred on March  
11 15. So far we do not anticipate any significant  
12 recommendations but we are waiting on the report and we  
13 hope to have the report in the next couple of weeks.

14 That's on the external audit side.

15 On the internal audit side we've had seven  
16 internal engagements where we've either issued or are  
17 currently conducting in the past couple of months.  
18 Things that we have in field work is the internal audit  
19 followup for the third quarter. Our documentation right  
20 now said that only two recommendations are due, since  
21 this was published we actually have had another  
22 recommendation implemented, so at this point we do  
23 anticipate three recommendations being reviewed during  
24 the third quarter.

25 We also have the telecommuting audit. That is

1 reviewing the telecommuting program and monitoring tools,  
2 are we monitoring our telecommuter workers. We're in  
3 field work, we do anticipate moving to reporting on that  
4 soon.

5 And the license one is license plate  
6 manufacturing monitoring. This is looking at the life  
7 cycle of our license plate manufacturing and how we  
8 monitor the amount of plates that are needed at our tax  
9 assessor-collectors and our regional service centers. We  
10 are working with the Texas Criminal Justice Department  
11 internal audit function on this audit so we can have a  
12 comprehensive review of the license plate manufacturing.

13 We are in field work on this audit and we do anticipate  
14 moving to reporting in May for that.

15 On the reporting phase, the change management  
16 audit is in the reporting phase. It is with Executive  
17 Office right now for review. We do anticipate getting  
18 that report to the committee in the next couple of weeks.

19 And then finally, items that we issued, we  
20 issued in audit the employee relations audit. We rated  
21 that a three. It did have two recommendations and two  
22 audit results. One of those recommendations actually was  
23 already implemented and the other one is pending.

24 We also issued the procurement measures  
25 advisory service. This was an advisory service, we did

1 not have any recommendations, and provided information to  
2 management on (Indiscernible due to audio issues 44:30 on  
3 BU).

4 We also issued the second quarter internal  
5 audit followup. The implementation rate was 20 percent  
6 and although the memo is not part of your board material,  
7 it is in the board Share point.

8 And the final report we issued was the peer  
9 review self-assessment and that was issued on January 21,  
10 and I actually will go into a little bit more detail  
11 about the peer review process in the next slide.

12 Next slide, please.

13 So the peer review process, everyone always  
14 asks when do auditors get audited, and this is the  
15 process of us getting audited. So every three years  
16 other external auditors, other auditors from other state  
17 agencies come and review us. We specifically pick other  
18 auditors from other state agencies because internal audit  
19 in Texas government is very unique. We have to follow  
20 multiple standards, including the Institute of Internal  
21 Auditors International Professional Practices Framework,  
22 the Core Principles for the Professional Practice of  
23 Internal Auditing and the Code of Ethics, the Generally  
24 Accepted Government Auditing Standards, as well as the  
25 Texas Internal Audit Act, Texas Government 2102, has

1 specific things that we have to do in that.

2 So because we have so many audit standards and  
3 it's very comprehensive and it's focused on the State of  
4 Texas, we do like to have other auditors from other state  
5 agencies that understand what we go through to be able to  
6 evaluate us. Now, the peer review team evaluates whether  
7 we comply with auditing standards, whether we are  
8 effective in our job, and they look at any potential  
9 recommendations that have been issued in the past.

10 Now, on page 25 of your board material you  
11 have the engagement letter. The engagement letter is the  
12 first item that kind of kicks off the peer review  
13 process. It outlines what exactly is going to happen in  
14 the peer review process, who is involved, who is the  
15 leader of the peer review team and who is the team member  
16 and when the timelines are. For this year's peer review  
17 the lead was Arby Gonzales, he's the chief auditor for  
18 the Texas Department of Insurance, and the team member  
19 was Harold Rogers who is with Texas Workforce Commission.

20 The time frame of the peer review is February through  
21 May 2021. I'm happy to report that we're actually ahead  
22 of schedule, we got a draft report a couple of weeks ago  
23 that we're still reviewing. And they are actually  
24 evaluating our processes from fiscal year 2018 through  
25 2020. So that kind of outlines the engagement letter.

1           After the engagement letter, the biggest  
2 deliverable is our self-assessment, so we have to provide  
3 a self-assessment to the peer review team kind of  
4 highlighting where we think we are, how we were in our  
5 effectiveness and our efficiency and whether we  
6 implemented any of the recommendations that were issued  
7 previously. When we did our self-assessment we did  
8 confirm that we were in conformance with the audit  
9 standards and that we he implemented the external  
10 recommendation that had been issued to us in our previous  
11 peer review, and that recommendation was working more on  
12 the ethics program for the department. So that kind of  
13 concludes and kind of gives you a high level of the peer  
14 review process.

15           I just wanted to take a quick moment to thank  
16 my senior auditor, Jason Gonzalez. He's the actual one  
17 who's been doing dealing with most of the peer review, he  
18 helped put together the self-assessment, so this has been  
19 an ongoing project with him since November, and I just  
20 really want to take the time to thank him because that  
21 was one less thing I had to worry about with him being  
22 responsible for it.

23           So with that, that includes my Internal Audit  
24 Division status update. Are there any questions?

25           MR. GRAHAM: Any questions?

1 MS. GILLMAN: No, ma'am. Thank you.

2 MR. GRAHAM: Okay. Well, thank you for that  
3 report, Sandra. It looks great.

4 And now, if everybody is ready, we will move  
5 to agenda item 4.C, fiscal year 2020 end of year reports.  
6 Again, this is briefing only, and I will turn it over to  
7 Linda Flores and Eric Horn.

8 MS. FLORES: Thank you. For the record, Linda  
9 Flores, chief financial officer for the Texas Department  
10 of Motor Vehicles.

11 Joining me today is Eric Horn, the director of  
12 Accounting. And just to introduce you to Eric, he was  
13 previously working in the Accounting Department as a team  
14 lead and he successfully was chosen to be the director of  
15 Accounting, all of three months in.

16 Today we are presenting to you, or providing a  
17 briefing on the FY 2020 end of year financial statements  
18 and the report of nonfinancial data. These two reports  
19 at one time, approximately 20 years ago, were combined  
20 into one report, however, 20 years ago they modified the  
21 reporting so that one set included all of the balance  
22 sheet and the income statement type of numbers and the  
23 other report was parsed out and only includes the  
24 operational activities for the department.

25 And with that, I'm going to turn it over to

1 Eric to give you an overview of the two reports that were  
2 submitted in November and December, respectively.

3 Next slide.

4 MR. HORN: Good afternoon. For the record, my  
5 name is Eric Horn, and I'm the director of Accounting  
6 here at TxDMV.

7 As Ms. Flores mentioned, I will be going over  
8 the highlights of the annual financial report, or AFR, as  
9 well as the report of nonfinancial data. Begin on page  
10 82 of your board book and go through page 83, looking  
11 first at Exhibit 1, the combined balance sheet or  
12 statement of net assets.

13 Next slide, please.

14 On the screen we have a graphic representation  
15 of our balance sheet changes year over year. You'll see  
16 a \$39.9 million increase in total assets in fiscal year  
17 2020 and a corresponding \$27.6 million increase in total  
18 liabilities. Now, this is primarily due to a change in  
19 accounting policy in fiscal year 2020 that resulted in a  
20 reclassification of our agency funds, such as Fund 21,  
21 the International Registration Plan, or IRP. These funds  
22 were previously shown on Exhibit 6, the combined  
23 statement of net assets for fiduciary activity. We no  
24 longer have this statement as these funds are now  
25 consolidated here on Exhibit 1 as a general revenue

1 governmental fund type.

2 This change was at the direction of the  
3 Comptroller's Office as the State of Texas implemented  
4 Statement No. 84 from the Governmental Accounting  
5 Standards Board, or GASB, which produces requirements and  
6 guidelines for all states to follow. Statement No. 84  
7 established new criteria for fiduciary activity, and  
8 after working with the Comptroller's Office, it was  
9 determined that our agency funds no longer met this new  
10 criteria and were thus reclassified.

11 The impact to total assets is reflected as an  
12 increase to cash in State Treasury, while the increase in  
13 total liabilities resides in unearned revenues. The net  
14 increase of \$13.6 million to our fund balance is driven  
15 by excess revenue after expenses in the TxDMV Fund 10.

16 Next slide, please.

17 Moving on to page 84 of your board book, I'll  
18 now discuss Exhibit 2, the combined statement of  
19 revenues, expenditures and changes in fund balances,  
20 commonly known as the income statement.

21 Beginning with our revenue, you'll see that  
22 fiscal year 2020 totaled \$1.74 billion, 99 percent of  
23 which was related to license fees and permits. Now, this  
24 was a decrease of \$168.43 million, or 8.82 percent,  
25 versus fiscal year 2019. This decrease was primarily due

1 to the governor's suspending and waiving certain fees and  
2 permits beginning in March 2020 and continuing through  
3 the rest of the fiscal year due to the COVID-19 pandemic.

4 These waivers resulted in 1.1 million fewer registered  
5 vehicles and 116,000 fewer oversize and overweight  
6 permits issued compared to fiscal year 2019.

7 Jumping down to our expenditures, our total  
8 was \$152.3 million for fiscal year 2020 which was an  
9 increase of \$7.19 million, or 4.95 percent year over  
10 year. This increase was primarily driven in our other  
11 operating expenses of \$3.8 million, which included an  
12 increase in purchases of preprinted license plates, as  
13 well as a study by the Texas Facilities Commission on  
14 repairs for the Camp Hubbard facility. Other  
15 contributing factors were an increase in salaries and  
16 wages due to higher employee head count in fiscal year  
17 2020, as well as an increase in our professional fees and  
18 services, primarily IT services, which I will discuss  
19 further in the report of nonfinancial data.

20 MS. GILLMAN: I have a question.

21 MR. HORN: Yes, ma'am.

22 MS. GILLMAN: Hi there. I heard you say that  
23 in 2020 we had significantly less in license fees, and  
24 I'm just assuming that was all COVID related.

25 MR. HORN: Yes, ma'am.

1 MS. GILLMAN: But then the expenditures, you  
2 said we had to buy preprinted license plates even though  
3 were processing less license plates and receiving less  
4 license fees. Why is that?

5 MS. FLORES: So if I could, I'll take that  
6 one.

7 MR. HORN: Yes.

8 MS. FLORES: Thank you, Eric.

9 So we didn't have to buy preprinted license  
10 plates but we chose to buy preprinted license plates. We  
11 normally like to keep at least a six to nine month  
12 inventory and so we had the wherewithal to acquire those  
13 plates and the space at the Texas Criminal Justice  
14 warehouse, so we continued our pattern of acquiring  
15 license plates, but we didn't have to buy them, we chose  
16 to buy them.

17 MS. GILLMAN: Was it a good buy?

18 MS. FLORES: Oh, absolutely, yes, ma'am.  
19 Remember this was before the pandemic so the rates for  
20 aluminum were significantly less than we know that  
21 they're going to be here in the near future. TDCJ just  
22 recently an amendment to modify their rates on aluminum,  
23 so we know that the price per plate is going to change  
24 here in the next few months. So it's a good thing to  
25 have a stockpile, if you will, based on the price, if you

1 will, the price rates for license plates.

2 MS. GILLMAN: Okay. Thank you.

3 MR. HORN: Thank you, Linda.

4 The increase in our expenditures were slightly  
5 offset in our materials and supplies which had a \$1.18  
6 million decrease in postage services compared to fiscal  
7 year 2019.

8 This concludes my discussion of the major  
9 highlights for the AFR. Are there any additional  
10 questions before I move on to the report of nonfinancial  
11 data?

12 MR. BACARISSE: Just a question, if I may, of  
13 Eric and Linda. Did I hear y'all say that head count  
14 actually increased in 2020 versus 2019, and can we  
15 explain why that happened in the midst of pandemic?

16 MS. FLORES: I can try to address that as  
17 well.

18 So I think that -- and I'm hearing some  
19 feedback here -- I think that individuals saw where we  
20 didn't have as many people transfer to the private  
21 sector, if you will. I think they knew that having a  
22 governmental position was a very valuable benefit at this  
23 point because the state as a whole was not deploying  
24 reductions in staff. So I think for the most part our  
25 staff stayed where they were at versus moving around to

1 the private sector where normally compensation is higher  
2 but then there is additional risk in not having a job at  
3 all.

4 MR. BACARISSE: So I understand why attrition  
5 held but how did we actually end up increasing head  
6 count? I'm just curious.

7 MS. FLORES: We continued to hire people even  
8 during the pandemic. We transitioned from in-person  
9 interviews to online interviews and we continued to  
10 onboard people all throughout the year.

11 MS. GILLMAN: How many people did we hire in  
12 the middle of the pandemic?

13 MS. FLORES: I'm sorry, Member Gillman, I  
14 don't have those numbers off the top of my head but I can  
15 probably get that for you.

16 MS. GILLMAN: Well, how much more was spent  
17 over '19?

18 MS. FLORES: Eric, do you have that salary  
19 expenditure?

20 MR. HORN: Yes. There was a \$2 million  
21 increase in salary and wages. That includes our  
22 compensable leave accrual for vacation and other benefits  
23 that are not used.

24 MS. FLORES: Yeah, I was going to say how much  
25 was compensable, because that's not really an

1 expenditure, if you will, that's an accrual.

2 MR. BACARISSE: Sure. I'm just curious. I  
3 mean, obviously these are positions that were current --  
4 I mean, they are already created, they were vacant and  
5 you were hiring to fill vacant positions. Right?

6 MS. FLORES: Correct.

7 MR. GRAHAM: Member Bacarisse -- and Linda can  
8 confirm this -- if I recall back at the beginning of last  
9 year we had, gosh, I think we had 25 or 35 open  
10 positions.

11 MS. FLORES: We normally carry about 70  
12 vacancies, if you will. That's really where we average;  
13 we average about 70-75 vacancies.

14 And I'm making a note: number of positions  
15 hired.

16 MR. GRAHAM: Did that answer your question,  
17 Member Bacarisse?

18 MR. BACARISSE: Yeah, I'm good. Thank you.

19 MR. GRAHAM: Thank you.

20 MR. HORN: Any other questions before I move  
21 on to the annual report of nonfinancial data?

22 (No response.)

23 MR. HORN: Hearing none, next slide, please.

24 The annual report of nonfinancial data begins  
25 on page 116 of your board book.

1                   Next slide, please.

2                   This report is made up of eight schedules that  
3 depict the agency's operational activities during the  
4 fiscal year. The first schedule, the appropriation item  
5 transfer schedule, on page 123 of your board book, shows  
6 the movement of funds between our strategies for the  
7 fiscal year.

8                   Next we'll look at the historically  
9 underutilized business, or HUB, strategic plan progress  
10 report on page 124 of your board book. This reports  
11 shows the percentage of HUBs used by an agency for  
12 specific procurement categories. TxDMV exceeded agency-  
13 specific HUB goals in each of the three categories in  
14 fiscal year 2020. These categories included commodities,  
15 other services, and special trade construction. Overall  
16 HUB expenditures increased by \$2.18 million year over  
17 year. For special trade construction, although the  
18 percentage spend decreased compared to fiscal year 2019,  
19 total HUB expenditures actually increased by \$109,000 in  
20 that category.

21                   The next report is the indirect cost schedule  
22 and can be found on page 125 of your board book. This  
23 report includes the overhead costs of the agency  
24 associated with payroll benefits that were previously  
25 shown on the income statement and the AFR. It also

1 includes the reimbursement to general revenue for the  
2 statewide cost allocation plan, what we refer to as  
3 SWCAP. SWCAP are overhead costs related to the  
4 centralized accounting and HR services provided by the  
5 Comptroller's Office. For fiscal year 2020 SWCAP costs  
6 are based on 2017 actuals and were \$556,000 lower than  
7 fiscal year 2019 which included implementation cost from  
8 fiscal year 2016.

9 The schedule of space occupied on pages 128  
10 through 129 of your board book details the head count  
11 breakout of staff by location, as well as information on  
12 current leases for buildings.

13 The next two schedules, beginning on page 130  
14 of your board book, reflect the four vehicles purchased  
15 in fiscal year 2020, as well as a breakdown of the number  
16 of vehicles in our inventory with alternative fuel  
17 capability.

18 The schedule of itemized purchases on page 132  
19 of your board book details the proprietary or sole source  
20 purchases of specialized products that only one company  
21 can provide.

22 Next slide, please.

23 And finally, on pages 126 through 127 of your  
24 board book we have a breakout of our professional and  
25 consulting fees and legal service fees. This shows the

1 amount paid to each of the 44 unique vendors and the  
2 service that was provided during the fiscal year.

3 In our graphic representation here, you see  
4 that the total expenditures for fiscal year 2020 were  
5 \$17.58 million. As noted in the AFR review, this was an  
6 increase of \$2.1 million versus fiscal year 2019, related  
7 primarily to IT services and driven by four vendors.  
8 There was a \$1 million increase to Carahsoft Technology  
9 Corporation for the renewal of sales force licenses for  
10 our eLICNESING application. The remaining increase is  
11 related to continued maintenance on the registration and  
12 titling system with vendors Apex Systems and Bansar  
13 Technologies, as well as a Windows 10 upgrade project for  
14 RTS with our vendor Insight.

15 Next slide, please.

16 This concludes my presentation, and I'm open  
17 to any questions that you may have.

18 MR. GRAHAM: Okay. Members, are there any  
19 questions for Ms. Florence or Mr. Horn?

20 MS. GILLMAN: I have one.

21 MR. GRAHAM: Member Gillman.

22 MS. GILLMAN: I printed my board book and  
23 maybe I haven't found it in the board book, but all the  
24 slides that you were showing on the screen that compares  
25 to '19 versus '20 I don't see in my board book. Is that

1 correct, or have I just not found them?

2 MS. FLORES: Board Member, this information  
3 may be on the shared board site versus being in your  
4 board book itself. The material that Eric was covering,  
5 what he was showing was a graphic representation.

6 MS. GILLMAN: And I found it really very  
7 helpful. I always like to compare year over year so that  
8 you have some frame of reference, and especially because  
9 COVID was so dramatic, I think the graphic  
10 representations are really helpful, the comparison from  
11 '19 to '20 very helpful. I wish that they were in my  
12 board book.

13 MS. FLORES: I'm sure we can get that to you,  
14 for sure.

15 And just a quick followup, I did get some  
16 information from our director of Human Resources, Matthew  
17 Levitt. He did indicate that we hired 82 people during  
18 the pandemic.

19 MS. GILLMAN: I know our company was trying  
20 very hard to justify just holding onto the people that we  
21 had and the thought of hiring new folks was out of the  
22 question, so it's a little alarming that we hired 82.

23 MR. BACARISSE: If I may? My experience in  
24 government is the challenge is you're given a budget  
25 every biennium and that budget is already allocated to

1 the agencies at this point, by 2020 it had already been  
2 allocated -- and so, Linda, just correct me if I'm  
3 wrong -- we already had the resources and we had  
4 demonstrated vacancies needed to fill and so the agency  
5 was moving along in its business even though we were in  
6 the midst of a pandemic, very much unlike the private  
7 sector where you don't get money ahead of time. So is  
8 that a fair way of describing it?

9 MS. FLORES: That is fair. And I can also  
10 tell you that we do monitor our fees every year, but  
11 we've had such a healthy fund balance, and we're going to  
12 discuss it in a little bit in 4.D, the quarterly  
13 financial report, we'll show you what that balance looks  
14 like.

15 MR. BACARISSE: And in fact, what happens  
16 sometimes -- well, let me say it this way, in my prior  
17 agency board service we got punished for having healthy  
18 fund balances.

19 (General laughter.)

20 MS. FLORES: It is a double-edged sword, yes,  
21 sir.

22 MR. BACARISSE: Yes, it is. I mean, frugality  
23 and great management is not always rewarded in the sense  
24 that you would think, certainly not like the private  
25 sector. It's a different world.

1 MS. BREWSTER: Mr. Chairman, if I could add,  
2 please?

3 MR. GRAHAM: Yes, ma'am.

4 MS. BREWSTER: Thank you.

5 I think it's really important to remember that  
6 the demands on this department increased during COVID-19.  
7 The need for the public to be served did not go away.  
8 In fact, in many of our areas we saw a huge increase in  
9 demand for services like our Consumer Relations Division  
10 where we saw a huge spike in customers contacting the  
11 department. In FY19 we had probably our highest -- well,  
12 not probably -- we had our highest vacancy rate, at close  
13 to 20 percent, if you'll recall, and so we were doing a  
14 lot of catch-up to fill those vacancies. We need those  
15 vacancies filled to be able to continue to serve the  
16 public.

17 And so I do want to make sure that it's very  
18 clear to the board that the demands on the department did  
19 not go away, those positions were absolutely needed to be  
20 filled. And in fact, I commend the department and the  
21 divisions that helped very much continuing the hiring,  
22 despite it being very difficult to hire during COVID-19,  
23 by shifting to a way to do that online. So just wanted  
24 to make sure that that was clear to everybody that a lot  
25 of the demands on the department increased during COVID-

1 19.

2 MR. BACARISSE: Mr. Chairman, if I can jump  
3 back in.

4 Whitney, thanks. I think that's a good  
5 conversation for us to be having, and I think, Whitney,  
6 that's a good point to make sure the full board  
7 understands.

8 I'm curious to know, too, with so many TACs  
9 offices closed across the state, how did that impact the  
10 customer demand on DMV. I'm sure there was some sort of  
11 impact there and other areas too.

12 MS. BREWSTER: Thank you for asking that  
13 question, and if it's all right, I will take that one.  
14 When we saw the tax assessor-collector offices closing  
15 across the state, what that meant for our department is  
16 we received a huge number of phone calls, not only from  
17 customers but dealers, other stakeholder groups that were  
18 trying to get services through the tax assessor-collector  
19 offices and wanting to know what services were still  
20 available. And so what we did was absolutely answer all  
21 of those questions and worked very closely with the  
22 counties to understand what their issues and concerns  
23 were so that we could make sure that we were  
24 communicating to the public, our stakeholder groups what  
25 services are still available in which counties through

1 our call centers but also on our website. And that was  
2 constantly changing through COVID-19 to make sure that we  
3 had the most up-to-date information out there for the  
4 public and our stakeholder groups to understand, okay,  
5 which counties are providing what services right now.

6 MS. GILLMAN: I know firsthand that the call  
7 volume must have been through the roof because when many  
8 county offices are closed, if we as a car dealer would  
9 pay off any automobile, no titles were issued, and that  
10 tends to make everyone cranky. If they can't get a  
11 license plate and they're running on a paper tag that's  
12 expired, that makes everybody cranky. And so the offices  
13 that were closed certainly did have an effect of probably  
14 more questions to be asked, like: Am I going to jail?  
15 Why am I still being asked to make monthly payments on a  
16 vehicle that's been paid off? You know, the call volume  
17 must have been horrific, yes. I know we got it in our  
18 office too.

19 MR. GRAHAM: All right. Are there any  
20 additional questions from the board members?

21 MS. GILLMAN: No, sir.

22 MR. GRAHAM: Great dialogue, great questions.  
23 Thank you.

24 Okay. Well, then let's move on to item 4.D,  
25 fiscal year 2021 second quarter financial summary report,

1 including cumulative fiscal impacts of COVID-19, and I  
2 will turn it over to Ms. Flores, Sergio Rey, and Brian  
3 Kline.

4 MS. FLORES: Thank you, Board Member Graham.  
5 For the record again, Linda Flores, chief financial  
6 officer for the department.

7 Joining me today to give you an overview of  
8 the quarterly financial report is Sergio Rey, the  
9 assistant CFO, who will be discussing expenditures for  
10 the quarter, as well as Brian Kline, the team lead for  
11 the revenue estimators, who will give you an overview of  
12 the cumulative impacts of the COVID-19 on the department.

13 This is a briefing item and no action is required, and  
14 this information begins on page 139 of your board book.

15 Next slide, please.

16 We're going to talk about just total revenue  
17 for the deposits in the second quarter of FY21 compared  
18 to the same period last year. In your board book this is  
19 a graphic representation, but you will note that all of  
20 our fees experienced a decline of approximately 4.6  
21 compared to the same time last year.

22 And let me just kind of give you an overview  
23 of last year. The pandemic hit in March and so the  
24 agency did not realize those decreases in revenue until  
25 probably the summertime, so quarter to quarter, back in

1 March of  
2 '20 our revenues were still high but now compared to this  
3 quarter you're going to see that decline from quarter to  
4 quarter. So I kind of wanted to level set that in case  
5 there was some concern about, well, you collected more  
6 money in FY20 versus FY21, and it's the timing of the  
7 pandemic and all of the economy declines that we saw  
8 after the second quarter.

9 Next slide, please.

10 This information on the DMV Fund is shown on  
11 page 142 of your board book, and we provide you an  
12 overview of the DMV Fund, our beginning balance, our  
13 revenues and our expenditures, and finally, our ending  
14 and adjusted cash balance. As you can see, we are  
15 collecting sufficient revenue to cover our expenditures  
16 for the second quarter of FY21. Even though we are  
17 seeing some declines, you will see an adjusted net cash  
18 balance of approximately \$115.9 million.

19 To Member Bacarisse's point, yes, this is a  
20 double-edged sword. We have been good stewards and  
21 making sure that we not only were frugal in what we spent  
22 but we also understand that this can be, you know, a  
23 target for others in the legislature if this balance gets  
24 too high. And every time we put together an  
25 appropriations request we always identify whether or not

1 we have sufficient revenue, cash flow or fund balance to  
2 finance those appropriations requests.

3 Next slide, please.

4 Again, this information is not in your board  
5 book but we wanted to give you a comparison -- to Board  
6 Member Gillman's point, we like to see trends as well --  
7 and so in FY20 we show the collections in the DMV Fund of  
8 \$82.4 million versus \$69.4 million this quarter. Again,  
9 it was the timing of the pandemic and when things started  
10 to go south, but quarter to quarter we knew that it was  
11 not going to look good. We're starting to see just  
12 slight upticks in revenue for the third quarter but we  
13 know that we're going to be below our projections at the  
14 end of the year, but again, that sufficient healthy fund  
15 balance is enough to cover us through. I believe we will  
16 collect enough revenue to cover our expenses for the  
17 year, but we may be just squeaking by.

18 Next slide, please.

19 MR. BACARISSE: I'm just going to say that's  
20 really remarkable and great job, great work on y'all's  
21 part for being prudent managers of the resources the  
22 legislature has given the agency. Thank you.

23 MS. FLORES: Thank you, sir.

24 MS. GILLMAN: I would just say one last thing  
25 before we leave this. We are seeing -- because I watch

1 the new and used car sales rates -- we are seeing it is  
2 less, and I hate to give a statewide number but I'm  
3 thinking it's about 10 percent less. So your numbers  
4 quarter to quarter, just in '20 to '21 seem reasonable in  
5 that respect. I would expect that.

6 MS. FLORES: Yes, ma'am.

7 MS. GILLMAN: Thanks, Linda.

8 MS. FLORES: Yes, ma'am.

9 MS. FLORES: At this point I'm going to turn  
10 it over to Brian who is going to talk about the  
11 cumulative impacts of the pandemic on the department.

12 MR. KLINE: Hello, Honorable Chairman and  
13 board members. My name is Brian Kline, a member of the  
14 revenue forecasting team in the Finance and  
15 Administrative Services Division at TxDMV, and the chief  
16 financial officer has asked me to present some  
17 information about the cumulative FY20 and FY21 impacts of  
18 the COVID-19 pandemic.

19 Before I do that, even though I'm doing the  
20 speaking right now, I'd like to send thanks to my  
21 teammates Laura Fowler and Steve Sandoval, as well as  
22 John Ralston of the budget team and his colleagues on  
23 that team, for all the work that they've done in putting  
24 the numbers together and making the presentation  
25 possible.

1 I'm going to refer to three bullet points on  
2 page 149 of your board book, the last three bullet  
3 points.

4 First of all, the overall costs of the  
5 pandemic in terms of extra supplies, et cetera, is \$1.7  
6 million in FY20 and another \$2.2 million estimated  
7 additional costs for FY21, for a sum of \$3.9 million in  
8 costs for the two fiscal years.

9 The second to last bullet point and the last  
10 bullet point talk about the cumulative revenue impacts.  
11 First of all, we have a couple of different effects going  
12 on here. The effect on revenues for FY20 and 21  
13 specifically due to the waiver of certain fees by the  
14 governor -- that's the delinquent title transfer  
15 penalties and temporary permits, along with the  
16 processing and handling fee on those permits -- that led  
17 to a loss of about \$37.2 million in revenue estimated,  
18 and I say estimated because the waiver period will  
19 continue until April 14, so that figure is a cumulative  
20 effect from March 15 of 2020 until April 14 of this year.

21 The next day those waivers will go away and customers  
22 will need to be engaging again for those services.

23 The other effect is just the general decline  
24 in economic activity across pretty much all of our fee  
25 categories, not specifically due to waivers, that is, and

1 that's a decline of about \$283.9 million in revenues  
2 collected from March 15 of 2020, and that's estimated  
3 through August 31, 2021, the end of this fiscal year.

4 Those two amounts sum to an estimated loss in  
5 revenue of \$321.1 million from March 15, 2020 to August  
6 31, 2021, and I want to mention three things about that  
7 sum of \$321.1 million.

8 First of all, about 80 percent of that is  
9 State Highway Fund 6 revenue, about 12 percent is a loss  
10 in TxDMV Fund 10 revenue, and the other 8 percent is a  
11 loss in general revenue fund 1 revenues.

12 Second of all, that's about an overall 7.9  
13 percent drop in revenues. And by the way, when I speak  
14 of these drops I'm talking about as compared to pre-COVID  
15 projections for FY20 and FY21 combined.

16 And then finally, as you know, the governor  
17 also allowed for deferrals of registration of vehicles  
18 and this was at the customer's choosing. It didn't mean  
19 they didn't have to register, it just meant that any of  
20 us could defer our registrations. So you still have some  
21 vehicles that would have registered in fiscal year 2020  
22 and they're holding off until fiscal year 2021, and our  
23 estimate is about \$35 million, but there's no effect  
24 there and that's not part of the -- it's really no part  
25 at all of the \$321.1 million because it's a net effect of

1 zero, so money that we would have collected in '20 on  
2 those deferred revenues we will collect in '21 instead.

3 So before I turn it over to Sergio Rey to  
4 cover second quarter operating expenditures and capital  
5 items, board members, are there any questions?

6 Member Gillman, I think I saw you had your  
7 hand up. Yes?

8 MS. GILLMAN: Sorry. That was a no questions.

9 MR. KLINE: Gotcha. Okay.

10 All right. Thank you very much.

11 MR. BACARISSE: Thank you, Brian.

12 MR. GRAHAM: Okay. Linda, does that conclude?

13 MS. FLORES: No. We've got one more.

14 MR. GRAHAM: We've got Sergio. Right?

15 MS. FLORES: Yes, sir.

16 MR. REY: Yes, sir. Good afternoon, board  
17 members. For the record, my name is Sergio Rey,  
18 assistant chief financial officer.

19 This afternoon I will be providing the  
20 highlights of the expenditures, obligations and capital  
21 spend for the second quarter of fiscal year 2021. You  
22 will find this material beginning on page 152 of your  
23 board book. So if we could move to the next slide,  
24 please.

25 For this second quarter the department has a

1 combined total of \$115.5 million in obligations; \$63.3-  
2 are actual expenditures and \$55.2 million are  
3 encumbrances. These encumbrances are the outstanding  
4 obligations that were procured by the department for  
5 future goods or services. This remains consistent with  
6 the department's normal spending commitments, in  
7 particular with the primary categories of: salary-  
8 related costs; contract services which are those  
9 associated with out license production, registration  
10 decal production and our My Plates obligations;  
11 professional fees, as well, through our Data Center  
12 services and our capital project contractors working on  
13 our technology initiatives; and for any postage and  
14 printing services, especially those related to our  
15 titling and registration forms and the document imaging  
16 services.

17 The next slide, and on page 154 of your  
18 material there is a summary of the department's capital  
19 budget and its projects. Of the \$40.8 million in our  
20 fiscal year 2021 capital budget, \$8.5 million has been  
21 spent and there are \$9.7 million in obligations. The  
22 primary areas of these expenditures and encumbrances are,  
23 again, the Data Center services, toner and technical  
24 support for our counties, and the ongoing laptop and  
25 desktop refreshes for our PC replacement project.

1           At the conclusion of the second quarter, the  
2 Texas DMV automation project obligations total to about  
3 \$5.5 million, and this has focused on addressing the  
4 registration and titling system defects and maintenance,  
5 the Texas by Texas application implementation, and the  
6 call center upgrade project. The remaining available  
7 capital budget dollars, which total about \$22 million,  
8 are available for expanding upcoming projects such as  
9 webLIEN, county equipment refresh, and the Practice and  
10 Learning, or PAL environment project, and any other  
11 application, infrastructure or technology improvement  
12 needs. We also expect to utilize remaining automation  
13 funds in the fiscal year 2022-2023 biennium for projects  
14 such as the Motor Carrier Credentialing System, or the  
15 MCCS rewrite.

16           Next slide.

17           This concludes my briefing of the second  
18 quarter obligations. I'm available for any questions  
19 that you may have.

20           MR. GRAHAM: All right. Thank you, Sergio.

21           Does anyone have any questions for Ms. Flores,  
22 Sergio Rey, or Brian Kline?

23           MS. GILLMAN: No, sir. Thank you.

24           MR. GRAHAM: Excellent. Thank you.

25           All right. With that, we will move to item

1 4.E. And on a time check here, it looks like we have 18  
2 minutes, not to rush anybody, but I will at roughly 3:28  
3 have to call an end to the meeting.

4 So Linda, it's all yours.

5 MS. FLORES: Thank you. No pressure.

6 Linda Flores, chief financial officer.

7 This is an update -- next slide, please -- of  
8 the department's '22-23 appropriations request. This is  
9 a briefing item only, and as Tracey mentioned earlier,  
10 there is a supplement, a presentation supplement on the  
11 board's Sharepoint site, as well as the department's  
12 website because we do have more current information to  
13 provide for you.

14 Next slide.

15 Just a real quick overview. This is where the  
16 agency started in January after the introduced versions  
17 of both Senate Bill and House Bill 1 were released. We  
18 asked for \$338.8 million and 813 FTEs. The introduced  
19 versions of these General Appropriations Act provided  
20 \$302.5 million and no FTEs, or they left us at base, 802.

21 So you can see the difference here, and it was  
22 primarily they did not approve approximately \$3.1 million  
23 for automation that we had set aside. They reduced  
24 approximately \$3 million in dollars that we had actually  
25 included in our salaries to address some of those

1 retention areas where we knew that we had a significant  
2 percentage of turnover, specific classifications, our  
3 customer service reps. We were trying to address some of  
4 those salary challenges and so we had moved a lot of  
5 dollars around in our base request, well, that was cut  
6 primarily by the Legislative Budget Board so it never  
7 even made it to the introduced versions of the bill.

8 MS. BREWSTER: Ms. Flores, Mr. Chairman, if I  
9 could just add one thing to that? Whitney Brewster, for  
10 the record.

11 That \$3 million that Ms. Flores is referring  
12 to for those positions that we have identified as areas  
13 of high turnover or difficulty for recruitment, those two  
14 were identified by the State Auditor's Office as being  
15 areas that exceeded 17 percent. We were up to 20 percent  
16 and anything over 17 percent for our agency, any agency,  
17 is reviewed by the State Auditor's Office, and that is  
18 what happened in FY19. So what we were trying to do in  
19 our base was to set aside money to address those salaries  
20 on those areas. The State Auditor's Office identified  
21 those areas and so we were trying to be proactive in  
22 using our base dollars to cover those.

23 So I thought I would just interject that in  
24 light of the previous conversation that we had about  
25 turnover and recruitment.

1 Thank you.

2 MS. FLORES: Next slide, please.

3 So as a result of the introduced versions of  
4 the bill, we modified our exceptional items request.

5 Next slide.

6 So we had approximately nine exceptional  
7 items. Items 1 through 6 were financed out of the DMV  
8 Fund, items 7, 8 and 9 were funded by the Motor Vehicle  
9 Crime Prevention Authority general revenue. If you'll  
10 recall, they collect \$4 on every car insurance policy.  
11 And so we did modify our request to include a restoration  
12 of what they cut in automation as well as we modified the  
13 expanded coverage for MVCPA as well as restoration of the  
14 base request that we had for that program. So going into  
15 the committee hearings, we went in with approximately  
16 nine exceptional items totaling \$36.6 million for the  
17 biennium.

18 Next slide.

19 So this just explains further, you know, what  
20 I just verbally indicated. We wanted the restoration of  
21 that capital funding, \$3.1 million, specifically to  
22 address the webSALVAGE project. We've been working on  
23 that, it hasn't started but we've been working up to the  
24 final phase of automating webSALVAGE in RTS.

25 Next slide.

1           One of the things that we were asked during  
2 session by Senator Nichols, the chair of Senate  
3 Transportation, was to provide a justification for our  
4 exceptional item regarding the building. So we did put  
5 some information together. I reached out to the Texas  
6 Public Finance Authority in order to understand the  
7 process for financing a building, and this was the  
8 information that we compiled for Senator Nichols. He  
9 wanted to make sure that we were asking for dollars based  
10 on need and not want and we did provide him with the  
11 assessment from the Texas Facilities Commission that  
12 indicated that it was more cost-effective to construct  
13 rather than try to repair the buildings that we have on  
14 campus.

15           The total cost for a new building was \$65  
16 million and could be financed either through our fund  
17 balance or financing. But we were very clear in saying  
18 that the \$6.2- that we were asking for in exceptional  
19 item number 2 was \$6.2 million and it was to plan, design  
20 and for site preparation.

21           Next slide.

22           So as far as financing a building, we were  
23 asked to put together a quick amortization table, and we  
24 did that. For bonds issued -- and these would be revenue  
25 bonds based on our fees -- 20-year bonds at 2.5 percent

1 interest, the biennial payment would be \$8.3 million.  
2 Again, the other option is to simply finance the building  
3 all at once.

4 Next slide.

5 MR. BACARISSE: Linda, just a quick question.  
6 Remind me of the approximate age of the buildings that we  
7 occupy.

8 MS. FLORES: You know, they're at least 60  
9 years old. They were built in '55

10 MR. BACARISSE: Thank you.

11 MS. FLORES: So here's the process for  
12 utilizing a bonding process. You request money from the  
13 Texas Public Finance Authority, and there's a process,  
14 you have to ask for a rider in the next legislative  
15 session to authorize the project, th issuance of the  
16 bonds, the appropriations to pay the bonds. We have to  
17 bring this back to the board and ask for a resolution to  
18 submit the request to TPFA, and then it also has to be  
19 approved by that board as well.

20 Next slide.

21 MR. BACARISSE: I'm sorry. I just have a  
22 question. Whitney or Linda, either one of you, has  
23 Senator Nichols recommended to us that we take this  
24 action, or what is his stance on this?

25 MS. FLORES: So if I could talk about what the

1 supplement information has, that's going to answer your  
2 question, because it's pretty good, good stuff.

3 So in your supplement information, actions  
4 taken by Senate Finance. This was yesterday the Senate  
5 Finance Committee adopted item number 1, the restoration  
6 of our automation base, \$3.1 million, as well as item  
7 number 3, our exceptional item for the accounts  
8 receivable system, \$3.5 million, with two FTEs.

9 MS. GILLMAN: They said yes?

10 MS. FLORES: So far. That's the Senate side.

11 And further the Senate adopted the replacement of  
12 Building 5 into Article 11. So it's still in play on the  
13 Senate side. What the Senate did not adopt was the  
14 complaint management system, the two new regional service  
15 center substations, or any of the Motor Vehicle Crime  
16 Prevention exceptional item requests. That's the Senate  
17 side.

18 Today the House Appropriations Committee met  
19 and took the following action: they gave us the  
20 restoration of the automation capital dollars, \$3.1-;  
21 they adopted Camp Hubbard Building 5, \$6.2 million; they  
22 also approved the accounts receivable system, \$3.5  
23 million; they also approved the complaint management  
24 system at \$5.2 million. For the Motor Vehicle Crime  
25 Prevention Authority they adopted item number 7 at 50

1 percent of the request. We were asking for \$8.6-, they  
2 adopted \$4.3-, they sent the remainder to Article 11.  
3 For items 8 and 9, which is additional money for expanded  
4 coverage in the fee collection unit, the three FTEs, \$7.4  
5 million, and \$560,000, respectively, were adopted in  
6 Article 11.

7 So the next steps are for the two chambers to  
8 identify conference committee members, and they will  
9 discuss all of the items that were either adopted by each  
10 house as well as those things that are still in play in  
11 Article 11. So at this point everything is still alive  
12 for the DMV. Good news.

13 MR. BACARISSE: That's very good news, Mr.  
14 Chairman and Whitney and Linda.

15 One question. Just out of curiosity as I'm  
16 trying to wrap my head around the profile of the agency,  
17 any given year, any given fiscal year what is the  
18 personnel carryover budget from unfilled positions into  
19 the next fiscal year? I mean, you know, within the  
20 biennium how much the agency just naturally not spend  
21 because of vacant positions?

22 MS. FLORES: My best answer to that is  
23 approximately \$3 million in unspent salaries due to  
24 vacancies or attrition.

25 MR. BACARISSE: So your cushion really isn't

1 that big, I mean, you know, in terms of what they may end  
2 up funding.

3 MS. FLORES: Right.

4 MR. BACARISSE: Okay. Thank you.

5 MS. BREWSTER: Mr. Chairman?

6 MR. GRAHAM: Yes, Whitney.

7 MS. BREWSTER: Thank you.

8 Whitney Brewster, executive director, for the  
9 record.

10 Board Member Bacarisse, you asked about the  
11 two financing options for the facility that I just wanted  
12 to make sure that we address directly.

13 We, in our planning, had not considered  
14 financing through bonds. That is something that was  
15 requested by Chairman Nichols so the legislature could  
16 understand what the options were, and so Ms. Flores and  
17 her team did a great job getting together with the  
18 financing agency to get that information and get the  
19 information to Senate Finance and Chairman Nichols.

20 MR. BACARISSE: That's great. Obviously I  
21 think it's better if they can find the money in the  
22 budget to be able to do these projects rather than having  
23 to incur more bond debt, so I'll just keep my fingers  
24 crossed for the conference committee.

25 MS. FLORES: If we were to finance \$65

1 million, we'd pay \$25 million in interest. That's a lot  
2 of money.

3 MR. GRAHAM: Does that conclude your report,  
4 Ms. Flores, on item 4.E?

5 MS. FLORES: Yes, sir.

6 MR. GRAHAM: Okay. Excellent.

7 So we will, for the sake of time, I will just  
8 ask you to -- I know you had some slides ready to go on  
9 item 4.F, storm damage. If we could, for the sake of  
10 time, could you just update us on those numbers. The  
11 good news clearly is that it was relatively insignificant  
12 but if you could just real briefly update us on that.

13 MS. FLORES: Sure, I'll be happy to.

14 So as you all are aware, the week of February  
15 15 really paralyzed the whole state, and the department  
16 was no different. We did suffer some damage here at  
17 headquarters, there was a busted water suppression pipe,  
18 as well as Building 5 we had some leakage from the roof,  
19 but that's an ongoing issue in Building 5. We had some  
20 issues at the Austin Regional Service Center and the  
21 Longview Regional Service Center, but because TxDOT is  
22 the owner of those facilities, they got in there pretty  
23 quick and they were able to get us back up and running  
24 without any delays.

25 We've spent and we expect to spend

1 approximately \$35,000, so very -- I'm not going to say  
2 it's not significant but it could have been a lot worse  
3 compared to a lot of different agencies that I'm aware  
4 of. So we've been able to absorb those costs, and we're  
5 working through making sure that the carpets are dry and  
6 that we're handing the repairs as quickly as we can.

7 MR. GRAHAM: Thank you. Yeah, just in light  
8 of the amount of facilities that DMV has and the level of  
9 devastation from that storm, I didn't mean to say it was  
10 insignificant but, boy, it sure could have been much  
11 worse for the agency and for operations, so we're  
12 certainly grateful for that. You know, could have been a  
13 lot of damage to equipment and computers. So in any  
14 case, thank you for that report.

15 It is now 3:26. Any questions, any further  
16 questions on item 4.F?

17 (No response.)

18 MR. GRAHAM: Hearing none, I will ask general  
19 counsel if we have any public comment.

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

22 There is no public comment for agenda item 7,  
23 and I just wanted to note that there's not a closed  
24 session today either, so we won't be taking up agenda  
25 items 5 or 6. Thank you.

1 MR. GRAHAM: Thank you, Tracey. I was just  
2 about to make that note, but always appreciate that.

3 We have no closed session so 5 and 6 is  
4 scratched, item 7, no public comment, and with that,  
5 we'll move to agenda item 8, and unless there's further  
6 action, I'd entertain a motion to adjourn.

7 MR. BACARISSE: Mr. Chairman, I move we  
8 adjourn the committee meeting. Thank you.

9 MR. GRAHAM: Thank you, Member Bacarisse.

10 MS. GILLMAN: And I second.

11 MR. GRAHAM: Second from Member Gillman.

12 Board members, when I call your name, please  
13 state your vote.

14 Member Bacarisse?

15 MR. BACARISSE: Aye.

16 MR. GRAHAM: Member Gillman?

17 MS. GILLMAN: Aye.

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

19 Let the record reflect the vote is unanimous.

20 Thank you, ladies and gentlemen, for your time  
21 and great questions, and this meeting is adjourned.

22 (Whereupon, at 3:28 p.m., the meeting was  
23 adjourned.)

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MEETING OF: TxDMV Finance & Audit Committee

LOCATION: via telephone conference call

DATE: March 31, 2021

I do hereby certify that the foregoing pages, numbers 1 through 62, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy H. King before the Texas Department of Motor Vehicles.

DATE: April 3, 2021

/s/ Nancy H. King  
(Transcriber)

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