

**DEPARTMENT OF INFORMATION RESOURCES
OPEN BOARD MEETING**

Thursday, August 22, 2019, 10:00 a.m.

300 West 15th Street, Conference Room 103, Austin, Texas 78701

MINUTES

PRESENT Ben Gatzke (Board Chair)
Christian Alvarado
Stacey Napier
Jeffrey Tayon
Kara Thompson
James Bass, *ex-officio*
Nancy Clark, *ex-officio*

ACTION *Mr. Gatzke* called the meeting to order at 10:02 a.m., with a quorum present. *Mr. Gatzke* called the meeting into executive session to consult with its attorney pursuant to Section 551.071, Government Code at 10:03 am.

The executive session ended at 10:35 am.

Mr. Gatzke stated that a quorum of the Board is present. I am calling the meeting back to order following executive session. The Board did not vote or take action in executive session.

TOPIC **2. Chair's Remarks**

Consider approval of meeting minutes from May 2, 2019, board meeting.

MOTION A motion was made to approve the board meeting minutes by *Mr. Tayon* and seconded by *Mr. Alvarado*.

ACTION The motion was unanimously approved.

DISCUSSION The next item on our agenda relates to the compensation of the DIR Executive Director. The General Appropriations Act limits the Executive Director's salary to a specific not-to-exceed amount. DIR's Legislative Appropriations Request, approved by the DIR Board and submitted to the Legislative Budget Board last August, contained a request to increase the not-to-exceed amount from \$184,792 to \$227,038. The DIR Executive Director has not had an agency specific pay increase since 2008. The DIR Board requested the increase in order to continue to attract and retain the best talent and address salary compression issues that are occurring within the executive positions at DIR.

We now have the General Appropriations Act for fiscal years 2020-2021 which contains an increase in the not-to-exceed amount to \$194,182 for the DIR Executive Director. As we will hear shortly, DIR had a very good legislative session under Amanda's leadership, and she continues to do an outstanding job leading the agency. As a result, I would like

to entertain a motion to approve a salary increase for the DIR Executive Director to the maximum listed in the FY20-21 General Appropriations Act (\$194,182 annually), effective September 1, 2019.

MOTION A motion was made to consider approval of a request for salary action relating to the DIR Executive Director by *Ms. Napier* and seconded by *Mr. Tayon*.

ACTION The motion was unanimously approved.

TOPIC **3. Executive Director Update**

DISCUSSION Amanda Crawford, DIR's Executive Director, thanked board members for the salary action as well as their confidence in her leadership. Ms. Crawford noted that this is the 30th Anniversary of DIR and the remarkable evolution of the agency.

The planned remarks changed drastically following the events that started on August 16, 2019, when more than 20 government entities located across the state were attacked by ransomware. We brought this issue to the attention of the Office of the Governor, who then activated the State Operations Center through the Texas Division of Emergency Management. Within a few hours, cyber experts from both state and federal agencies had assembled at the SOC to begin responding to the incident and assisting local entities. DIR led this coordinator response effort with the support of the Texas Division of Emergency Management, the cyber response team at the Texas A&M University System and the Texas Department of Public Safety. Other responders include the Texas Military Department, the FBI, the Department of Homeland Security, the Federal Emergency Management Agency, the Texas Public Utility Commission and the Texas Commission on Environmental Quality. Ms. Crawford also thanked our managed security services provider AT&T and their contractor CoreRecon for their tremendous partnership and assistance.

DIR's Office of the Chief Information Security Officer provides state-wide information security guidance to state agencies, public institutions of higher education and local governments. Led by the State of Texas Chief Information Security Officer, Nancy Rainosek, the team works to set state information security policies and standards, publish guidance on best practices, improve incident response preparedness, monitor and analyze incidents, coordinator security services and promote information sharing throughout the public sector cyber security community. It was this mission to coordinator security services, improve incident response preparedness, monitor and analyze incidents, that placed DIR in the best position to lead this incident response.

DIR also has a second information security team; however, the mission of that team is to protect the state's critical network and system infrastructure. Those resources were dedicated to those efforts and were successful in this event as no state network systems were impacted by this event.

There is an ongoing federal investigation so further specific details cannot be provided on the incident, but the coordinated response to this event is unprecedented. To the best of our knowledge, there has never been a coordinated state-wide response at this level.

Our federal partners in this have never responded with such a coordination either. Multiple states are asking for advice on how they can set up similar operations and response plans. Our federal partners are also taking notes and want to work with us so that response plans like ours can be used nation-wide.

Ms. Crawford took a moment to congratulate the team at DIR. Were it not for the vision and expertise of team OCISO this coordinated response wouldn't have been possible. Two years ago, they began working on this plan and this team is exceptional and we are very proud of the work they've accomplished. Thanks to the plan they've put in place, Texas is prepared to face these cyber incidents now and in the future. Our partnership with the Texas Division of Emergency Management and the Texas A&M University System has been an excellent one and it brings together some of the best resources in the state to combat these attacks. Teams from across DIR responded quickly and have been working around the clock to assist in this effort. Ms. Crawford mentioned the efforts of the Operations and Procurement Teams for their hard work. Within several hours we deployed resources into the field to begin assistance, 24 hours-in the response team was able to identify all potentially impacted entities and by 48 hours we had made contact with all of them to begin triage. At the 72-hour mark, we had teams on-site at most of the entities and by hour 96 all sites had been engaged by our teams and with more than 25 percent of them transitioning from a response and assessment phase, to remediation and recovery. In the world of cyber events and response, this is truly remarkable.

The State Operations Center continues to operate at a level 2 escalated response which is right now at 12 hour shifts every day and our coordinated calls with the impacted entities continues. Our work here isn't done but we are committed to getting all the entities back on the path to recovery.

Ms. Crawford elaborated on what the role of the State is to respond to these types of incidents. There are typically three phases in response to a cyber incident. Phase 1 is to assess and neutralize; Phase 2 is an investigative phase to collect information; and Phase 3 is remediation and recovery. The state can help with the first two phases. That would include sending assistance to the local governments to neutralize and assess and then to investigation and collect information. Regarding the third phase, we offer assistance in the beginning, that is to create a roadmap for success, best practices, recommendations and to make sure they aren't left without a path forward. When it comes to the funded and execution of those rebuilding efforts, that is something the local entities have to take on themselves. We have been very clear with the entities in working with them that these are the expectations. Our relationship with the entities has been very strong and they are grateful for the assistance and efforts provided by the state. Through our partnership with the entities, we can provide contracting vehicles to help make that recovery process quicker and hopefully at less cost. DIR has a Cooperative Contracts Program; we have our Shared Technology Services and then we have our Bulk Purchasing Program. On our website we've put out specific tools, services and good to help entities respond to this incident. Ms. Crawford thanked many of the private sector vendors who have offered assistance throughout this effort and we appreciate their willingness to help the impacted entities including deeper discounts to some of the items that they have already provided.

Mr. Gatzke commented: I understand the sensitivity around this issue and the response has been impressive.

Ms. Crawford thanked Chairman Gatzke for his comment.

DISCUSSION Amanda Crawford moved on to introduce DIR’s newest team members. Paige Buechley, Chief Audit Executive; Michelle Dang, Administrative Assistant; Bernard Le Gras, Project Manager; Michael Malner, Systems Analyst; James Omiya, Project Manager; Dwight Peavy, Systems Analyst; Pete Casals, Contract Specialist; Robert Hidrogo, Contract Specialist; Jennifer Manna, Contract Specialist; MacKenzie Purcell, Contract Specialist; Mignone Smith, Contract Specialist; Johnathan O’Quinn, Director; and Tammi Powell, Program Specialist.

Ms. Crawford announced the retirement of Martin Zelinsky, DIR General Counsel.

DISCUSSION Amanda Crawford discussed the consideration of approval to the updated Mission and Vision statements revisions. The scope of our mission has evolved. Just last Legislative Session, we saw additional types of governmental entities added to the list of potential customers to whom DIR can provide services. With that in mind, the Executive Leadership Team and the Extended Executive Leadership Team looked at our current Mission Statement and Philosophy Statement to make sure that those statements aligned with the DIR of today. We wanted to make sure that they were reflected of the good work that we do and what that work is. The Mission Statement is just a slight change to make it more agile and is something that we can identify with for the future and not be restrictive to the type of entities we work with as the scope of our mission expands or contracts.

“The mission of the Texas Department of Information Resources is to serve Texas government by leading the state’s technology strategy, protecting state technology infrastructure, and offering innovative and cost-effective solutions for all levels of government.”

Some of the key words that we focused on were words such as service. What we do at DIR is to serve those who serve. As the earlier mission statement say’s, we facilitate the fulfillment of the missions of other state agencies. DIR is serving and leading that technology strategy, clearly protecting our state infrastructure and offering innovative and cost-effective solutions through our various Cooperative Contracts Programs and other contract offerings.

The Vision Statement will allow us to set the direction for DIR and what it is that we are working to accomplish and where we see DIR going in the future.

“Transforming how Texas government serves Texans”

This ties into our Mission Statement in that we are trying to transform the service delivery that our entities provide to the citizens of Texas. This Vision Statement gets us to where we are going and the direction that we believe Texas government should be going as it

pertains to the delivery of those services. Finally, we incorporated Core Values which tie into both the Mission and Vision Statements. DIR's Core Values: Innovation, Leadership, Ethics, Accountability and Delivery. Those are the standards by which all DIR employees are expected to perform. Our personnel evaluations and training plans will be built off the Core Values.

MOTION A motion was made to approve the new Mission and Vision Statements by *Ms. Napier* and *Ms. Thompson* seconded the motion.

ACTION The motion was unanimously approved.

Mr. Gatzke added a personal note about Martin Zelinsky. To have such a battle-hardened longstanding, competent and deeply committed person in this role inside the agency, I can't imagine there's a person out there who can fill those shoes. Thank you very much for your time and leadership here, it has been an inspiration to everyone here and I know that to me personally as well so thank you very much and enjoy your retirement.

TOPIC **4. Finance Update**

DISCUSSION Mr. Nick Villalpando, Chief Finance Officer, with an update on DIR's financial operating results for the 3rd Quarter and then move into discussion on FY20 budget request. Thank you to the Audit and Finance Subcommittee members for the time they took reviewing the year to date results as well as our budget request. A personal welcome to Kara Thompson to the subcommittee and thank you for your leadership.

DIR's financial results for fiscal year 2019 year to date Q3. DIR's total operating revenue (Gross Revenue less Cost of Services) for YTD Q3 of \$54.9 million. As you know, FY19 is the first year that we include the financial results of the Texas.gov program. Comparing YTD FY19 to YTD FY18 and normalizing for the impact of Texas.gov, YTD Q3 FY19 operating revenue of \$26.8 million versus \$25.4 million YTD Q3 FY18. The increase is primarily due to higher utilization of the Cooperative Contracts program by DIR customers.

DIR's FY19 operating expenses are trending below budget for the fiscal year. We anticipate operating expenses to end the year at approximately \$34.2 million compared to our budget of \$35.6, primarily as a result of underspend in salaries. While our budgeted FTEs are 208, our actual FTE count through Q3 was 189.

Fund balance projections are currently within our maximum allowable amounts. However, the Cooperative contracts fund is at risk of ending slightly above our maximum allowed. Should this happen, we will engage with the Legislative Budget Board to determine next steps, including possible waiver of rebate provision.

We do have two budget amendments that we are bringing forward for the Board's consideration and approval. Security related tools for \$800k. One of DIR's security features is the inspection of 100% of internet traffic for customers on our network. This feature was originally architected to provide 14 days of historical data for analysis in case of a security incident. However, with the growing demand for internet bandwidth, we

are currently down to only 6 days. Upgrading our equipment will provide us the ability to get back to 14 days.

We are requesting that we create a project to upgrade DIR's website. Based on customer feedback and internal reviews, there is a need to upgrade several components of the website including overall design look and feel and search capabilities. We estimate no more than \$1 million on this effort between this fiscal year and next fiscal year. There is no net increase to DIR's operating budget to fund the \$600k because we are utilizing underspend in other areas to fund this initiative.

Mr. Tayon asked: On the Tex-An cost of services, where does the additional \$800,000 come from to pay for that?

Mr. Villalpando responded: That is paid for with the administrative fee revenue or the revenue that is generated from the telecom program.

Mr. Tayon asked: Would that result in any increase in fees or is that part of the normal operations?

Mr. Villalpando responded: There is no increase in fees. This is just part of our ongoing assessment and planned upgrades in infrastructure and needs so there is no required fee increase to initiate this infrastructure upgrade.

Mr. Tayon asked: Where does the \$600,000 for the website for 2019 come from?

Mr. Villalpando responded: For 2019 that's coming from a couple of areas. From the savings of our salaries for FY19 as well as some cost savings in our CTO office and by transferring those and creating the Capital Budget Project for the particular initiative we're able to do that without increasing the overall DIR operating budget.

Mr. Tayon asked: You said there may be for 2020 there may be another \$400,000 spend for the website upgrades, where will that come from?

Mr. Villalpando responded: That's being funded with the appropriations we are receiving for FY20 which are coming in slightly higher than we anticipated. One of the factors is the unexpended balances that were carried forward from FY19 to FY20.

Mr. Tayon asked: So DIR is going to be able to update its website without increasing its budget?

Mr. Villalpando responded: That is correct.

Mr. Gatzke asked: This budgeted amount, there's not a plan on how to spend that?

Mr. Villalpando responded: That is correct, we are currently in receipt of proposals and those are being evaluated. This was the budget we estimated but certainly hope to come in below that.

MOTION A motion was made to Approve Budget Amendments increasing Tex-AN Cost of Services for security enhancements and creating a Capital Budget for DIR's website upgrade by *Mr. Tayon* and *Ms. Napier* seconded the motion.

ACTION The motion was unanimously approved.

DISCUSSION The DIR's funding comes predominantly from fees charged to government entities who use DIR services (cost-recovery). Administrative (cost-recovery) fees are set at levels intended to be sufficient to recover DIR's operating costs. Due to inherent uncertainties with forecasting customer demand for DIR services, so our actual revenues may be more or less than amounts needed to recover costs for a given year. Costs, including cost of services and operating expenses may fluctuate depending on customer consumption of DIR services. Each of the programs/business lines is governed by unique legislative requirements regarding fee setting and use of funds.

We manage our operating expenses into four categories. Cost of goods sold, cost of services so the expenditures incurred with our service providers for the services that are sold to DIR customers. Then we move into our operating expenses so that the cost incurred to run and operate DIR which are associated with delivering those direct business line services such as telecommunication services, Texas.gov, Shared Technology Services or Data Center, Cooperative Contracts, and security services where get some general revenue appropriations to cover and we consider those as direct program costs. Our other direct costs are associated with services that DIR is mandated to deliver but for which we do not charge a separate fee. State leadership has said that they want DIR to deliver these services such as state-wide policy and planning, so DIR put the State Strategic Plan together, a lot of reporting that gets done during the Legislative Session. Finally, we have indirect administrative expenses, those include salaries, Finance and Accounting budgets, etc.

In terms of setting our fees, we understand that when we are delivering services to our customers that they are consuming services from us and every dollar that they pay to DIR is a dollar that's not going to a constituent level type of service, so we look at that and want to maximize those cost savings for our customer when we're setting our fees. We want to recover while minimizing our costs as well. We also try to minimize any volatility in our fees and certainly we try to comply with statutes and regulations regarding all of our programs so that goes into our fee setting process.

We spent several months working with the various departments to look at the program costs and forecasting customer demand for our services and the fees are set to recover those expenses. Then ultimately reviewed with the Finance Division and all of our program teams, then through the Executive Director and finally we bring it to the Board for approval. It doesn't end there as we continue monitoring the operating results throughout the year. To the extent that adjustments are needed throughout the fiscal year, there are ongoing discussions with all of our departments and operations teams.

As we get into the discussion of the FY20 Budget request in detail, we will spend some time on our administrative fees and the different programs we operate and the

anticipated revenues that are going to be generated for FY20. Cooperative Contracts within this program we have customers purchasing technology commodities and services directly from vendors and then those vendors are remitting the administrative fees back to DIR. For FY20 we're estimating at about a \$2.2 billion in total customer volume and it's anticipated that we will generate about \$14.7 million in administrative fee revenue from that program for an average administrative fee on an entire portfolio of contracts at about 0.68%. Keeping in mind that the maximum fee that we're able to charge in that program as limited in the General Appropriations Act is 2%, so we're well below the maximum allowed. Data Center Services our administrative fee is 2.95% that's based currently on customer volume of about \$265 million which we anticipate generating almost \$8 million in operating or administrative revenue for DIR. One item of note regarding the Data Center Program is that it is possible and has occurred in FY19 that should our customers consume more services than what we've been appropriated, we would need to go back to the Legislative Budget Board and state leadership with a request to exceed appropriations authority. The request for FY19 was submitted and ultimately was approved. So with this program it really is tied back to our customer consumption, however typically what we've seen is within a biennium the first year spending sometimes comes in a little bit under and then the second year, as agencies are able to catch up on their projects, we see more consumption of the services. One of the items in the appropriations bill that our customers can utilize is that they're able to carry forward their appropriations or budget for the Data Center Program from the first year of the biennium to the second year and they're also allowed to bring the budget from the second year to the first year if necessary, so this gives our customers some flexibility in when and how they consume those services. To the extent that we need to make adjustment throughout the year, we would come back to the board with a proposed budget amendment for a request to the LBB.

There are three primary services within the Communication Technology Services program with the Capitol Complex Telephone System, Tex-An Statewide Network as well as our wireless services that we deliver and the contracts that our customer can purchase from the vendor specific contracts. With the FY20 estimated fees, our fees range from around 2% to 12% we estimate that will bring in about \$10.3 million in administrative fee revenue into DIR based on total customer consumption of about \$78.6 million. One of the reasons that these fees are higher than Cooperative Contracts and Data Center is that the volume is much lower in this program and that within the CTS Program we are the telecommunication service provider so we have engineers and operators on staff, we the direct service provider to our customers in this particular program.

Mr. Tayon asked: How many full-time employees do you have devoted to the capitol phone project?

Mr. Richardson responded: Forty-four employees.

This will be the second year of the Texas.gov program being within the operations of DIR and we're currently estimating that our total revenue net of processing fees of about \$77.8 million. Those fees vary depending on the service delivered through the portal. This program also transfers funds to the State General Revenue Fund and we're estimating a total transfer of about \$34.1 million next fiscal year.

Mr. Tayon asked: How do you determine what the transfer is going to be to the General Revenue Fund?

Mr. Villalpando responded: The transfer is based on the maximum allowable fund balance that we're able to maintain and so currently within that program we're at 4% of the revenue, so anything in excess of 4% would be transferred to the State Revenue Fund. We plan to engage with state leadership over the coming year in terms of evaluating that program because it does generate additional general revenue for the state and we've continued with that program as we've carried that forward from the previous public-private partnership that the program was operated under prior to coming to the DIR operations.

Ms. Clark asked: Would it be possible to put some of the money back in and rebuild old applications that are currently in Texas.gov?

Mr. Villalpando responded: Absolutely. That's a possibility and actually FY20 we did have an exceptional item request to modernize some of the Texas.gov infrastructure and that was approved by the State Legislature. This will be an ongoing initiative to upgrade and modernize Texas.gov. There have also been discussions on potential uses for the fund to the extent that maybe a modernization fund could be created to be used by state agencies.

Next is an overall view of our budget request for FY20. Our total budget request is \$428.6 million and of this amount \$387 million or 90% is for the cost of services that are delivered to our customers and the remaining \$41.6 million or 10% is for the DIR operating budget. The two largest components of our budget are salary expenses and our professional fees. We do get external support with our various initiatives within the agency given the size of our agency and so that is the bulk of our operating budget.

In comparing FY20 budget request to our FY19 estimate with where we believe we would be at and our actual spend, we're at about \$6.8 million or 2% total increase in the total expenditures and about \$2 million of that is related to salaries. As you heard discussed earlier during the presentation on FY19 Q3 results, our salary spend is coming significantly under budget given the turnover and vacancies. The increase can be explained with the prior year turnover as well as we have an additional position within our Office of Chief Information Security Officer to help with multifactor authentication initiative. And then the impact of prior year salary actions. And then the other \$4.8 million of that is in professional fees primarily to implement the multifactor authentication program in our OCISO. That initiative is fully funded with the additional General Revenue that DIR is appropriated next fiscal year so that doesn't require an increase in DIR fees.

The total General Revenue is about \$7.1 million and it's all regarding the information security related initiatives. The most significant increase in the General Revenue portion is the Statewide Risk Based Multifactor Authentication Program that we're rolling out next year for our state agencies. That programs roll out is intended to address one of the highest risks with controlling user access to state IT applications.

Mr. Tayon asked: How does the 2019 budget compare to your budget request for 2020?

Mr. Villalpando responded: It's just slightly over and it's primarily going to be due to the additional general revenue that we're getting. So, but for the additional general revenue appropriated to DIR, our budget request for FY20 would be under FY19 budget. A lot of factors go into that such as service delivery consumption by our customers, etc.

We are projecting to incur a net-loss in the Cooperative Contracts and Data Center Services funds primarily due to the use of our external support vendors that we're using to assist with our Shared Technology Services. We are using our unexpended balance from FY19 going into FY20 for purposes of maintaining those balances allowing DIR to ebb and flow with different years and when we have initiatives we need to implement; we don't have to increase the fees to our customers.

Ms. Thompson asked: Can you remind me what the headcount is from FY19 to FY20?

Mr. Villalpando responded: The total headcount as of the end of FY19 we estimate being at about 189 and our maximum that we can have is 208 full time employees. Given the vacancies and turnover the actual increase is due to that.

MOTION A motion was made to Approve Fiscal Year 2020 Operating Budget and Administrative Fees by *Mr. Tayon* and *Ms. Thompson* seconded the motion.

ACTION The motion was unanimously approved

TOPIC **5. Internal Audit Update**

DISCUSSION Ms. Paige Buechley, Chief Audit Executive, will be presenting two audit reports and the FY20 Internal Audit Plan. The first audit report is an IT General Controls audit of BidStamp, DIR's electronic procurement system. This audit focused on user access and configuration management. There were 3 issues identified in the report: The first issue was related to the process to set up vendors in the system. When the auditor was creating a test vendor account, the system automatically associated her with a current vendor because she entered a 0 for the vendor Identification number. This issue has been corrected. The other two issues are related to user access. The audit recommended that DIR perform a formal review of access for internal users. This is currently in process and secondly the audit recommended to change a user's access when their role changes. This has been implemented. Are there any questions about the BidStamp audit report?

Mr. Tayon asked: You indicated one of the recommendations was in process and when do you expect that to be updated?

Ms. Buechley responded: Part of the Audit Plan which I'll discuss, will be conducting a follow-up audit of all the open recommendations.

The next report, IT General Controls audit of NetPlus, DIR's telecommunications billing system that is used by customers to view their telecommunications charges. This audit also focused on user access and configuration management. The first issue was related to user access level and recommended that DIR periodically review user access levels to ensure that are appropriate for the user's role. The next recommendation was that DIR

set the password requirements in NetPlus to meet DIR password policy standards. The next recommendation was for DIR to review the process for setting up and granting administrator access. And the final recommendation was to establish a configuration management policy for changes to the system. These recommendations have either been implemented or are in progress of being implemented. Are there any questions about the NetPlus audit?

Next I would like to discuss the internal audit plan for fiscal year 2020. The audit plan was developed using a high-level risk assessment by interviewing key staff member and their direct reports and reviewing previous risk assessments and relevant documents. Some of the identified high risks included: Internal Audit function because there have been staff and director vacancies and there are several open recommendations. I am working now to hire two new staff members and have hours on the plan to perform a follow up audit of open recommendations. Another high-risk area is Cooperative contract Administrative Fees – these fees are self-reported by the vendor, so I plan to begin conducting regular audits of vendors to ensure that the fees are being reported and paid accurately. Contract development and management is also a high-risk area since that is a large part of what we do at DIR, so I included hours to look at the contract development and management process. I also included some reserve hours for an audit to use as I learn more about DIR's risks during the follow up audit and if the board has any work, they would like for me to perform. In addition to risk based audits, I have also included hours on the plan for activities that are required by statute or internal audit standards including the annual internal audit report required by the Texas Internal Auditing Act, reviewing and revising the Internal Audit Charter, working with Nick to review and revise the Finance and Audit Committee charter and hours to perform the risk assessment to develop the FY 2021 Internal Audit Plan.

MOTION A motion was made to Approve the Audit Report: IT General Controls Assessment of BidStamp and the Audit Report: IT General Controls Assessment of NetPlus by Ms. Thompson and Mr. Tayon seconded the motion.

ACTION The motion was unanimously approved

Ms. Napier asked: On this plan, what is going to be outsourced and what is going to be done in-house. You said you're an office of one right now and you're hiring two. In order to be most successful, what's the balance of what you can do in-house versus what you have to outsource?

Ms. Buechley responded: Certainly the follow-up and the contracting audits will be done in-house and the reason I want to do a co-sourcing audit is because I would like for my team to understand the process and work with the outsource vendor by reviewing their papers and audit plan so that we can start doing those in the future. We will be doing two projects with outsourcing.

Ms. Thompson asked: Can you describe for us how you took an enterprise view of risk and how you distilled the list down to these ten things and how other higher risk items may be mitigated through other activities in the organization?

Ms. Buechley responded: It was a high level risk assessment, for one I wanted to be able to present an audit plan at the August board meeting so that I could get started in September and it done through speaking with the Executive Leadership Team and their direct reports. Also looking at the list of risks identified through the internal audit over the past few years, I did a quick impact and probability using high, medium and low and of course the main risks went to the top. There were some other high risks including security at the Data Center and some of those have been mitigated either by previous internal audits or there's currently a cybersecurity assessment being conducted at the Data Center. The financial process in Procurement are being reviewed by the State Auditor's Office currently so I didn't want to re-audit that. Some other high risk has been mitigated through the controls that are in place for reviewing the service level agreements and other previous audits.

Ms. Thompson asked: Do you know if there is any functional area in DIR that hasn't been looked at in say the last 5 years?

Ms. Buechley responded: I'm still getting a handle on the previous areas that have been reviewed. I know that there have been audits including audits conducted by the SAO that looked at Procurement and some of our bigger areas in contracting. Certainly, the SAO is here right now looking at financial processes in Procurements, but I imagine as I go through the follow-up process that I'll be able to identify which areas have and haven't been audited.

MOTION A motion was made to Approve the FY 2020 Audit Plan by *Ms. Napier and Mr. Alvarado* seconded the motion.

ACTION The motion was unanimously approved

TOPIC **6. Chief Procurement Office Update**

DISCUSSION Mr. Hershel Becker, Chief Procurement Officer, Today, along with an update from our office, we will present 2 contract action items that we will ask the board to consider for approval.

Ms. Aiko Neill, Director of Enterprise Contracts, will be presenting a recommendation for the award of a new contract. This is a Statement of Work that is being awarded under the cooperative Contracts for Managed Telecom Services with insight public sector. These services provided are in this SOW include the management and administration of the Capitol Complex Telephone Systems customer migration project which includes customer setup and the ongoing administration and support services. The term is for an initial one-year period and there is an option for a one-year extension through August 31, 2021. The pricing is based on a monthly fixed fee for an initial 12-month term and the monthly fixed fee is \$110,000 per month and the initial term cost would be just over \$1.3 million and by exercising the extension option that would take the cost to \$2.6 million overall contract.

Mr. Tayon asked: Who's the vendor inside public sector and has DIR worked with them previously?

Ms. Neill responded: Yes. They are a telecom services provider and they provide products and services to market global company and we also have Cooperative Contracts with them that provide hardware and telecom related services and we've partnered with them in the past with regards to telecom support.

Mr. Tayon asked: How have you found their performance on the prior projects they've worked on with DIR?

Ms. Neill responded: They've been satisfactory.

Mr. Tayon asked: Is this SOW an extension of something that has already been in process with another vendor?

Mr. Becker responded: It's an extension of an existing project. Formerly this vendor did have the work, but that SOW has expired, and we went back out with a new SOW and they are the apparent winner.

Mr. Tayon asked: Has this vendor performed these same types of services for DIR in the past?

Ms. Neill responded: Yes. This is business continuity in ongoing support for the managed services administration and ongoing operations for the telecom business unit.

Mr. Tayon asked: Why was this vendor selected instead of the other bidders?

Ms. Neill responded: This vendor has had the performance and staff that is familiar with the project since they have been working on this project and maintaining the system platform. They are knowledgeable and from an operations perspective they would like to continue providing services with the least disruption to customers.

Mr. Gatzke asked: What was the original contract term?

Ms. Neill responded: The original contract term was two years as well.

Mr. Tayon asked: The personnel who are going to be assigned to this SOW will be officing here at DIR?

Mr. Skip Bartek responded: Enterprise Contracts Assistant Director, yes, those members of NSOC will be housed at the Sam Houston Building.

Mr. Gatzke asked: It's a two-year contract going for one-year optional renewal making it a three-year contract, but the estimated value scope is doubling in that one year?

Mr. Becker responded: It's a one-year initial term with one-year optional renewal.

Mr. Tayon asked: How is this contract funded?

Ms. Neill responded: This is under the CTS organization.

Mr. Villalpando responded: This is funded through the Communications Technology Services budget. It's within the estimated budget amounts.

MOTION A motion was made to Approve Statement of Work for Telecom Managed Services award to Insight Public Sector Inc. and delegate authority to the Executive Director or designee to execute the contract by *Ms. Napier and Mr. Tayon* seconded the motion.

ACTION The motion was unanimously approved

DISCUSSION Mr. Hershel Becker, presented information regarding the solicitation of the DIR website redesign. As Mr. Villalpando discussed earlier, we are in receipt of responses and actually since the draft slide was put into the Board Book, we have negotiated with a single vendor and we have an apparent awardee but we are not prepared to announce who that is at this point and we expect to award that within the coming days. We do not anticipate bringing it to the board because of the dollar threshold. Nick noted that there is up to \$1 million and that's for the project not for this particular contract.

Ms. Colleen Berkley, Director of Procurement Services, to present the FY20 procurement plan. We have a number of procurements planned for next year. Cooperative Contracts has 12 planned procurement projects. There are 10 Shared Technology Services and Enterprise contracts expected to occur this year. Please note that 7 of them are associated with the Data Center Services program and are a continuation of the FY19 procurements. Finally, we've identified 11 DIR internal procurements. This number may change over the course of the year. We will provide you an updated version of the procurement plan periodically to communicate these updates.

Ms. Clark asked: Can you tell us a little bit more about the artificial intelligence products and then I'm curious about the multifactor authentication.

Ms. Kelly Parker responded: We are still in the planning phase of the A.I. machine learning and so we are soliciting information from the vendor community and our internal SMEs. Our agency is wanting to consume that type of service and so we intend to move through the planning phase relatively quickly and post that solicitation in January.

Mr. Gatzke asked: This would be things like chatbots to answer questions without having to involve human call centers 24/7 without staffing?

Ms. Parker responded: Correct and some of the things that are repetitive tasks that could be handled by a bot. This isn't taking over someone's position, it's allowing our contract managers to focus on contract management.

Mr. Gatzke asked: We're doing this as a continuation from last fiscal year, are we doing some of these contracts now or have explored them in the past?

Ms. Parker responded: Yes. We have some contracts that have A.I. services on them but that has ballooned in the recent future.

Ms. Clark asked: Would policy forms be used?

Ms. Parker responded: Yes.

Ms. Clark asked: And then on multifactor?

Ms. Berkley responded: Nick Villalpando touched on this earlier with the budget. The multifactor authentication projects. We currently have a request for information that has been posted and the responses are due soon. Once we do our research to determine what is out there and what is possible, we are going to turn that into a procurement and that's part of the monies that have been granted to the OCISO's office for the type of security and education training that agencies and local governments need.

Ms. Clark asked: Would this be for network sign on like a LAN multifactor versus email and other services?

Ms. Berkley responded: It could be.

Mr. Gatzke commented: The discussion I heard was both and it's more critical points of failure or critical roles if it's a person logging into email versus a person logging into a server.

Ms. Clark commented: I was just curious as to what the other avenues were.

Mr. Becker responded: A lot of this lists comes from what we hear from our customers and things they might want us to contract. In some cases, it's something that we heard from two or more agencies which we put on the list and we have research built into the timeline.

Mr. Tayon asked: On your chart you indicate under Cooperative Contracts that there are four new areas, could you tell us more on those new areas?

Ms. Berkley responded: These are not necessarily new areas; they just haven't been started in the previous fiscal year. So artificial intelligence products and related services, IT staffing services, laboratory technology products and services, End-user IT outsourcing, geographic information systems hardware/software services and information technology based land survey hardware/software services which was repeated twice on the slide which is an error and there is also risk management services.

Mr. Becker responded: Generally, they have the end in terms of non-continuation from last fiscal year in that they were not an active procurement, or we did not have them on the list last year.

Mr. Tayon asked: So, some are existing contracts?

Mr. Becker responded: GIS and End-user are both under existing contracts.

Ms. Thompson asked: You mentioned risk-management solutions were in demanded from other agencies, can you expand on that?

Mr. Becker responded: Office of the Attorney General and the State Office of Risk Management are two examples of that. Offerings that help agencies streamline collection and analysis and recording of risk information. We are in the early research phase at this point.

Ms. Clark asked: Are there existing contracts for agencies to buy applications that sit on top of other products?

Mr. Becker responded: DocuSign would be one example.

Ms. Clark commented: I noticed that DIR uses Converge Point which is an app but that wasn't one that we found was available on a Cooperative Contract.

Ms. Parker responded: That's correct. More than likely we have an exemption that was submitted for Converge Point.

MOTION A motion was made to Approve the FY20 Procurement Plan by *Mr. Alvarado* and *Ms. Clark* seconded the motion.

ACTION The motion was unanimously approved

DISCUSSION Mr. Hershel Becker, presented brief updates on Cooperative Contracts and HUB which are included in the DIR Board Book.

TOPIC **7. Office of General Counsel Update**

DISCUSSION Mr. Martin Zelinsky, General Counsel, presented a couple of rule-making actions and because of a few new board members, he presented a brief overview of rulemaking. Every state agency has some rulemaking authority and DIR has rulemaking authority and that process is very formal because the rules that are adopted by this agency have the power of law. There is a very formal process behind it and the process and rules which will be presented are also in the DIR Board Book.

Ms. Christi Brisky, Assistant General Counsel, the first action presented today regards Texas Administrative Code Chapter 213 concerning Electronic and Information Resources.

Mr. Tayon asked: When will the change be published?

Ms. Brisky responded: It will be published for 30 days at which point the public and state agencies can comment.

MOTION A motion was made to approve the proposed rule amendment and authorization of publication in the Texas Register for thirty days for public comment the proposed amendment for 1 TAC 213, concerning Electronic and Information Resources by *Ms. Napier* and *Mr. Alvarado* seconded the motion.

ACTION The motion was unanimously approved

DISCUSSION Ms. Christi Brisky, the second action presented is the proposed adoption of 1 TAC 206 concerning State Websites.

Mr. Tayon asked: Other than the one comment mentioned requesting that the title be included as well as the numeric direct to the rule, were there any other comments? Also, for what period of time was it published?

Ms. Brisky responded: No other comments and it was published for 30 days.

MOTION A motion was made to approve the proposed rule and authorization of publication in the Texas Register of the notice of adoption for 1 TAC 206, concerning State Website by *Mr. Alvarado* and *Ms. Napier* seconded the motion.

ACTION The motion was unanimously approved

DISCUSSION Ms. Christi Brisky, presented the rule review schedule which is included in the DIR Board Book.

TOPIC **8. Legislative Update**

Mr. Robert Armstrong, Director of Public Affairs, gave a brief overview of the Legislative Session and the hard work DIR did during the session. Session began on January 8, 2019 and concluded on May 27, 2019. Over 7,300 bills were filed and a little over 1,400 made it to the Governor’s desk. Mr. Armstrong provided high-level detail of what has been accomplished in the previous three months and the legislation that involves DIR which is included in the DIR Board Book.

DIR has provided a tremendous amount of outreach to our customers, mostly state agencies including local entities as well. We’ve provided a great amount of documentation, implementation and other things for our customers both internally and externally.

TOPIC **9. Chief Technology Office Update**

Ms. Crawford stated that in the interest of time, the Chief Technology Office Update would be provided in the DIR Board Book.

Ms. Crawford commented on the Cloud Center of Excellence and the Tiger Team to help encourage cloud adoption with the agencies which has had tremendous success. As of this meeting, we have had 46 different agency sessions with the Cloud Tiger Team and this includes both DIR experts and our partners to create a sandbox environment where agencies can go in and explore what the possibilities are for their applications in the cloud.

TOPIC **10. Chief Information Security Office Update**

The update was provided to DIR board members in the DIR Board Book.

TOPIC **11. Chief Operations Office Update**

Mr. Dale Richardson, Chief Operations Officer, provided a high-level overview of the information provided in the DIR Board Book.

TOPIC **12. Statewide Data Coordinator Update**

The update was provided to DIR board members in the DIR Board Book.

13. Public Testimony

No public testimony

MOTION A motion was made to adjourn the meeting by *Mr. Tayon* and *Ms. Napier* seconded the motion.

ACTION The meeting adjourned at 12:45 p.m.

Approved by the Board Chair:

Ben Gatzke, Chair

Date