

**DEPARTMENT OF INFORMATION RESOURCES
OPEN BOARD MEETING**

Thursday, June 4, 2015, 9:30 a.m.

300 West 15th Street, Clements Building, Room 103 Austin, Texas 78701

MINUTES

PRESENT Charles Bacarisse (Board Chair)
Richard Moore
Phillip Keith Morrow
Robert Pickering
Arthur Troilo
Darran Anderson, ex-officio
Bowden Hight, ex-officio
David Mattax, ex-officio

ACTION *Mr. Bacarisse* called the meeting to order at 9:30 a.m. with a quorum present.

TOPIC **2. Consider approval of meeting minutes from the April 22, 2015, DIR Board Meeting**

MOTION A motion was made to approve the previous meeting minutes by *Mr. Morrow* and seconded by *Mr. Pickering*.

ACTION The minutes were unanimously approved.

TOPIC **3. Interim Executive Director’s Report on Agency Performance**

Mr. Todd Kimbriel, Interim Executive Director, began his report with an update on the 84th Regular Legislative session. Monday, June 1, was the last day of the session. At the beginning, the session appeared to be full of challenges and uncertainty with how DIR would fare. Until June 21, we will not have a complete view of what will be (or will not be) signed into law. Mr. Kimbriel said that he is comfortable saying that the DIR team worked hard throughout this session to ensure that when the dust settles, we could report this as a successful session. The broadest view of current legislative activity is that DIR will be expanding the scope of programs that we offer to our customers; we will begin offering new elements of service that we have not previously offered, and we will be responsible for increased oversight. Last fall, we produced, and you approved, the Biennial Performance Report (BPR). This report carried 11 different recommendations for legislative action. 9 of those recommendations were carried forward by various legislators.

Mr. Kimbriel provided a status update on bills. Only one (HB 2995) failed to move to the Governor for signature. This bill was related to proposed workforce benefits that allowed paid compensatory time for technology workers. Bills that are in the Governor’s office but not yet signed are: HB 1890-the Legacy Study bill, including 4 recommendations; HB 1912-requires DIR to create a Statewide Data Coordinator position; HB 2000-allows pseudo agencies (like ERCOT or LCRA) to use cooperative contracts; SB 1032-provides broader flexibility in support of state employees to work from alternate work locations and greater schedule flexibility in support of increasing telework adoption, and HB 1-includes a rider in this budget bill to allow DIR to continue the successful bulk purchase program.

SB 20 was the major contracting bill to make it to the Governor's office. This bill primarily focuses on ethics and transparency in contracting statewide. As it pertains to DIR, the bill creates new \$1M limits for cooperative contract purchases by state agencies, but excludes from the cap voluntary customers of this program such as higher education and local governments. This bill requires DIR to review and sign agency statements of work (SOWs) to confirm the purchase being contemplated by the agency is appropriate for the master contract under which it is being awarded. SB 20 also requires agencies to issue a minimum number of bids, based on purchase amount, when using cooperative contract master contracts. Mr. Kimbriel said that the DIR team is already working on planned process changes, and we expect to be ready with new procedures communicated before the bill becomes effective. This will allow customer agencies time to adjust their own procedures. Mr. Kimbriel noted that these legislative initiatives will keep us busy this summer as most have an effective implementation date of September 1.

Mr. Kimbriel continued his report with a review of the agenda. He explained that Edward Maldonado would present for Internal Audit, as Lissette Nadal-Hogan was out of town. Also, Deborah Hujar would present the first report for our recently created Chief Technology Office as John Hoffman was out of town, too.

Mr. Kimbriel introduced new employees to DIR.

Mr. Bacarisse said that each legislative session is unique. This one fit that category. He thanked the staff of DIR, from Todd, Priscilla, Amy, and Grace, that was responding to the legislature and the media during this time. They conducted themselves with much professionalism in the midst of some challenging situations. He told Todd that he was proud of him and the team for the way that they managed themselves and keeping their eyes on the business of the agency, while also being exceptionally accommodating to the public, press, and the legislature. Mr. Kimbriel thanked Mr. Bacarisse, and said that it is a great team.

TOPIC

4. Finance Update

DISCUSSION

Mr. Nick Villalpando, Chief Financial Officer, shared a finance update. He noted that the agenda was jam-packed, and he would try to keep his comments brief.

The first item reviewed was budget status as of February 28, 2015. The first section discussed was regarding cooperative contracts: the YTD revenue of \$6.3M is approximately \$425K below budget; currently forecasting total revenue of \$13.8M for FY15, or \$1M below budget; taken action to reduce \$1.1M in operating expense budget as a result of reduced revenue forecast. He mentioned that he would present two action items, one to reduce our revenue budget and another to reduce operating expenses. The second section Mr. Villalpando discussed was communications technology services: the total forecasted operating revenue of \$14M is on target with budget; the total forecasted operating expenses of \$13.3M are trending slightly under budget by \$600K, or 4.5%. The third section discussed was data center services: the total forecasted operating revenue of \$5.4M and total operating expenses of \$5.1M are trending within budget. He said that they key take-away from today's discussion is centered on cooperative contracts and the volume and trends that we are seeing and what we are doing to compensate for those reductions in revenue.

The next item Mr. Villalpando reviewed was the operating results (as of February 28, 2015). Based on YTD actual activity, our forecast for Q3-Q4, and our projections, he explained that we are forecasting about \$2.6M in net revenue, or revenues exceeding our operating

expenses. Based on the actions that we are taking, we anticipate ending the year with a positive net revenue position. That will be important for us as we look at our forecasted year-end fund balance amounts. As discussed in prior Board meetings, we do have the ability to carry forward our balances over year to year. We are limited on what we can carry forward. However, given what we are seeing in cooperative contracts and looking at some revisions that may need to be made over the summer as we prepare to bring forward to the Board our operating budget for next year, we will have some beginning balances that will assist in smoothing over any transitions that we are seeing in that particular program and with the sales and purchasing volumes that we are seeing from our customers there. This statement highlights our beginning balance once we add our forecasted net revenue and where we forecast by the end of FY15. We will be within our fund balance maximums and will provide for initial funding source for the beginning of FY16.

Mr. Villalpando presented two budget amendments for consideration and approval:

Amendment 1 – Reduce Operating Budget: reduce clearing fund revenue by \$1.1M; reduce clearing fund operating expenses – professional fees by \$1.1. This amendment reduced revenue and operating expenses due to a decrease in cooperative contracts volumes by state agency customers.

Amendment 2 – Reclassifications Purposes only: increase CCTS cost of services by \$1.2M; reduce TEX-AN cost of services by \$1.2M. This amendment reclassified enterprise-related infrastructure expenses.

MOTION

A motion was made to approve both amendments by *Mr. Pickering*, then seconded by *Mr. Morrow*.

Mr. Mattax asked why we were \$1.1M below for cooperative contracts. It seemed like a significant drop from what we anticipated. He asked for Mr. Villalpando's thoughts.

Mr. Villalpando explained that the budget had been set at a 10% volume increase. Through February, our purchase volume was up by approximately 9%, so we were running behind budget through February. As you carry that forward into April, the trend continues with our budget, and our volume has not kept up with that. As best we can tell, the negative variance is coming from the state agency customer segment; for example, from FY12-13, state agency purchases increased by 8%; growth from FY13-14 was 21%. YTD state agencies alone is actually negative. As we look month over month, based on the events that started to occur in December and January, with respect to legislative action working its way through the program, customers may look at reducing purchases. Mr. Villalpando said that it may make an impact it to early spring.

Mr. Mattax said we have a new bill, a new regime, but he is not sure how easy it will be to budget for next year.

Mr. Villalpando answered that in working on FY16 budget, we are analyzing those trends as best we can and trying to gain additional insight as to what our customers will be doing. The fund balance will help offset potential variances.

Mr. Mattax asked with the reduction, how is that impacting your operations?

Mr. Villalpando explained that we are making those adjustments to the cooperative contracts program, as the revenue from that program covers several programs agency-wide. This year, we had budgeted to reprocure one of our major contracts for Texas.gov. Some of the revenue from this program will assist with any reprocurement costs. In

December, the contract was extended. We looked to the segments that are being funded through that program. We looked across the agency.

Mr. Moore told the Board that he spent time with Nick reviewing these changes, and what is outlined here are excellent ideas and will not cause major issues with agency operations, so he certainly supported the amendments.

Mr. Pickering mentioned being curious about if over time this will improve, become a downward trends, or something we can correct.

Mr. Villalpando answered that it could mean implementing what the legislature has required and as seeing how customers adjust their processes to the new requirements. Anything over \$1M will not be procured from this program. We will have to adjust to that in terms of our operating expenses and what DIR can accomplish in keeping costs down.

Mr. Moore asked about the trends with institutions of higher education and local governments. He also asked about our pilot project with the State of Oklahoma.

Mr. Villalpando explained within K-12 and higher education, we are seeing good numbers. Local government has flattened out. We will be examining these trends with all of our customers. With regards to Oklahoma, Mr. Villalpando said that we are evaluating that program and looking to extend the project, as it matures.

Mr. Troilo asked if he understood Mr. Villalpando to say that revenue projection is part of revenue growth number, so could he address the negative variance. Secondly, Mr. Troilo asked if this will have an impact on our FTE.

Mr. Villalpando explained that our budget anticipated 10% growth. We are still seeing growth (it is at 9%). From FY13 to FY14, we saw about 15% in growth. What has occurred in Dec-Jan-Feb could have had an impact. Summer activity is usually higher, and we will be looking at it. We are seeing the growth, just not what we had budgeted at it. With respect to FTE, we absorbed that impact this year based on some activity and subsequent events without having an impact. We are a cost-recovery agency. One of the key principles is having a fund balance to carry over to handle peaks and valleys. As we look, it's a balance in terms of fees that we charge and what it takes to run the agency. Certainly, we have to look at all of our expenses and what is absolutely necessary. Personnel costs and professional fees are part of the discussion. Mr. Villalpando said that he is optimistic at how we handle our personnel costs. We typically run under budget, so he thinks that we have a good track record to manage within those limits.

ACTION The motion was unanimously approved.

TOPIC **5. Internal Audit Update**

DISCUSSION Edward Maldonado, Senior Auditor, gave an Internal Audit update on behalf of Lissette Nadal-Hogan, Director of Internal Audit.

Mr. Maldonado provided a status overview on internal audit activities as of February 28, 2015. The last three items have been completed. The first item, having an estimated date of completion of May 2015 is expected to be completed later in June or early July.

There has been a reduction in staff within internal audit. Therefore, we will continue to work with executive management and the finance and audit subcommittee to evaluate the internal audit plan for the remainder of FY15.

Mr. Maldonado presented two DIR internal audit reports for the Board's consideration and approval:

DIR Internal Audit Report 15.301.1: Follow-up Audit on the SAO Report 14-007, Technology Sourcing Office and Contracts and Vendor Management

DIR Internal Audit Report 15-301.2: Follow-up Audit on the SAO Report 12-004, Technology Sourcing Office and Contracts and Vendor Management

Both SAO audits, which were 12-004 and 14-007, were audits of the cooperative contracts program. The focus of the findings and recommendations were on vendor sales reports and administrative fees. Combined, a total of 53 recommendations were issued as a result of these audits. Mr. Maldonado verified that 32 recommendations were fully implemented, 12 were substantially implemented, and 9 recommendations are incomplete and/or ongoing. We have worked with management from the respective divisions for those recommendations that were or substantially implemented and/or ongoing to identify new implementation dates ranging from July 2015 through early February 2016. At that point, we will conduct further testing until all recommendations from these audits have been verified as fully implemented. On behalf of the division, Mr. Maldonado commended the efforts of the Technology Sourcing Office, Chief Financial Office, Digital Government Office, and all DIR offices that worked to implement these recommendations in these audits. Mr. Maldonado said that we made a lot of progress; there is still some work to be done, but overall, we are very impressed.

Mr. Moore commented that he worked with Lissette and Edward on these audits that the Board will approve. The agency has made great headway in this. The longest item to be implemented will be a sophisticated information system.

MOTION A motion was made to approve both amendments by *Mr. Moore*, then seconded by *Mr. Pickering*.

ACTION The motion was unanimously approved.

TOPIC **6. Texas Administrative Code (TAC)**

DISCUSSION Mr. Martin Zelinsky, General Counsel, presented four notices of rule review for publishing in the *Texas Register*, for Board consideration and approval.

- 1) 1 Texas Administrative Code, Chapter 209, concerning Minimum Standards for Meetings Held by Videoconference
- 2) 1 Texas Administrative Code, Chapter 210, concerning State Electronic Internet Portal
- 3) 1 Texas Administrative Code, Chapter 212, concerning Purchases of Commodity Items
- 4) 1 Texas Administrative Code, Chapter 217, concerning Procurement of Information Resources

Mr. Zelinsky noted that 1 Texas Administrative Code, Chapter 212 would be reviewed and amended due to the various pieces of legislation passed involving the cooperative contracts program. We have already started the review. It is our intent to present proposed rules at the August meeting, as some of that legislation becomes effective September 1. We will be working with our sister agencies to get their input on the drafting of the rule as we normally do. Again, this one will be a high-profile stakeholder engagement.

MOTION A motion was made to approve all four notices of rule review by *Mr. Troilo*, then seconded by *Mr. Pickering*.

DISCUSSION *Mr. Troilo asked if DIR had heard anything or had any interaction with the United Nations ICR, an organization responsible for coordination of telecommunications worldwide. Our standards meet or exceed radio, satellite, data, and other types of sophisticated telecommunications. Mr. Troilo that the organization had celebrated its 150th anniversary. They are more of a worldwide think-tank. He wondered whether we had ever received any comments, input or feedback on our definitions or coordinations.*

Mr. Zelinsky answered that to his knowledge, there had been no communication or feedback with this organization. He also explained that he was familiar with the organization. There had been no communication regarding 1 TAC 209, the chapter on videoconferencing. We may have had some input in our communications technology rules, but Mr. Zelinsky did not recall any. He thought that Mr. Troilo would find what he was looking for under 1 TAC 209, Section 209.10, where we reference the International Telecommunications Union, which is the international body which sets standards for international telecommunications. For example, when making a call to Europe, our telecommunications equipment will work with European telecommunications equipment. Some of those standards are set by international bodies. We review their standards, and they tend to evolve over time. Like everything else in technology, it is getting better, faster.

Mr. Troilo confirmed that we were in-sync and not experiencing any complaints or problems with their systems. On occasion, we do need videoconference around the globe.

Mr. Zelinsky said that it may have been a problem many years ago when videoconferencing was in its infancy. The only question that he tends to receive is regarding which provider to use. There are plenty of providers who have videoconferencing equipment and services. The standards to which we would have to adhere would be that the meetings were audible or visible to the audience that is viewing the meeting activities. Whatever standards you have do not allow for any significant lag or jittery pixilation of the video, things like that.

Mr. Mattax asked what the thought was on the timing for the rules. This is a little more than a rule review. The statute will become effective on September 1. Mr. Mattax said that it was unlikely to propose rules this summer and have them done by September 1. He wanted to understand how the transition is going to work.

Mr. Zelinsky said that he was sure he was referring to 1 TAC 212 and SB 20, and associated legislation with it. It would be an immense amount of effort and timing and would require off-cycle board meetings to be able to have a rule adopted by September 1. Given that we have a required review with the Information Technology Council of Higher Education (ITCHE) for between 30-90 days, we will try to compress this process. This review impacts the timing and drafting itself. Mr. Zelinsky said that it was his presumption that we will try to have a solid set of proposed rules by the August meeting. In addition, we can provide guidance to our customers as we intend to operate under these rules on September 1, contingent on final adoption. Agencies will need to know how to make a purchase on September 2, under our cooperative contracts program with the new legislation that we have. Things like the proposed \$1M cap and the requirement to seek multiple pricing requests, depending on the various thresholds will be included in the rule.

Mr. Mattax confirmed that a rule will not be formally adopted, but a draft would be available by September 1, to provide guidance.

Mr. Zelinsky affirmed this was correct. Given the timeline with publishing in the *Texas Register*, we will communicate this information through the various lists to your procurement officials, chief information officers, and people who have a need-to-know that information. We will also be developing our internal procedures and processes to be able to deal with this, particularly the sign-off on the statements of work (SOWs). There is a lot of internal work to be done.

Mr. Hight said seeing how the agencies will have the draft rules by September 1, he wondered if there would be any pull back since agencies would have to react internally and develop their own processes and procedures to adhere to the new draft rules.

Mr. Zelinsky said that we would have pretty solid, draft rules prior to September 1, to present at the August meeting. Frankly, what we send to ITCHE is a final draft, subject to their input as to the impact on higher education. If you look at our rule chapters, there is a sub-chapter for state agencies and a sub-chapter for institutions of higher education. ITCHE may find something or have an idea that we apply to state agencies. Our timeline is in place to have some solid proposed rules by mid-summer.

Mr. Moore asked if institutions of higher education were exempt from the new statutory changes to all agencies.

Mr. Zelinsky said that an analysis is presently being conducted. He does not know the answer right now. SB 20 was drafted and applies to state agencies. Generally, state agencies include higher education, but not always in the cooperative contracts program. They are a voluntary customer, rather than a mandated customer. Right now, this open question is high on the list to resolve.

ACTION The motion was unanimously approved.

TOPIC **7. Digital Government**

DISCUSSION Ms. Janet Gilmore, Director of Digital Government, gave an update on digital government. She introduced Ms. Jennifer Buaas, Program Manager, Texas.gov, who gave an update on Texas.gov.

Ms. Gilmore explained that the Office of Digital Government handles IT services and the information security/continuity of operations functions, in addition to Texas.gov. In April, the agency lost its Information Security/CO-OP Coordinator, Ken Palmquist, after a short illness. He was valued, dedicated, and committed to our agency.

Ms. Gilmore presented Q2 transaction and revenue trends for the past 4 years. Texas.gov revenue is approximately \$3M below last year and state share is roughly \$1.8M below last year for the same quarter. This drop in revenue is due primarily to the loss of 2 programs, eFiling and TexasSmartBuy, that have transitioned to their respective agencies, the Office of Court Administration, and the Comptroller of Public Accounts. The previous 3 year program revenue, without these programs, normalizes across the years and shows that the revenue is roughly flat across Q2. At the same time, we are processing more transactions, roughly \$0.2M more transactions processed over last year's Q2. Ms. Gilmore presented one of our most important service levels, application reliability or uptime for the applications that are through Texas.gov for rolling 13 months up through the 3-months of FY15 Q2.

Texas.gov currently provides about 90 distinct applications. The target reliability SLA for Q2 of FY15 was 99.8% for about half of the applications and 99.9% for the other half. For December and February, 100% of the applications met their targets. For January, 98% met their targets. Only two applications missed their target, driver license renewal and address change. 99.87% is what they achieved.

Jennifer Buaas gave an update on the Texas.gov program highlights. As a result of HB 2305, the state of Texas no longer issues inspection stickers, transitioning to a single sticker. The Texas.gov program, in collaboration with Texas Department of Public Safety (DPS), provides the vehicle inspection system and was required to change code to accommodate the new business process. Through a large effort by DPS, Texas Department of Motor Vehicles (DMV), Texas Commission on Environmental Quality (TCEQ), and Texas.gov, the new system launched in March 2015. Specifically, Texas.gov was responsible for the implementation of the inspection receipt printing process. The program coordinated receipt-printing capability to over 6000 stations across the state. DPS has been extremely pleased. Ms. Buaas also highlighted progress on the Texas.gov portal. It is the first one-page portal. The new "Find It" search functionality enables users to "find it their way" by searching in a style that is most comfortable for them. We have received most positive feedback thus far and look forward to hearing more from our constituents.

TOPIC **12. Technology Sourcing Office Update**

DISCUSSION Ms. Grace Windbigler, Director, Technology Sourcing Office, provided an update.

Ms. Windbigler presented the first action item for Board consideration and approval:

Consider approval of amendment for interlocal procurement agreement with Oklahoma Office of Management and Enterprise Services, Information Services Division (OMES-ISD), on behalf of the State of Oklahoma.

The Board approved a one-year pilot with the option to extend on June 4, 2014. This agreement established our cooperative contracts program as a preferred source for purchasing IT goods and services. We have had some additional discussions with OMES-ISD, and they have worked diligently on the adoption process for using the DIR contracts. This would be a no-cost extension to continue the pilot for an additional year. At the Board's request (during previous meetings), Ms. Windbigler provided financial information related to the agreement: total purchases through February are approximately \$7.9M; total administrative fees collected are \$39,887, and administrative fees paid to Oklahoma are \$19,943. We provided a briefing to the HUB and cooperative contracts Board subcommittee on June 2. At the end of the term, DIR and OMES will review the progress made to determine if it is in the best interest of both parties to make the agreement permanent, the Board would be consulted.

Mr. Troilo thanked Grace and her team for their efforts on the interlocal procurement agreement. He pointed out that it had been one year since we embarked on this pilot program. While it had been a little slow to roll out, there had been significant activity for a number of purchases. One of the biggest purchasers from Oklahoma, is the Department of Human Services. They make sizable purchases. Mr. Troilo said that as his familiarity grows, he estimates the program will move toward greater efficiencies and productivity. Other purchasers include the Grand River Dam Authority (number of purchases, frequent user) and a few of the counties. This agreement has required some outreach and placement of temporary personnel to help utilize the system, but the program and agency are going to provide a valuable service.

MOTION A motion was made to approve the amendment to extend the pilot agreement with OMES-ISD, by *Mr. Troilo*, then seconded by *Mr. Pickering*.

Mr. Mattax asked if the State of Oklahoma would be held to the same statutes in SB 20.

Ms. Windbigler said that they would not be held to the statutes in SB 20. They have their own internal thresholds that they have to meet for the quote. Our statutes do not override their statutes.

Mr. Bacarisse confirmed that they were working under their own sovereign statute.

Ms. Windbigler agreed.

ACTION The motion was unanimously approved.

Ms. Windbigler asked the Board members to delegate authority for the Executive Director or designee to execute the amendment.

Mr. Bacarisse said that the Board would do this is a separate action item.

MOTION A motion was made to delegate authority for the Executive Director or designee to execute the amendment to extend the pilot agreement with OMES-ISD, by *Mr. Pickering* then seconded by *Mr. Morrow*.

ACTION The motion was unanimously approved.

DISCUSSION Ms. Windbigler presented the second action item for consideration and approval:

Consider acknowledgment of technology donations to DIR.

Ms. Windbigler directed the Board to the slide presentation listing donations from DIR employees and donations from private entities. These donations were used in the DIR Technology Showcase, located in the Sam Houston Building, to illustrate how technology has changed over the years and to keep state leadership information about DIR's mission and technology capabilities. We are bringing this before the Board to comply with Texas Government Code 2255, which allows agencies to accept donations for the purposes of carrying out their functions and duties. For donations of \$250K or more, the Board must approve those donations, but for donations less than \$250K (which these donations encompass), the Executive Director may accept the donations and the Board, by rule, must acknowledge the acceptance of the donations.

MOTION A motion was made to approve the acknowledgment of technology donations to DIR by *Mr. Troilo*, then seconded by *Mr. Morrow*.

Mr. Bacarisse said that there were some interesting items donated.

Mr. Moore wanted to make sure that DIR was not establishing a value for these items. For tax purposes, the individuals making donations have to establish their own value and wanted to make sure that we were not saying they were worth so much.

Mr. Bacarisse said that he believed these to be in-kind donations. We are acknowledging receipt of the donations, but the value is taxed by the donor's CPA or financial representative.

Mr. Villalpando agreed.

Mr. Troilo said that he wanted to raise and clarify that the donated items are of some historical interest, but we are not making or taking any positions whether they are functioning or will function. We are taking them as custodians to keep historical donations that have to do with technology and other parts of our mission as a public service.

Ms. Windbigler explained that the purpose is to illustrate how technology has changed over the years.

Mr. Mattax asked whether or not there was personally identifiable information in any of the machines.

Ms. Windbigler answered that the machines were not working.

ACTION The motion was unanimously approved.

DISCUSSION Ms. Windbigler gave a brief update on the cooperative contracts program.

Total purchases for Q2 were \$996.4M, up from 8.9% from FY14-through Q2. Our top customers for Q2 consisted of two state agencies (Texas Health and Human Services Commission and Texas Department of Transportation (TxDOT)), two institutions of higher education (Houston ISD and University of Texas M.D. Anderson Cancer Center), and one city (City of Austin).

Ms. Windbigler updated the Board on RFOs of interest. We have posted a law enforcement RFO on the Electronic State Business Daily (ESBD) and will conduct a pre-bid conference soon. Three RFOs are in the evaluation phase are audit services; software products and related services, and mobile device management products and related services. Currently in negotiation are two RFOs: multifunction devices and managed print services and education IT software products and related services.

Then, Ms. Windbigler provided an update on the historically underutilized business (HUB) program. In Q2, our HUB expenditures for internal procurements are a total of 20.62%, an increase from Q1 of 33.76%. These are internal purchases that DIR makes and we are on track and on schedule. For the Q2 HUB purchases made through the cooperative contracts program (external procurements), we are tracking at \$383.8M, which is an increase of 16.1% when compared with Q2 of FY14. Our HUB percent of total contract volume is 38.52% for FY15 through Q2. Ms. Windbigler provided a brief update on HUB program activities. She pointed out that upon receipt of the Comptroller of Public Accounts report, DIR was ranked second on the list of the 25 state agencies with spending in excess of \$5M with HUBs. We are very proud of our HUB program and emphasize using HUBs. We have had 21 HUB outreach events in Q2. Currently, we have 249 contracts with HUB primes. There are 325 HUB vendors with non-primes. We have participated in 6 mentor protégé agreements to grow the program.

TOPIC **8. Chief Information Security Office Update**

DISCUSSION Mr. Eddie Block, Interim Chief Information Security Officer, updated the Board on the Chief Information Security Office (CISO).

Mr. Block discussed the types of services offered by the CISO and how these services were categorized. The assessment services are provided by third parties and through controlled penetration testing and vulnerability assessments. We use multiple collaboration opportunities with state agencies for feedback on how we are running our program and a number of education awareness opportunities.

Security services are down quarter over quarter but this has been corrected in Q3. The collaboration and education opportunities are trending higher, compared to this time, one year ago. Overall, our combined program participation is at 76% of the agencies with which we interact. 143 agencies are required by legislation to report incidents to DIR. We completed 7 security assessments in FY14 and have completed 19 in FY15. We will reduce the total biennial goal due to competing budgetary issues, as well as the slow start with our vendor trying to get off the ground last year. The goal for controlled penetration testing is 48 per year, and we anticipate meeting that goal. In addition to CPT, we do vulnerability scanning and web application vulnerability scanning which are not counted as part of this number; we have completed 140 over the year.

The GRC solution has been rolled out for state agencies. We are implementing the risk assessment piece. The first piece replaced the old incident reporting system and has been out since January. Usage has been really good. Agencies formerly used the ISACC tool, which has been retired, and we are bringing in a more robust toolset. The 2015 Information Security Forum took place in May with over 550 people in attendance. There were 400 registered attendees and 52 vendor sponsors. In the past, the Forum has been limited to 300-350 attendees. This year, we moved to the Palmer Events Center, doubling the duration and almost doubling the number of attendees. From all counts, we had a very good response. Of the attendees, 83 different agencies attended, as well as attendees from local government, cities, counties, community college districts, and 3 quasi-governmental entities. Survey results (scale of 0 to 10) were 8.98 for the presenters, 8.92 for the technical level, and 8.5 for facilities. Additionally, we did a cybersecurity tabletop exercise where we brought in folks from University of Texas at San Antonio Center for Information Assurance Security to facilitate a discussion: a cyber event happened – how do you react? 12 different state organizations participated to see how their individual agencies would work and how they would work together. CIAS facilitates these exercises nationwide. We had 23 people representing 12 organizations. It was also well-received and highlighted some issues that need to be addressed. We will probably do this again in the next fiscal year and include the business staff. Eddie previewed the GRC solution. The incident response piece is complete and the risk assessment is going live. We would like to use this tool for our next implementation of the agency security plan, required by SB 1597, so that the information would be in the GRC solution, too. Our intent is to start and complete this lifecycle of data around security. Additionally, we have extended this to our State Operations Center so that they can begin to create alerts for agencies in the incident reporting system directly.

Mr. Morrow asked how many security assessments would be completed next biennium.

Mr. Block said that the amount had been set at 26 (a decrease of 4 from the current number of 30).

TOPIC

9. Customer Office Update

DISCUSSION

Ms. Priscilla Piphon, Chief Customer Officer, gave an update regarding the Customer Office.

Ms. Piphon discussed the new DIR website. The website has been discussed at past Board meetings. It is a big effort. Great improvements have been made in the contracts area, in being able to search. It is a really good success in that regard.

A customer engagement team has been formed internally to begin leveraging best practices, and providing input for aggregating customer experience. We have also been involved with customer outreach within the cooperative contracts area.

Ms. Pipho explained that the customer office is charged with customer acquisition, retention, and satisfaction. We can assess the current and the future states of DIR, which means opportunities for DIR, like Oklahoma, or areas where we can support in acquiring, retaining, and satisfying customers. We are beginning that process now with establishing a current base line and looking at future states. Mr. Villalpando mentioned gaining insight into what our customers are thinking. This is essential to move forward and make sure that we have the right RFOs, but to ensure that we are retaining those customers.

Five different areas of deliverables for the customer engagement tea include customer segmentation, governance groups, customer initiatives and information gathering, measurements and best practices, and setting standards for customer service relationship management.

She concluded her presentation with a short discussion on short-term customer goals: customer engagement initiatives; communications standards and plans, and customer development plan implementation.

TOPIC

10. Chief Technology Office Update

DISCUSSION

Ms. Deborah Hujar, Director, Program, Policy and Governance, provided the first update of the Chief Technology Office, on behalf of John Hoffman, Chief Technology Officer.

As you may recall under Todd Kimbriel's leadership, the Chief Technology Office was created in January. John Hoffman, formerly Director, Communications Technology Services, took leadership of that program. The program includes two teams: Policy and Planning and Enterprise Solutions Services team (John Van Hoorn). We are working to develop short and long goals to establish greater cohesion between strategic planning, DIR operational goals, and customers' needs.

HB 1890 implements the recommendations that DIR put forward in a report published in October related to the legacy systems study. John Van Hoorn has been laying the groundwork with his team to move that program forward. With a handful of voluntary agencies, we have been looking for opportunities to collect the system data for applications statewide, so we can keep that data we collected throughout the process fresh for future decision making. We have looked at opportunities with other agencies to collaborate and replace those legacy systems and find shared solutions to create greater efficiencies in state government.

Mr. Mattax asked Ms. Hujar to elaborate on the legacy situation. What exactly are we going to for different agencies? Have the agencies identified their systems as legacy systems?

Ms. Hujar explained that as part of phase 1 we contacted agencies included in the scope of the project, and they did an assessment of what systems they currently had. This data was reported in October: approximately 4000 systems were evaluated; approximately 50% were considered to be legacy category. Then, we made some recommendations to move on to what we could call Phase 2. Those recommendations included a development application portfolio management system pilot. We will continue to keep that data fresh. We also want to continue to know what is still out there, what to replace, and want to do it more efficiently.

Mr. Mattax asked how we planned to get away from the legacy systems.

Ms. Hujar explained it is through strategy and collaborative leadership.

TOPIC **11. Chief Operations Office Update**

DISCUSSION Mr. Dale Richardson, Chief Operations Officer, introduced himself to the DIR Board members.

He recognized Ms. Grace Windbigler and thanked her team for stepping up during session and providing an outstanding job. As you recall, Mary Cheryl Dorwart retired and Ms. Windbigler stepped up when we needed her the most. Her team analyzed over 40 contracting bills, including analysis and providing fiscal notes to the Legislative Budget Board on the impact to the state. Ms. Windbigler and her team accomplished this while dealing with the highest level of public information request workload that we had at DIR.

At our last out of cycle Board meeting in April, the Board approved a contract amendment to assign the Xerox State and Local contract to Atos. All agreements have been signed and we are now pending the transaction complete, with a target date of June 30. In speaking with the local folks at Xerox State and Local, the transition is going very smoothly from an employee standpoint. We are really excited about the transition. During our next Board meeting, we will be sharing the results of a third party program assessment that was conducted by KPMG on our TEX-AN contract. There were 5 original objectives for that contract that are meeting or exceeding expectations. The cost savings have been identified and continue to drive competition, so we have metrics that are being achieved. Leah Folgate, Director, Project and Portfolio Management Office, has resigned. She has taken a position at TxDOT to work on larger, more challenging projects. Mr. Richardson thanked Ms. Folgate for her service. She has left us in good shape in terms of the tools and processes that we as an agency need to continue maturing in PPMO.

TOPIC **13. Data Center Services Update**

DISCUSSION Mr. Richardson introduced Ms. Sally Ward, Director, Data Center Services.

Ms. Ward provided an update on Data Center Services (DCS).

Ms. Ward discussed the customer scorecard, which is a monthly scorecard where our customers rate the performance of our vendors in the DCS program. Our overall scores continue to be positive and stable. With regard to our critical service level agreements (SLAs), the performance continues to be generally high. Ms. Ward explained that a red bar (on the slide presentation) indicates a missed minimum or lower target. A green bar indicates exceeds expected targets. The blue bar indicates missed the highest expected target, but still achieves the minimum target. We missed the minimum target in print/mail with a customer that has an unusually high SLA. Any one piece that is mailed late is considered missing the entire SLA, and there is a financial credit assessed for that one piece. Some pieces were missed in that service level. We missed some expected targets (blue) for server solution implementation timeliness in January and February. In December, we missed the severity 3 and 4 expected targets for server resolution time for incidents and outages. Overall, we are meeting our expected targets. We have a measure of our server consolidation progress. As of February, we continue to track to 1% being consolidated and adding 1% per month. At the end of Q2, we were at 61%. Today, we are at 64%. Our goal is to reach 75% by August 2016, and we are on target to reach that goal. Ms. Ward presented the total servers built, our metric for productivity of our service providers to meet the needs of our customers. While the numbers vary from month to month, we are, on average, meeting the same productivity level.

TOPIC **14. Communications Technology Services Update**

DISCUSSION: Mr. Richardson introduced Mr. Wayne Egeler, Director, Communications Technology Services.

Mr. Egeler gave an update on Communications Technology Services (CTS).

Mr. Egeler shared network upgrades for FY15-Q2. There are two major network upgrades underway. Installation is complete, and pattern testing is being conducted on the Austin Metropolitan Area Network (AMAN) upgrade. We are on schedule for migrating DIR traffic onto that network in mid-June, and we will migrate the agency traffic onto it after DIR traffic migration is complete. A software upgrade is being performed on our core DIR routers. This upgrade will provide an enhanced security on the routers and enable us to tie our core routers into our 100GB network. That upgrade will be complete June 5-6. Our voice over internet protocol (VOIP) is progressing smoothly. We have 900 phones on the system today. We are working to migrate Texas Facilities Commission and Texas Workforce Commission to the VOIP platform after helping them with their network readiness. We sent a letter to state agencies informing them that our VOIP was ready, and we will send another letter later this summer. Mr. Egeler said that he expects more agencies to be interested now that the legislative session has ended. The Capitol Complex Telephone System (CCTS) team was very busy during the 84th legislative session. The team moved the House and Senate offices in late November. There were 97 office moves in the House, with a total of 610 station moves. They tested 150 House floor phones within a two-day timeframe. The Senate had 19 office moves, with a total of 185 workstations. The team tested 40 phones on the senate floor. The team did a great job. As we continue our circuit migration to a more advanced network, we completed 113 circuit orders in Q2 FY15. We have 540 circuit remaining on that legacy network and are on target to be completed by the end of the calendar year.

Mr. Egeler reported that the customer base is up 6% from Q2 FY14. Most of that is within the education bucket. Purchases are down 4% from Q2 FY 14, within state agencies. This decrease is usage based, but we have seen a decrease in pricing as the agencies are moving from the legacy network and are consolidating their networks.

TOPIC **Public Testimony – No public testimony.**

MOTION A motion was made to adjourn the meeting by *Mr. Morrow* and *Mr. Pickering* seconded the motion.

ACTION The meeting adjourned at 11:05 am.

Approved by the Board Chair:

Charles Bacarisse, Chair

Date