



An Audit Report on

Selected Contracts at the Department of Motor Vehicles

February 2019

Report No. 19-029



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Overall Conclusion

The Department of Motor Vehicles (Department) should strengthen its monitoring activities it performs for both its contract renewal with License Plates of Texas, LLC, doing business as My Plates (My Plates) and with Insight Public Sector (Insight) to ensure compliance with contract requirements. The Department performed the required contract planning, procurement, and formation for the contract with Insight. However, it should improve certain contract formation functions.

My Plates Contract

The Department performed monitoring activities of its contract with My Plates, which included (1) monitoring progress toward the guaranteed revenue to the State of \$15 million, (2) reviewing the annual marketing plan, and (3) participating in monthly meetings with My Plates. However, the Department should perform a risk assessment and develop a monitoring plan to strengthen its monitoring of other key contract deliverables to help ensure that they were being met, such as:

- The State receiving the correct amount of license plate sales revenue.
- The Department receiving accurate license plate auction sales information and auction revenue being submitted to the Department within the required time frames.
- Third-party license agreements for the use of intellectual property containing required provisions.

Auditors reviewed the Department's oversight activities for the My Plates contract.

Background

Auditors selected two Department of Motor Vehicles (Department) contracts to audit for this report:

- **My Plates contract.** This contract was originally procured in 2009 by the Department of Transportation and was renewed under the Department on November 19, 2014. The contract is for the design, sale, and marketing of specialty license plates until November 18, 2019.

The contract requires My Plates to reimburse the Department for costs related to programming prior to production, plate design or redesign, and production for each plate per order year.

Revenue generated from the sale of specialty license plates is divided between the State and My Plates. My Plates guarantees through the contract that the State shall receive at least \$15 million in revenue share payments by the end of the contract renewal term.

- **Insight Public Sector contract.** The Department contracted with Insight Public Sector for the 2016 Registration and Titling System County Equipment Refresh Project (CERP). The objective of CERP was to replace existing Department equipment located at more than 500 county tax assessor-collector offices across the state. The total contract amount is \$6,961,134, with \$5,761,134 for the equipment and installation and \$1,200,000 for maintenance services over a 4-year period. The contract term is July 26, 2016, through August 6, 2020.

Sources: The contracts audited.

Insight Public Sector Contract

The Department adequately performed planning activities and followed requirements in applicable statutes and the *State of Texas Contract Management Guide* to procure the Insight contract. The Department included provisions required by the *State of Texas Contract Management Guide* in its contract with Insight and adequately performed monitoring activities to enforce the terms of the Insight contract. However, the Department should strengthen its processes to ensure that the terms of the contract are consistent with solicitation documents and that Insight submits an updated subcontracting plan when required. In addition, the Department should ensure that it consistently reports contracts to the Legislative Budget Board and on its Web site as required.

Auditors reviewed the Department’s planning, procurement, contract formation, and oversight activities for the Insight contract.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating ^a
1	The Department Monitored Some Areas of Its Specialty License Plate Contract, But It Should Identify and Monitor Other Key Areas	Medium
2-A	The Department Adequately Performed Contract Planning, Procurement, Formation, and Oversight Activities for the Insight Contract	Low
2-B	The Department Should Ensure That It Consistently Reports Contracts as Required	Medium

^a A subchapter is rated **Priority** if the issues identified present risks or effects that if not addressed could critically affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A subchapter is rated **High** if the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A subchapter is rated **Medium** if the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A subchapter is rated **Low** if the audit identified strengths that support the audited entity’s ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

Auditors communicated other, less significant issues separately in writing to Department management.

Summary of Management's Response

At the end of each chapter in this report, auditors made recommendations to address the issues identified during this audit. The Department agreed with the recommendations in this report.

Audit Objective and Scope

The objective of this audit was to determine whether the Department has administered certain contract management functions for selected contracts in accordance with applicable requirements.

The scope of this audit covered the Department's selected processes for the following two contracts through August 31, 2018:

- Oversight related to the contract renewal with My Plates for the design, sale, and marketing of specialty license plates. This contract was originally procured in 2009 by the Department of Transportation and was renewed under the Department on November 19, 2014.
- Planning, procurement, formation, and oversight related to the contract with Insight for the 2016 Registration and Titling System County Equipment Refresh Project, which was effective July 26, 2016.

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Detailed Results

Chapter 1

The Department Monitored Some Areas of Its Specialty License Plate Contract, But It Should Identify and Monitor Other Key Areas

**Chapter 1
Rating:**
Medium ¹

The Department performed monitoring activities of its contract with License Plates of Texas, LLC, doing business as My Plates (My Plates), which included (1) monitoring progress towards the guaranteed revenue to the State of \$15 million, (2) reviewing the annual marketing plan, and (3) participating in monthly meetings with My Plates. However, the Department should perform a risk assessment and develop a monitoring plan to strengthen its monitoring of other key contract deliverables to help ensure that they were being met. For example, the Department should strengthen its monitoring to ensure that the State receives the correct license plate sales revenue amounts and that the third-party license agreements contain all of the required provisions.

The Department should perform a risk assessment and develop a monitoring plan to ensure compliance with key contract requirements.

The Department did not perform a risk assessment or develop a monitoring plan to oversee the My Plates contract. A risk assessment and monitoring plan should identify the contract requirements to be monitored, how the requirements will be monitored, and who will perform the monitoring. A monitoring plan and risk assessment are required by the *State of Texas Contract Management Guide*.

While the Department performed some monitoring activities, a monitoring plan would help ensure that the vendor is complying with key areas of the contract and that the Department can identify problems or issues.

The Department performed monitoring of some key contract areas.

Although the Department did not perform a risk assessment and develop a monitoring plan for the My Plates contract, it performed monitoring activities over some key areas to ensure the contractor met its requirements related to the guaranteed revenue, annual marketing plan, and regular executive and working group meetings.

- **Guaranteed Revenues.** The Department monitored the vendor's progress toward meeting its contractual guarantee of \$15 million to the State's

¹ The risk related to the issues discussed in Chapter 1 is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

General Revenue Fund. The contract renewal states that My Plates guarantees that the State shall receive at least \$15 million in revenue share payments by the end of the contract renewal term on November 18, 2019. According to information provided by the Department, My Plates met the \$15 million guarantee in August 2017 (see Figure 1 in Appendix 3 for more information).

- **Annual Marketing Plan.** My Plates submitted its annual marketing plan to the Department for each of the four years of the contract renewal, as required. The marketing plan included information such as plans for increasing state revenue, revenue projections, and measurable objectives to identify and increase sales to its target audience.
- **Executive Level and Working Group Meetings.** As required by the contract renewal, the Department met with My Plates executive management and operational staff monthly as a working group to discuss marketing activities and expenditures, sales summaries, and upcoming marketing promotions.

The Department should improve its monitoring activities over other key areas of the contract.

Because the Department did not perform a risk assessment or develop a monitoring plan, as discussed above, it did not adequately monitor some key areas of the contract. That included ensuring that (1) the State received the correct amount of sales revenue, (2) third-party license agreements included required provisions, and (3) My Plates complied with subcontracting reporting requirements.

Sales Revenue. While the Department monitored to ensure that the State received its share of revenue, it should strengthen its monitoring to ensure that the share the State received was the correct amount. In addition, the Department did not perform adequate monitoring to ensure that it received accurate auction sale information and auction sale revenue within required time frames.

- Revenue Allocation.** The Department should strengthen its monitoring to ensure that the license plate sales revenue was allocated correctly. The contract renewal defines the revenue share percentages between the State, My Plates, and cost recoveries. For each specialty license plate sale, the Department recovers an \$8 cost to manufacture the plate, and the State General Revenue Fund and My Plates each receives a percentage of the remaining revenue (see Figures 2 through 4 and Table 3 in Appendix 3 for additional information).

The Department asserts that it relies on coding it developed for the My Plates system, which is used to process specialty license plate sales, to automatically allocate the revenue associated with the sales (see text box and Figures 5 and 6 in Appendix 3 for more information). However, the Department did not perform periodic reviews of the sales transactions to ensure the revenue share allocations were correct and that the amounts were accurately recorded in its Registration and Titling System (RTS) and the State's Uniform Statewide Accounting System (USAS). Although auditors did not identify significant errors in the allocation of revenue between the State and My Plates, there is potential risk that the allocation coding is not working as intended, causing the sales revenue to be incorrectly allocated between the State and My Plates.

License Plate Revenue Allocations

When a customer purchases a specialty license plate through the My Plates system, the My Plates system sends the transaction to the State's payment system (Texas.gov), where the customer enters payment information. Based on the coding within the My Plates system, the financial information from the transaction is sent from Texas.gov to the State's Uniform Statewide Accounting System (USAS). The My Plates system also sends the sales transaction information to the Department's Registration and Titling System (RTS). The RTS data shows the individual payment amount, cost recovery amount, State General Revenue share, and My Plates' share for each license plate sale. The USAS data shows the total cost recovery, State General Revenue share, and My Plates' share amounts for all license plate sales made that day (not at a transactional level).

Sources: Information provided by the Department and data from USAS.

- Auction Revenue.** The Department did not verify information from My Plates to ensure that auction sales revenue was accurate and was deposited within 72 hours as required. My Plates contracted with another vendor to operate the license plate auctions conducted during the contract period and to collect the sales proceeds. This vendor deposits those funds directly into a bank account controlled by My Plates. The contract renewal requires My Plates to submit the State's portion of the revenue to the Department within 72 hours of receipt.

During the contract renewal period, My Plates conducted 12 auctions, for which it reported total sales of \$268,149. My Plates provided auction results to the Department for all 12 auctions; however, the documentation was not always adequate to provide the Department with needed information to ensure compliance with the contract. Specifically, for 9 of the 12 auctions, My Plates did not provide the Department with independent information from the auction vendor; therefore, the

Department cannot verify the sales amount and the date the revenue was deposited. Without independent sources of information, the Department cannot ensure that it is receiving the correct amount of revenue within the required time frame.

Third-party License Agreements. The Department did not ensure that the third-party license agreements (license agreements) between My Plates and third parties contained all of the provisions that the My Plates contract requires (see text box for additional information). Auditors tested 5 of the 24 new license plate designs that the Department’s governing board reviewed and/or approved during the contract renewal period. While the Department ensured that My Plates had a valid license agreement in place for all five plate designs, it did not ensure that the five license agreements contained all of the required provisions. All five of the license agreements tested were missing one or more required provisions, which included requirements to transfer the rights, renewal options, or the description of how start-up costs are to be collected and refunded. In addition, two of the five license agreements had expired as of September 30, 2018, and were still available for sale as of November 9, 2018. Not having current license agreements with third parties regarding the use of their copyrighted material creates a risk that the third parties could bring legal action against the Department.

Third-party License Agreements

My Plates may contract to obtain for-profit rights to use intellectual property or other proprietary items of third parties, when creating specialty license plate designs. My Plates is required to submit the license agreements to the Department for approval as part of a proposed new license plate design application.

Source: The contract renewal audited.

Subcontractor Reporting Requirements. The Department did not ensure that My Plates complied with subcontracting reporting requirements through the life of the contract. My Plates stopped submitting *Progress Assessment Reports* in September 2017. Title 34, Texas Administrative Code, Section 20.285, and the contract with My Plates require the vendor to submit monthly compliance reports through the life of the contract. After auditors brought this issue to the Department’s attention, it coordinated with My Plates to submit the *Progress Assessment Reports* from October 2017 through September 2018. The *Progress Assessment Reports* showed that My Plates (1) did not list any subcontractors and (2) did not make any payments to subcontractors during that time frame.

Recommendations

The Department should:

- Perform a risk assessment to determine what areas to monitor and develop a monitoring plan.
- Ensure that license plate sales revenue is correctly allocated and recorded.
- Implement a process to enable the Department to confirm auction sales are accurate and revenues are submitted to the State within 72 hours as required.
- Ensure that My Plates includes all required provisions in its license agreements with third parties.
- Ensure that My Plates complies with the subcontracting reporting requirements related to the contract.

Management's Response

The Department agrees with the recommendations. The Department will take the following actions to ensure compliance with the current contract:

- *Conduct a risk assessment and develop a monitoring plan. The monitoring plan will be in place by May 31, 2019.*
- *Monitor license plate revenue to ensure it is appropriately allocated.*
- *Work with the vendor, My Plates, to obtain bank statements or other independent evidence documenting auction results and the date for which My Plates receives payment for auction commitments. The department will do so prior to My Plates conducting any additional auctions.*
- *Review all My Plates licensing agreements with third parties to ensure that the third-party agreements include all required provisions. This review is currently underway and the Department anticipates completion by August 31, 2019.*
- *Ensure My Plates complies with the subcontracting reporting requirements related to the contract through the end of the contract term, November 2019.*

Since the My Plates contract expires in November 2019, the Department has already begun planning on how to monitor the new Specialty License Plate contract. For the new Specialty License Plate contract, the Department will enhance the contract monitoring process to include a formalized contract monitoring plan based on a risk assessment and implement a post award

contract conference to ensure contractors are aware of all contract requirements, including subcontracting reporting requirements.

The draft Request for Proposal (RFP) for the Specialty License Plate contract has been modified to simplify the submission of auction proceeds and ensure compliance with third-party agreements. The RFP will require the selected vendor to use the Department's template for its license agreements with third parties to ensure that all required clauses are included in the license agreements. The RFP will also require the selected vendor to collect payment from winning auction bidders and submit their plate orders within seven calendar days of the completion of an auction, and require the vendor to make payment to the state the same day the vendor places the order for the license plates with the state. These modifications to payment collections are in response to the difficulty experienced under the current contract provisions. The Department anticipates the new contract, with the new requirements, to be in place by November 2019.

Responsible Parties: Interim General Counsel, Chief Financial Officer, and Vehicle Titles and Registration Division Director

The Department Adequately Performed Contract Planning, Procurement, Formation, and Oversight Activities for the Insight Contract, But It Should Ensure That It Consistently Reports Contracts as Required

The Department complied with most applicable requirements to plan, procure, form, and monitor the Insight Public Sector (Insight) contract. However, it should ensure that all provisions in the contract are consistent with the solicitation documents and the vendor submits all Historically Underutilized Business (HUB) subcontracting plans and reports as required. In addition, the Department should ensure that it consistently reports contracts to the Legislative Budget Board and on its Web site as required.

Chapter 2-A

The Department Adequately Performed Contract Planning, Procurement, Formation, and Oversight Activities for the Insight Contract

**Chapter 2-A
Rating:
Low²**

Contract Planning. The Department adequately performed planning activities, which included developing a detailed cost estimate and statement of work, and used the appropriate procurement method for solicitation as required by the *State of Texas Contract Management Guide* for the Insight contract.

Contract Procurement. The Department followed requirements in applicable statutes and the *State of Texas Contract Management Guide* to procure the Insight contract. Specifically, it properly advertised the solicitation, evaluated responses using the criteria published in the solicitation, and scored all proposal evaluations correctly. In addition, the Department selected the appropriate contractor based on its evaluation criteria. The Department ensured that key personnel involved in procuring the Insight contract signed nondisclosure and conflict of interest statements prior to contract approval.

Contract Formation. The Department included provisions required by the *State of Texas Contract Management Guide* in its contract with Insight; however, it should strengthen its processes to ensure that the terms of the contract are consistent with solicitation documents. There was a discrepancy between the language in the solicitation documents and the final contract related to Insight employee background checks. As a result, Insight did not provide the Department with certification that it had performed background checks on

² The risk related to the issues discussed in Chapter 2-A is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

its employees. This increases the risk that Insight employees without background checks could work on the project. The Department did not perform a review of the contract documents prior to contract execution, which could have detected the discrepancy.

Contract Monitoring. The Department adequately performed monitoring activities to enforce the terms of the Insight contract. That monitoring included verification of equipment installation and maintenance services, verification that vendor invoices were supported, and verification that Insight produced contract deliverables, such as a communication plan and project schedule. However, the Department should improve its processes to ensure that Insight complies with applicable HUB subcontractor reporting requirements.

The Department did not require Insight to submit an updated HUB subcontracting plan when required. Insight submitted with its proposal a HUB subcontracting plan that stated it did not plan to use subcontractors. During the course of the contract, Insight subcontracted work and submitted monthly *Progress Assessment Reports* to the Department. After auditors brought this issue to the Department's attention, it obtained an updated HUB subcontracting plan from Insight.

Title 34, Texas Administrative Code, Section 20.285 (34 TAC 20.285), requires contractors to submit an updated HUB subcontracting plan to the Department if the contractor decides to subcontract in a manner that is not consistent with the original HUB subcontracting plan. Additionally, 34 TAC 20.285 requires contractors to submit monthly reports to document their good-faith efforts to comply with their HUB subcontracting plan. As a result of not adequately monitoring Insight's subcontracting plan, the Department could not determine whether the vendor's subcontracting activities were in compliance with their HUB subcontracting plan.

Recommendations

The Department should:

- Review the contract prior to execution to ensure that contract terms are consistent with requirements in its solicitation documents.
- Implement a process to ensure that its contractors submit HUB subcontracting plans as required.

Management's Response

The Department agrees with the recommendations. The Department currently uses pre-approved templates for certain procurement documents (such as Request for Offers, Invitation for Bids, and Standard Terms and Conditions) that are periodically reviewed and approved by the Purchasing Section and the Office of General Counsel. On the Insight contract, staff in the business division added a condition to the Statement of Work, which was inconsistent with the language in the pre-approved template for the Request for Offers. Although the language was inconsistent, the Insight employees all passed criminal background checks before obtaining access to the Department's systems. In addition, Department employees escorted all Insight employees when accessing any Department or tax assessor-collector facilities.

The Purchasing Section, in consultation with the Office of General Counsel, will review the current procurement process to address the audit recommendation. In addition, the Purchasing Section, in accordance with best practices as recommended by the Comptroller's Statewide Procurement Division, will implement post-award contractor conferences for complex, high risk contracts to ensure all parties are aware of the requirements in the contract. The review will be completed by August 31, 2019.

In addition, the HUB Coordinator in the Purchasing Section has developed a tool to track submission of HUB subcontracting plans for procurements that require reports. In addition to implementing post award contract conferences to make contractors aware of HUB subcontracting reporting, the Department will strengthen its monitoring of contracts post award by including a review of HUB subcontracting. The post award contract conference process will be implemented by June 30, 2019.

Responsible Parties: Interim General Counsel and Chief Financial Officer

The Department Should Ensure That It Consistently Reports Contracts as Required

**Chapter 2-B
Rating:**

Medium ³

The Department did not consistently report contracts to the Legislative Budget Board (LBB) and on its Web site as required. The Department reported the Insight contract to the LBB and on its Web site; however, auditors identified other contracts that the Department did not report to the LBB and on its Web site. Specifically:

- For contracts on the Department's Web site that were effective after September 1, 2015, and valued at or more than \$1 million, the Department did not report 8 (50 percent) of 16 contracts to the LBB as required by Texas Government Code, Sections 2254.006 and 322.020, and in Article IX, Section 7.04, of the General Appropriations Acts (84th and 85th Legislatures).
- The Department did not ensure that the contracts listed in its accounting system and on its Web site were consistent. Auditors determined that the Department did not report on its Web site 434 (9 percent) from a list of 4,690 contracts within its accounting system as required by Texas Government Code, Section 2261.253(a).

As of December 4, 2018, the Department (1) reported all 8 contracts to the LBB and (2) updated its Web site to report 351 (81 percent) of the 434 contracts. Reporting its contracts to the LBB and on its Web site as required would help the Department increase the transparency of its contracting processes.

Recommendation

The Department should report its contracts to the LBB and on its Web site in accordance with statutory requirements.

Management's Response

The Department agrees with the recommendation. The Department is up to date on contract reporting to the Legislative Budget Board (LBB) contract system and on the Department's public facing website. The Purchasing Section will update the LBB contract system and Department's public facing website on a monthly basis to ensure that contracts are reported as statutorily required. In addition, the Department will utilize the CAPPs

³ The risk related to the issues discussed in Chapter 2-B is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Financial System to maximize contract reporting. The Department will have its process updated by June 30, 2019.

Responsible Party: Chief Financial Officer

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Department of Motor Vehicles (Department) has administered certain contract management functions for selected contracts in accordance with applicable requirements.

Scope

The scope of this audit covered the Department's selected processes for the following two contracts through August 31, 2018:

- Oversight related to the contract renewal with License Plates of Texas, LLC, doing business as My Plates (My Plates) for the design, sale, and marketing of specialty license plates. This contract was originally procured in 2009 by the Department of Transportation and was renewed under the Department on November 19, 2014.
- Planning, procurement, formation, and oversight related to the contract with Insight Public Sector (Insight) for the 2016 Registration and Titling System County Equipment Refresh Project, which was effective July 26, 2016.

Methodology

The audit methodology included collecting and reviewing documentation for the Department's contracts with Insight and My Plates including conducting interviews with Department staff; reviewing applicable statutes, rules, and Department policies and procedures; and performing selected tests and procedures.

Data Reliability and Completeness

Auditors used revenue and expenditure information in the Uniform Statewide Accounting System (USAS) for both contracts. Auditors tested user access controls and relied on previous State Auditor's Office audit work. Auditors determined that the USAS data was sufficiently reliable for the purposes of this audit.

For the Insight contract, auditors compared the expenditure data in USAS to data in the Department's Centralized Accounting and Payroll/Personnel System (CAPPS) to determine completeness of the invoice payment

population. Auditors determined that the invoice payment data in USAS was sufficiently reliable for purposes of the audit.

Auditors also reviewed contract listings from the Department's CAPPs purchasing module. Auditors' procedures to review the contract listings for completeness included observing the data extraction and comparing the data to contracts listed on the Department's Web site and the Legislative Budget Board's database. Auditors identified discrepancies among the contract listings in CAPPs, the Department's Web site, and the Legislative Budget Board's database (see Chapter 2-B for further information).

Sampling Methodology

Auditors selected non-statistical samples of (1) new license plate sales made through My Plates' Web site and (2) separate samples of payment invoices for installation and maintenance of equipment procured through the Insight contract. Those samples were selected primarily through random selection. Auditors also selected a risk-based sample of new specialty license plate designs approved by the Department's governing board and additional risk-based samples of installation invoices and new license plates sales.

Additionally, auditors selected a risk-based sample of weekly status reports from the Insight contract.

The sample items above were not necessarily representative of the populations; therefore, it would not be appropriate to project the test results to the populations.

Information collected and reviewed included the following:

- Department policies and procedures.
- The Department's contract with Insight and its contract renewal with My Plates.
- Department revenue data from USAS, the Department's Registration and Titling System (RTS), and My Plates' system reports.
- Department expenditure data from USAS and CAPPs.
- Department expenditure supporting documentation.
- User access documentation for both USAS and CAPPs.
- Historically Underutilized Business (HUB) subcontracting plans and *Progress Assessment Reports* for both contracts audited.
- Listings of the Department's contracts in CAPPs, the Department's Web site, and the Legislative Budget Board's database.

Procedures and tests conducted included the following:

- Interviewed Department staff to identify the Department’s financial and operational processes for contracting, including financial and administrative internal controls and the information systems that support those processes.
- Tested a sample of new license plate sales through My Plates to determine whether the Department allocated the revenue in accordance with the contract and the vendor complied with contractual sales requirements.
- Performed calculations to determine whether My Plates met its minimum revenue guarantee to the State’s General Revenue Fund.
- Tested samples of payments to Insight to determine whether (1) the Department monitored the vendor’s performance and (2) payments were supported and made after verification of services received.
- Verified that the Department (1) limited access to its accounting systems to personnel whose job duties required such access and (2) ensured appropriate segregation of duties.
- Tested a sample of vendor new plate designs to determine whether the Department ensured that My Plates complied with contractual requirements, including whether My Plates had third-party license agreements when required.
- Determined whether the Department monitored its vendors’ compliance with the HUB subcontracting plans and with HUB reporting requirements for the two contracts audited.
- Determined whether the Department reported its contracts to the Legislative Budget Board’s database and on its Web site as required.

Criteria used included the following:

- The General Appropriations Acts (84th and 85th Legislatures).
- Texas Government Code, Chapters 322, 2161, 2251, 2254, and 2261.
- Title 34, Texas Administrative Code, Chapter 20.
- *State of Texas Contract Management Guide* (version 1.13, September 2014, and version 1.15, March 2016).⁴
- The Department’s contract with Insight.
- The Department’s contract renewal with My Plates.

⁴ These guides were in effect during the planning, procurement, formation, and oversight of the contracts audited for this report. *The State of Texas Contract Management Guide* was updated and released as the *State of Texas Procurement and Contract Management Guide* (version 1.1, August 2018).

- The Department's policies and procedures.

Project Information

Audit fieldwork was conducted from July 2018 through January 2019. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Jennifer Lehman, MBA, CIA, CFE, CGAP (Project Manager)
- Gregory Scott Adams, CPA, MPA, CGFM (Assistant Project Manager)
- Jennifer Fries, MS
- Mike Gieringer, CFE
- Benjamin Hikida
- Minh Trang
- George D. Eure, CPA (Quality Control Reviewer)
- Becky Beachy, CIA, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

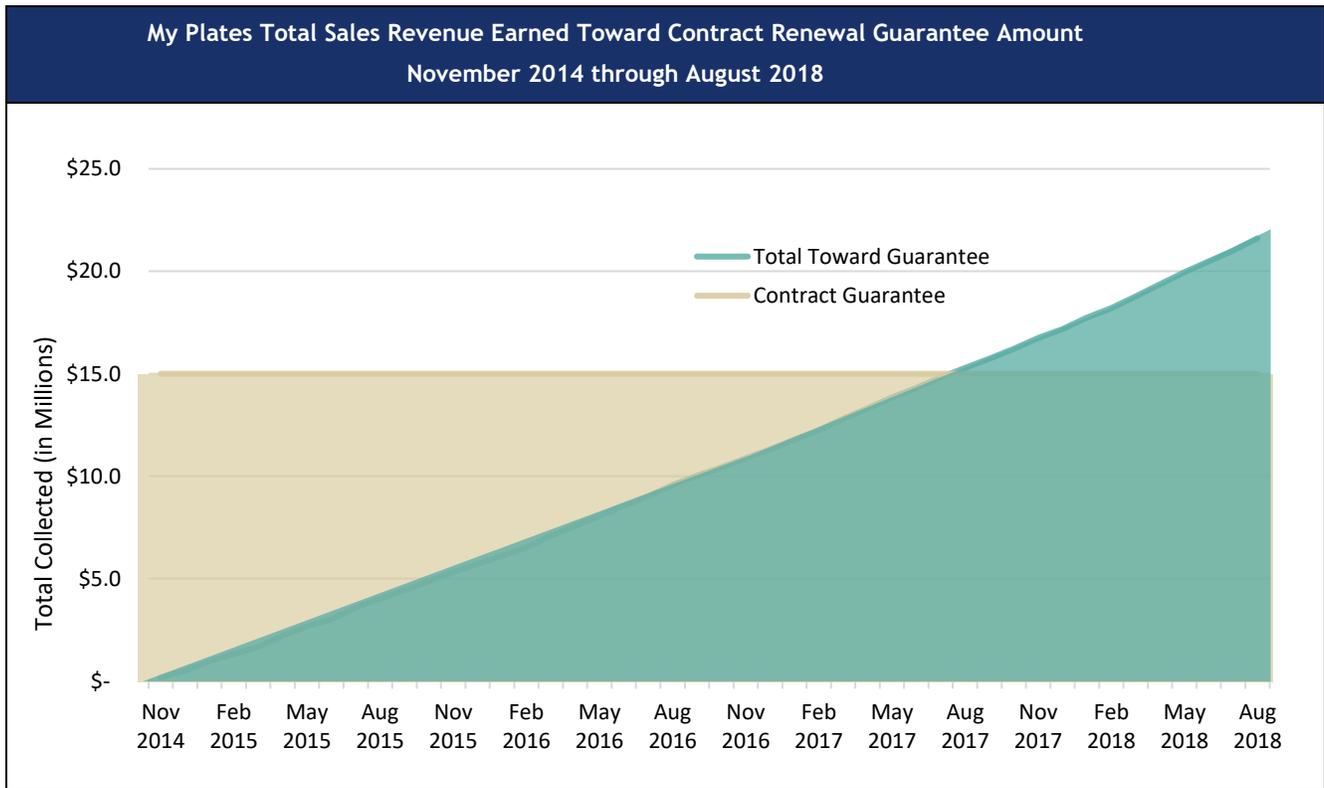
Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Revenue from the Contract Renewal with My Plates

Sales Revenue toward Contract Renewal Guarantee Amount

Figure 1 shows the total sales revenue to the State’s General Revenue Fund that License Plates of Texas, LLC, doing business as My Plates (My Plates) had earned toward the contract renewal guarantee of \$15 million between November 2014 and August 2018. According to information provided by the Department of Motor Vehicles (Department), My Plates met the \$15 million guarantee requirement in August 2017.

Figure 1



Source: The State Auditor’s Office created this figure based on unaudited license plate sales revenue data provided by the Department.

Division of Revenue from the Sale of Specialty License Plates through the My Plates Contract Renewal

The contract renewal specifies how the revenue from the sale and renewal of specialty license plates offered through the contract is divided between the State and My Plates. The Department receives \$8 to recover its manufacturing cost for each year covered by the license plate. Table 3 shows the division of revenue after the \$8 cost recovery.

Table 3

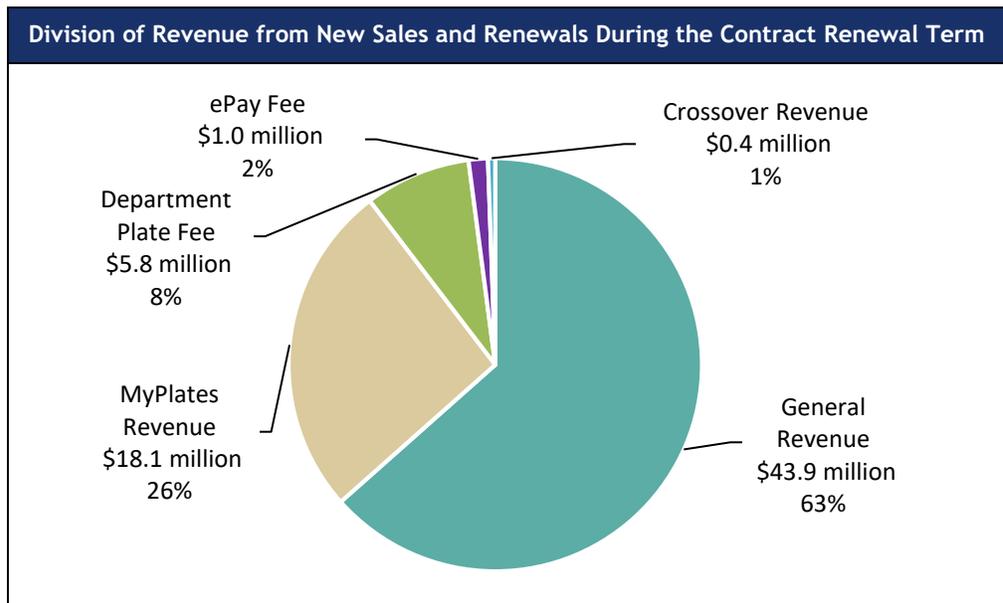
Division of Specialty License Plate Revenue		
Plate Term	Percent to State's General Revenue Fund	Percent to Vendor
1 year	40 percent	60 percent
2 - 5 years	60 percent	40 percent
Plates Purchased through Auction (5 years)	60 percent	40 percent
Renewals of Existing Plates	95 percent	5 percent

Source: The Department's contract renewal with My Plates.

Revenue Division (New Plate Sales, Renewals, and Both)

Figure 2 shows the division of all specialty license plate sales revenue among the State's General Revenue Fund, My Plates, the Department's \$8 cost recovery, and credit card processing fee (ePay Fee) from November 2014 through August 2018. The credit card processing fee charged for new license plate sales is paid from My Plates' share of the revenue. Crossover license plates are specialty license plates previously authorized by statute for which the sponsoring organization has entered into an agreement with My Plates for the inclusion of the plate in the program.

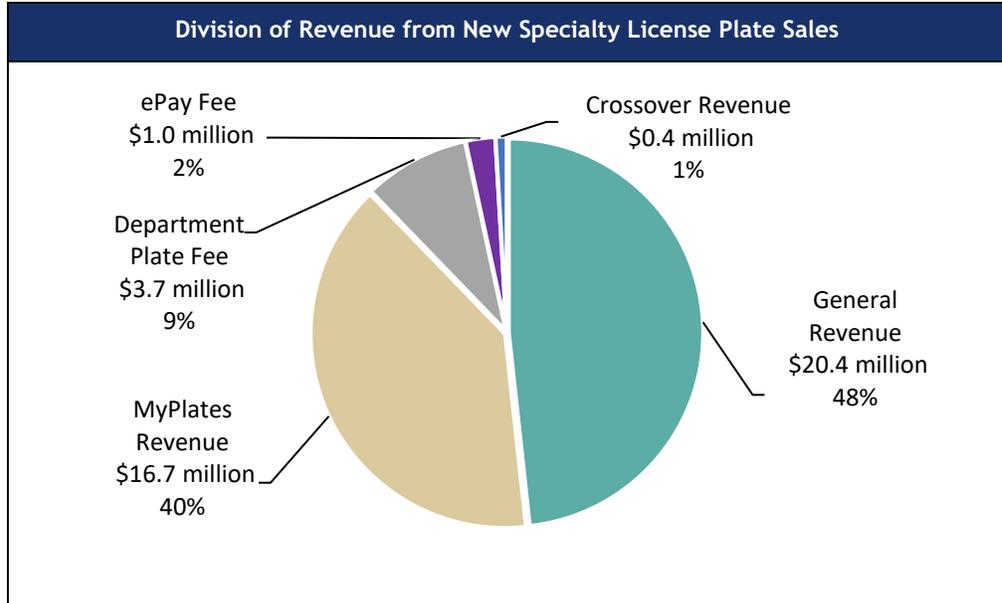
Figure 2



Source: The State Auditor's Office created this figure based on unaudited license plate sales revenue data provided by the Department.

Figure 3 shows the division of new license plate sales revenue among the State’s General Revenue Fund, My Plates, the Department’s \$8 cost recovery, and credit card processing fee (ePay Fee) from November 2014 through August 2018.

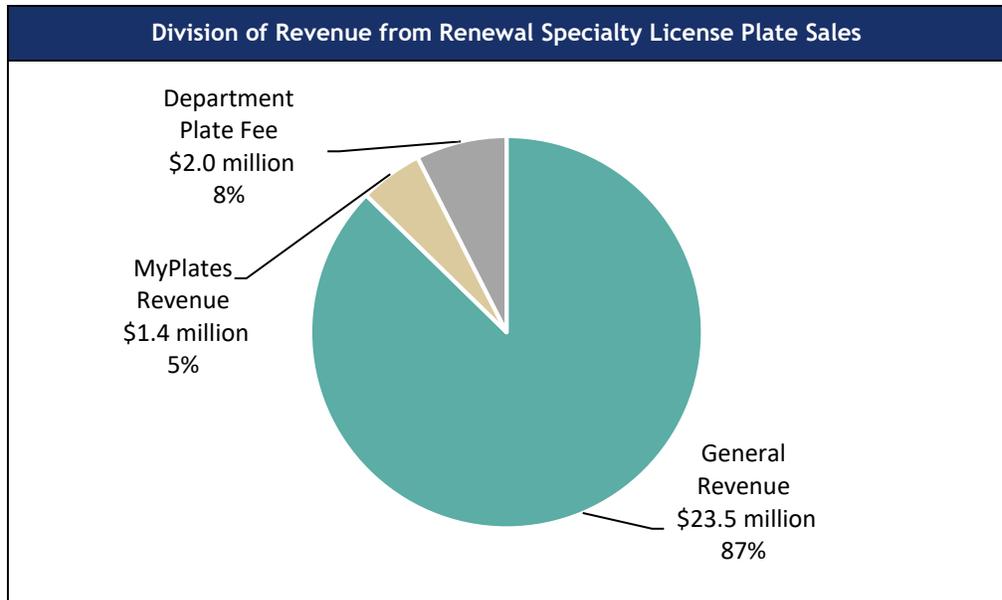
Figure 3



Source: The State Auditor’s Office created this figure based on unaudited license plate sales revenue data provided by the Department.

Figure 4 shows the division of license plate renewal revenue among the State’s General Revenue Fund, My Plates, and the Department’s \$8 cost recovery from November 2014 through August 2018.

Figure 4



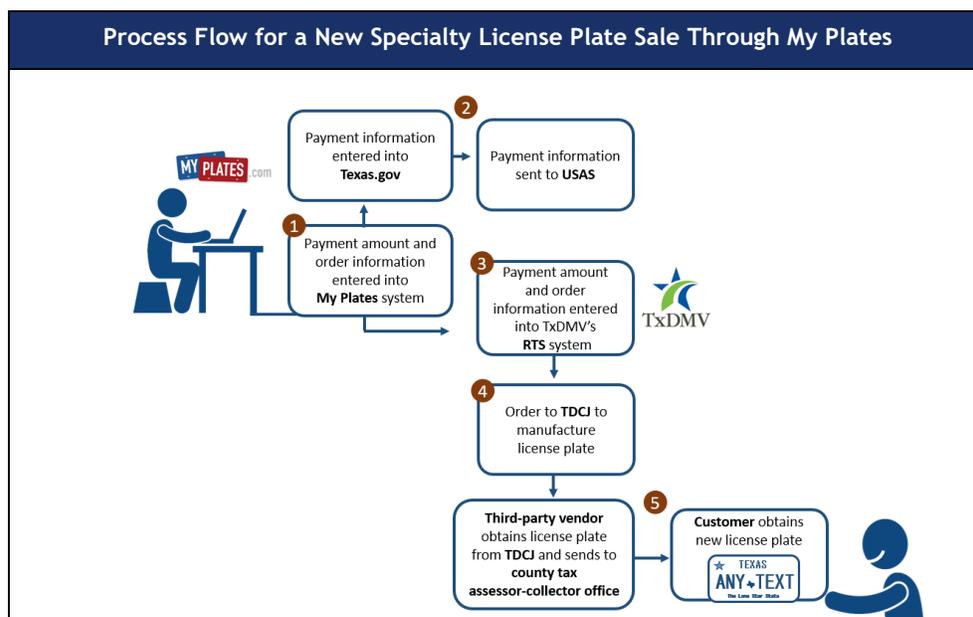
Source: The State Auditor’s Office created this figure based on unaudited license plate sales revenue data provided by the Department.

Process Flow for a New Specialty License Plate Sale Through My Plates

Figure 5 shows the process flow for a new specialty license plate sale:

- 1 A customer purchases the license plate online through the My Plates Web site.
- 2 My Plates' Web site captures the order and customer information. The customer is redirected to the Texas.gov Web site to enter payment information. Payment information is sent from Texas.gov to the Uniform Statewide Accounting System (USAS).
- 3 The transaction (less the credit card information) is recorded in My Plates' system and downloaded into the Department's Registration and Titling System (RTS). (The Department receives sales transaction information from My Plates and RTS, and the revenue receipt information is available in USAS.)
- 4 The Texas Department of Criminal Justice (TDCJ) manufactures the license plate.
- 5 The Department contracts with a third-party vendor to obtain the license plate from TDCJ and ship the plate to the county tax assessor-collector office. The customer picks up the license plate from the county tax assessor-collector office.

Figure 5



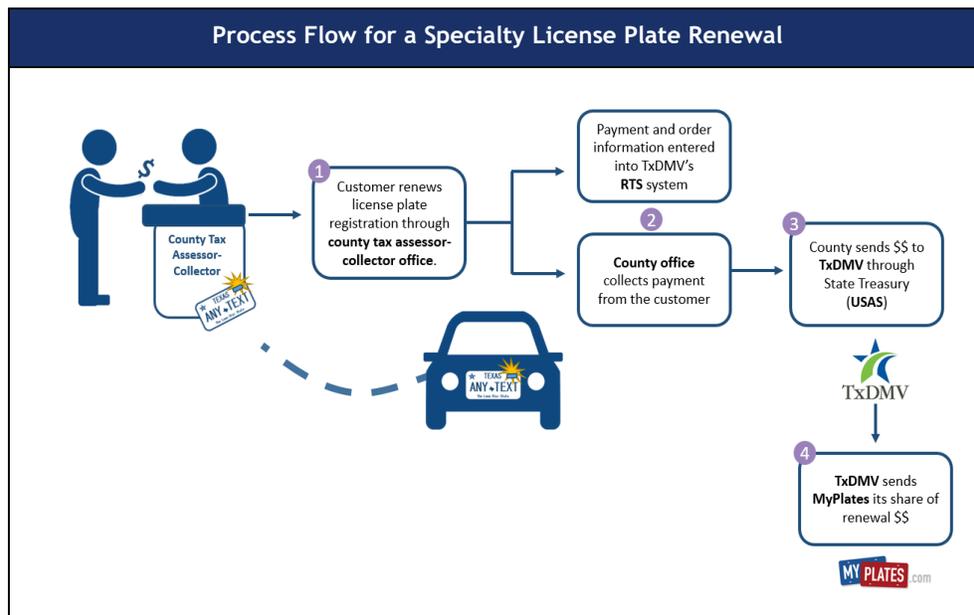
Source: The State Auditor's Office created this figure based on information from the Department.

Process Flow for a Specialty License Plate Renewal

Figure 6 shows the process flow for a specialty license plate renewal:

- 1 A customer renews a specialty license plate through a county tax assessor-collector office.
- 2 The county tax assessor-collector office collects payment from the customer and updates RTS.
- 3 The county tax assessor-collector offices send the renewal payments to the Department through the State Treasury (USAS).
- 4 The Department sends payment to My Plates for its share of the renewal revenue.

Figure 6



Source: The State Auditor's Office created this figure based on information from the Department.

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