

**DEPARTMENT OF INFORMATION RESOURCES
OPEN BOARD MEETING**

Thursday, August 23, 2018, 10:00 a.m.

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

MINUTES

- PRESENT** Ben Gatzke (Board Chair)
Christian Alvarado
Stuart Bernstein
Charles Bacarisse
Mike Bell
Jay Dyer
Jeffrey Tayon
Bryan Collier, *ex-officio*
Melody Parrish, *ex-officio*
- ACTION** *Mr. Gatzke* called the meeting to order at 10:00 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 10:04 am.
- The executive session ended at 10:29 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** 3. Chair’s Remarks
- Consider approval of meeting minutes from the June 28, 2018, Special Topic Board Meeting.
- MOTION** A motion was made to approve the board meeting minutes by *Mr. Dyer* and seconded by *Mr. Alvarado*.
- ACTION** The motion was unanimously approved.
- TOPIC** **4. Executive Director’s Report on Agency Performance**
- DISCUSSION** Ms. Stacey Napier provided a brief report on agency performance. The actions considered by the board today are some of the most important you will take in your role as a board member. In addition to approving our operating budget for FY 2019, you are approving the proposed budget that we will present to the Legislature for FY 20/21. *Mr. Nick Villalpando* and his whole team have worked diligently over the last several months preparing this budget and I want to thank them for their efforts. I also want to thank

each of you, because I am proud to report 100% participation in our board budget briefings. That is certainly a testament to you and your commitment to producing the best possible budget for DIR.

The action of the board today is just the start of the legislative process for us. Beginning as soon as this afternoon, we will be sharing the board's decisions with legislative staff and at the budget hearing in September. Mr. Nick Villalpando will, of course, give you an in-depth presentation shortly, but I wanted to highlight some of the most important projects we are proposing for FY 19, 20 and 21.

From a structural perspective beginning in FY19, you will see the result of the legislative approval and contract restructuring of the Texas.Gov program and start seeing the revenues flowing in and out of DIR. From this we expect to realize efficiencies and savings, possibly resulting in fee reductions and program enhancements in the future. As discussed, this new structure provides transparency, greater visibility into program operations, and ultimately a better product to the citizens of Texas. An ongoing commitment to keeping the state's data centers in proper working order as we complete upgrades to the San Angelo Data Center in FY19. Also, a continued use of Procurement Assistance for our most important enterprise procurements, specifically Next Gen DCS.

You will see a continued commitment to providing security assessments and penetration testing to our customer agencies as well as opportunities for training.

The one exceptional item we have is for FY20/21 is related to cybersecurity, we are really looking for ways to reduce the state's risk for attack and elevate the cyber-health of our agencies. To that end we have proposed a risk-based multifactor authentication tool across all state agencies, a move that we believe will significantly reduce the risk of cyber-attack on our agencies.

In creating this budget, our focus was to always remember that our agency is fee driven and therefore one of our primary goals has to be to continue to provide value to our customer agencies. I believe that this budget achieves that goal, and more. As DIR continues to implement more shared services opportunities for our customers, our value continues to rise.

Ms. Napier took a moment to thank the DIR staff that has been working tirelessly since March to effectuate the transition of the Multi-Sourcing Services Integrator (MSI) and Texas.Gov projects. Those both go-live on September 1st and we are very much looking forward to having those successfully concluded.

The next board meeting is November 1, 2018.

TOPIC

5. Finance Update

DISCUSSION

Mr. Nick Villalpando, Chief Financial Officer, discussed DIR's financial operating results for FY 18-Q3, and presented DIR's operating budget request for fiscal year 2019 and our Legislative Appropriations Request (LAR) for fiscal years 2020-2021. In addition to

discussing these items with the Finance and Audit Subcommittee, Ms. Napier and I also had the opportunity to visit with each of you through the board budget workshops. We sincerely appreciate the time that each of you took to meet with us and discuss our financial operating structure and budget needs for the next three years.

For fiscal year 2018, based on our Q3 year to date results and Q4 forecast, we anticipate generating approximately \$31 million in operating revenue, after covering the cost of services. This amount is about \$1.3 million under revenue budget, due almost entirely to sales in our cooperative contracts program coming in under budget for the year. We do have a positive variance of almost \$5 million in our operating expenses, so for the year we are anticipating coming in almost at break even for the year on net revenue with about a \$104 thousand loss on the year. When the Board last met in May, we had anticipated an approximately \$2.3 million expense under-run in our operating budget. The primary reason for the increase is due to some delays that we experienced rolling out DIR's new cybersecurity assessments program.

As a result of the budget savings, we will now anticipate carrying over approximately \$5.5 million in fund balances into fiscal year 2019, well within our maximum fund balance restrictions.

DIR determines the total expenses that need to be recovered, forecast customer demand, set the fees to recover our costs and monitor throughout the year. There is quite a bit of work that takes place coordinating with agency leaders and operations teams throughout the year to establish the budget and to monitor the results during the year.

Our administrative fees for 2019 will remain at the 2018 amounts for all programs. We expect to generate about \$12.2 million in revenue in our cooperative contracts programs based on an estimated \$1.8 billion in customer purchases. Our Data Center Program should bring in about \$7.4 million in fee revenue based on \$250 million in customer volume. One item to note is that it is possible that our Data Center Customers could consume more of our services than estimated here, and should that occur, we will come back to the board at a later time with a potential budget amendment and request to exceed appropriations to LBB and state leadership.

We anticipate generating about \$11.3 million in operating revenue based on \$74 million in estimated customer volume next year through the Communications Technology Services (CTS) program. DIR is bringing the Texas.gov program into our operations. As a result, our financials will now include the revenue and expenditure activity for this program. We expect to generate about \$73 million in revenue, of which \$35.4 million is expected to be transferred to the State general revenue fund.

For 2019, the total budget request is \$394 million, of which \$359 million is for the cost of services for Data Center, Telecom, and Texas.gov. \$35 million (9%) is for DIR Operating Expenses. This budget represents a \$62 million increase over our estimated 2018 expenditures, primarily due to incorporating the Texas.gov program into DIR and increased consumption of our DCS and telecom services. The budget request includes two additional FTEs for enterprise relationship managers, funds for external procurement costs, general revenue for additional cybersecurity services, and budget to

continue our San Angelo Data Center infrastructure upgrades. DIR is not proposing any changes to our DIR fees for fiscal year 2019. We do have an addition of the Texas.gov fees, but those are also consistent with prior years.

Mr. Tayon asked: None of the fees that DIR charges will go up in FY 19 versus FY 18, is that correct?

Mr. Villalpando responded: That is correct.

Mr. Tayon asked: DIR customers will not see any fee increase.

Mr. Villalpando responded: That is correct.

Mr. Tayon asked: The 19% increase in revenues to DIR is coming from the change in the contracts but not in the fee structure.

Mr. Villalpando responded: That is correct.

MOTION A motion was made to approve the FY19 Annual Operating Budget and Administrative Fees by *Mr. Bacarisse* and seconded by *Mr. Bell*.

ACTION The motion was unanimously approved.

DISCUSSION During our board member budget workshops, we also discussed DIR legislative appropriations request for fiscal years 2020-2021. Once the LAR is submitted and DIR receives its appropriations for the next biennium, the Board will then come back next August to consider our FY20 operating budget based on the level appropriations received. This is the first step towards establishing our budgets for fiscal years 2020 and 2021.

This LAR includes a budget to complete the San Angelo Data Center Upgrades. We also anticipate an additional \$5 million for the biennium for Texas.gov enhancements. We are requesting exceptional item general revenue funding of \$12.1 million for the biennium to implement several cybersecurity initiatives to enhance the State's cybersecurity posture. This LAR also requests a budget for DIR to continue utilizing external procurement and implementation support for our major shared services programs, approximately \$3.8 million for the biennium.

We are also requesting two more FTEs in this biennium. One is part of our cybersecurity exceptional item and one in our Chief Procurement Office to assist with the volume of procurement solicitations that we have here at DIR. This LAR also assumes no increase in fees for Data Center Services, Telecom, and Texas.gov. However, we anticipate needing to re-evaluate the fees in the Cooperative Contracts program.

Mr. Villalpando thanked everyone involved in developing all the budgets that have been presented today. We sincerely appreciate the time that each of you took to meet with us to review our budget requests. We also appreciate the insight and feedback provided to us by the Finance and Audit Subcommittee. Mr. Villalpando also thanked

the entire DIR team for working so hard to develop these budgets, this includes folks from finance and agency divisions. Special thanks to two members of the finance department, Suzanne Krystopher, and Eric Freymuth, who have done an outstanding job.

Mr. Tayon asked: As part of your LAR request, you are asking the board to approve an increase in full-time equivalent from 206 to 208, is that correct?

Mr. Villalpando responded: Yes.

Mr. Tayon asked: What is the current number of full-time employees at DIR?

Mr. Villalpando responded: 192

Mr. Tayon asked: Is it accurate to say that at least to date, that prior to the LAR request, the only general revenue that DIR receives is the 1.7M a year that is to be used for security purposes?

Mr. Villalpando responded: Yes.

Mr. Tayon asked: Is the additional money that you are requesting from the general fund also for security purposes, to enhance the security of our data center and other operations throughout the State of Texas.

Mr. Villalpando responded: That is correct.

MOTION A motion was made to approve the FY20-21 Legislative Appropriations Request by *Mr. Bernstein* and seconded by *Mr. Tayon*.

ACTION The motion was unanimously approved.

TOPIC **6. Internal Audit Update**

DISCUSSION Ms. Cathy Sherwood, Acting Director for Internal Audit (IA), presented a status update/staff report. Internal Audit is on track to complete fiscal year 2018 planned audits in the next few weeks and the Fiscal Year 2019 Audit Plan. The Fiscal Year 2018 Annual Report that is due to the State Auditor's Office and state leadership by November 1st is also in process. Follow-up work on open action plans is ongoing.

Audit coordination with external auditors is ongoing with the goal to ensure that projects are managed within the established scope and timelines. Ms. Sherwood also discussed the two external projects: Texas Comptroller of Public Accounts is finalizing work on the DIR Post-Payment Audit, and KPMG will begin fieldwork in September 2018, on the Fiscal Year 2018 Federal Compliance Audit.

The Board is involved with Internal Audit to ensure proper governance of the agency. Although there were no changes to the two charters being shared with the Board, the Finance and Audit Subcommittee Charter and the Internal Audit Charter were provided

in your Board Book for the benefit of new Board members and to get approval and signoff from the current Finance and Audit Subcommittee Chair.

MOTION A motion was made to approve the Internal Audit Charter and Finance and Audit Subcommittee Charter by *Mr. Alvarado* and seconded by *Mr. Dyer*.

ACTION The motion was unanimously approved.

TOPIC **7. Chief Procurement Office**

DISCUSSION Mr. Hershel Becker, Chief Procurement Officer provided a brief update on FY18-Q3 to the board and discussed the procurement plan. Each year we develop our procurement plan giving our best knowledge for the upcoming fiscal year for Cooperative Contracts, Shared Technology Services, and Internal DIR purchases. The procurement plan is subject to change throughout the year and as it changes we will bring it back to the board.

Mr. Tayon asked: It looks like you have a target date for Voting Systems Products and Related Services that will end on November 1, 2018, prior to the election. What is that about?

Mr. Becker responded: This is at the request of the Texas Secretary of State (SOS) Office, they are looking to have contracts available to them and the counties for voting system products and related services. These services would not be available to the counties by the November elections, but SOS is asking for us to expedite it.

Mr. Tayon asked: Will it have a security component to it also?

Mr. Becker replied: Not specifically, it will to the extent that security is built into the systems.

Mr. Tayon asked: I also see that you have plans for artificial intelligence products and related services starting in January 2019, what is that about?

Mr. Becker replied: It's artificial intelligence, things to help with efficiencies, processes, and routines that can be built into systems to help handle a lot of the manual activities that can be automated. It's a broad category which is the nature of our cooperative contracts.

MOTION A motion was made to approve the FY19 Procurement Plan by *Mr. Dyer* and seconded by *Mr. Bacarisse*.

DISCUSSION Mr. Becker discussed the cooperative contract sales through May 2018. This quarter compared to sales in FY 17, we had a 4.9 decrease in sales. There are a couple of categories that are up this year, which includes K-12 and assistance organizations.

Mr. Becker discussed the HUB report, which is generally exceeding goals for FY 18 except for professional services contribute that to limited spend, which is audit services and legal services.

Ms. Parrish asked: Who sets the goal percentage on that?

Mr. Becker responded: DIR adopts the state goals, which is set by the Texas Comptroller's Office. Agencies have the flexibility to adopt the state goal or come up with their own.

Mr. Becker discussed the Managed Security Services (MSS). Through DIR's MSS contract, SOS is offering election system security assessments to counties. 106 counties have expressed interest, eight are currently going thru the process of utilizing the contract. Assessments will be provided to each participating county and are specific to election systems. County participation is voluntary; however, SOS is offering to grant funding, Help America Vote Act (HAVA). The county will order the work through DIR, but SOS approves and pays for the assessments.

Mr. Gatzke asked: The dollars available are free to the State and the County, all you have to do is sign up and you get the benefit of the security assessment for the election systems for that county.

Mr. Becker responded: Yes, with SOS approval for each of them.

Mr. Gatzke asked: What leverage do we have to encourage those sign-ups, 8 out of 254 is not very big.

Mr. Becker responded: Ms. Nancy Rainosek can talk about the initiatives around that later.

TOPIC

8. Office of General Counsel

DISCUSSION

Mr. Martin Zelinsky, General Counsel presented rulemaking actions for rule review and publishing notice of adoption for consideration. The Notice of Rule Review for 1 TAC Chapter 213, although it is entitled Electronic and Information Resources, primarily concern accessibility of information technology products by individuals with disabilities. The notice of rule review is to put the public on notice. This allows the public to provide comments prior to our bringing a proposed rule with changes, or adoption or repeal to the board.

MOTION

A motion was made to authorize publication for thirty days in the Texas Register a Notice of Rule Review for 1 TAC 213 – Electronic and Information Resources by *Mr. Bell* and seconded by *Mr. Bernstein*.

ACTION

The motion was unanimously approved.

Mr. Zelinsky presented a recommendation to adopt to 1 TAC 215 – Statewide Technology Centers for Data and Disaster Recovery Services, this was presented in a previous board meeting to post the proposed rules for comments. DIR did not receive any comments from the public, but we are making a change to the proposed rule due to a clerical error. The change is in paragraph 5, which staff comments that one change

was made in the state agency subchapter but not in the higher education subchapter. The information was in the preamble, it was not in the proposed rule. DIR is requesting approval to adopt the rule as amended with this change to what was in the proposed rule, with this adoption, and we will post the adopted rule.

Mr. Tayon asked: Should this now be republished for comment in view of the changes that were recently made?

Mr. Zelinsky responded: There are several reasons why we would go back and re-propose.

1. If we received a lot of comments on this particular section or rule in general. DIR did not receive any comments at all other than our own.
2. If there were material changes to the rule that was proposed.
3. If the Secretary of State pointed out to us for any reason that they require for us to re-propose.

Given that there were no comments other than our staff and no material changes to the rule, there would be no reason to re-propose. DIR's rules are always out there for customers to comment back to us on either for this change or something else. If a customer or a member of the public comes back to us and say there is something wrong with the rule and DIR should reconsider this. We will go in and review it without waiting for the rule review date and if necessary repropose the rule at that point.

Mr. Tayon asked: Do you consider this to be a material change?

Mr. Zelinsky responded: No, because we put the public on notice in the preamble and even though not in the text.

MOTION

A motion was made to approve an order for adopting the following rule and authorizing publication of the adoption of the new rule in the Texas 1 TAC 215 – Statewide Technology Centers for Data and Disaster Recovery Services by *Mr. Tayon* and seconded by *Mr. Bacarisse*.

ACTION

The motion was unanimously approved.

TOPIC

9. Chief Technology Office Update

DISCUSSION

Mr. John Hoffman, Chief Technology Officer, provided a brief update on the Chief Technology Office (CTO). Mr. Hoffman discussed the highlights of the Strategic Oversight Subcommittee meeting held on August 14th. Chad Lersch with Enterprise Services provided an update on the Next Generation Data Center Services strategy and he is continuing to support the vision in the procurement development process. Mr. Lersch is also ensuring transparency with our customers through presentations at the Business Executive Leadership Committee, the Customer Advisory Committee and at a breakout session during the TASSCC annual conference.

The Policy and Planning Team published the DIR's Agency Strategic Plan and provided the Subcommittee a review of the various reports due to the legislature in the upcoming months. An overview of the Biennial Performance Report, the IT Infrastructure Report,

and the Digital Storage Report was provided to the subcommittee by the Policy and Planning Director, Endi Silva. The Policy and Planning Team is also working to complete the implementation of House Bill 3275, which requires DIR to identify and formalize project performance indicators for major IT projects in the areas of cost, scope, schedule, and quality. The project indicators have been finalized and loaded into the QAT project tracking tool. Mr. Tom Niland and Ms. Patrice Wilson are currently working with agencies to load their project information into the system and they expect initial reporting to be published in early October.

TOPIC

10. Chief Information Security Office Update

DISCUSSION

Ms. Nancy Rainosek Chief Information Security Officer presented the highlights and performance measures for the Chief Information Security Office (CISO). DIR has hired a permanent Cybersecurity Coordinator, Ernesto Ballesteros. CISO worked with the Secretary of State's office to establish an election assessment to be purchased through the Managed Security Services Contract. There was a question earlier by the board chair regarding the 8 counties, CISO just finished this up in the last month.

There was a meeting with SOS, an election seminar was held that when the 106 counties expressed interest around August 1st. The fact that 8 counties are on board is really good move forward. This will take time to complete, every county must sign an interlocal agreement with DIR and go through the legal process and sometimes that take 2-3 months to get the contracts signed and to get the assessments moving forward. Ms. Rainosek will provide an update to the board of the number of counties, where we are in the process and if we need additional assistance to help get counties in.

DIR applied for a FEMA grant with the Governor's Office to fund the Cybersecurity Coordinator position. The Information Resources Employees Continuing Education Guidelines for Cybersecurity was published. CISO hosted two of the top two teams from the GirlsGoCyberStart competition here in Austin to an NSOC tour and a meeting with the Governor.

CISO have completed 42 penetration tests. We are on track to meet our number of 50 for the fiscal year. The participation rate was at 115 agencies or 80% for the third quarter. We completed 3 security assessments in the third quarter and the goal was 20 for the fiscal year. In December, the Legislative Budget Board informed DIR that our performance measure would be increased to 40 assessments for this fiscal year. However, due to the transition period for the MSS contract, we are unable to meet our assessment target for FY 2018. At this time, there are 22 assessments in the queue for 2019 and should not have a problem achieving our target.

Ms. Parrish asked: Is that a change for state agencies to get contract approval?

Ms. Rainosek responded: Agencies must sign the new agency agreement and will be whatever your legal process is. The contract is good for 3 years.

Mr. Tayon asked: What kind of success have you had with the security assessments"

Ms. Rainosek responded: No major issues at this time.

Ms. Parrish commented: We have had two security assessments done. We had one done and then did some work and asked DIR to come to do another one because it is a measurement for you to see where you are in your security maturity. Sometimes it takes a couple of years to go through the 40 controls and put things in place and have action items, so you can show some progress. Texas Education Agency (TEA) was one of the agencies that received cybersecurity funding. TEA will be requesting a third assessment once we complete all the work. This service is very valuable to us.

TOPIC **11. Chief Operations Office**

DISCUSSION Mr. Dale Richardson, Chief Operations Officer informed the board that he will present the update for the Data Center Services (DCS) program, Texas.gov and Communication Technology Services (CTS).

TOPIC **12. Data Center Services Update**

DISCUSSION Service Level Attainments for FY 18-Q3 was good, no missed minimums for March and only 4 missed minimums for April and May 2 were due to Xerox print mail, 1 Managed Applications Services and one for a server issue. Customer Satisfaction for March and April achieved 100% overall satisfaction and one needs improvement in May related to one backup server. Public Cloud Adoption, the percentage of Public Cloud workload increased significantly from the previous quarter of 4.77%. We expect this trend to continue as more and more agencies look to leverage our Hybrid Cloud Services in the future.

TOPIC **13. Texas.gov Update**

DISCUSSION There were 13.9 million transactions in FY 18-Q3. Total revenue increased by 2.7 million over Q2 and state share increased by 800k. The majority of the increase in revenue came from an increase in transactions for driver records and vehicle inspections. The application reliability performance for the 3rd quarter of FY 18. The targets range from 99.8%, March and April were met at 100% and May was met at 97%.

That go-live gold star represents a lot of significant changes for the Shared Technology Services program. The new MSI contract with Capgemini goes into effect with a new tools platform and the new Texas.gov business and financial model goes live on 9/1. Throughout the transition process, we've been communicating with customers via townhalls, radio shows, and targeted email messaging. Customer training for the new tools platform began in early August and we've had a lot of participation. They've asked great questions and helped us communicate what is important to their business. We are extremely appreciative of the involvement of all the customers. Mr. Richardson thanked DIR and Texas.gov team on behalf of Ms. Buaas for all their hard work and recognized Dave Tucker, Kyle Cox and Dave Ballinger for their work on this project.

Mr. Richardson informed the board that we did have a successful production cutover of all of the Texas.gov networking to the State Data Center. At the same time, we were able to modernize technology to ensure that we have an effective disaster recovery model in place. We appreciate all the support from our service providers during this

major move. In addition, the DIR internal team was invaluable to the success of this migration.

TOPIC **14. Communications Technology Services Update**

DISCUSSION Mr. Richardson provide an update on Communications Technology Services (CTS). Sam Houston Building Facility Upgrade for DIR is 35%. DIR continues to work with Texas Facility Commission (TFC) on hardening of core network. The HVAC system has been replaced in the DIR equipment room. TFC estimates completion date of FY19 -Q2.

Mr. Bacarisse asked: You are dealing with technology upgrades in really old buildings. Has this impacted the time schedule for you?

Mr. Richardson responded: No, the impact has been for the facilities commission to hire a general electrician because it is so much work going on in Austin.

TOPIC **15. Office of Statewide Data Coordination Update**

DISCUSSION Mr. Ed Kelly, Statewide Data Coordinator, provided a brief update on the Statewide Date Program (SWDP) highlights for the FY 18-Q3. Significant work was conducted related to the procurement of the Open Data Portal (ODP). The down selected vendor (Socrata) was taken into negotiations, which ultimately lead to a final contract. SWDP also worked with the OAG office and their Human Trafficking division in preparation for the ATX-Hackathon. SWDP also rolled out the Texas Statewide Data Exchange Compact, a standard MOU to allow state agencies to facilitate inter-agency data sharing. To date, Texas Department of Public Safety and Texas Workforce Commission have signed the Compact.

Mr. Kelly discussed the list of current ODP publishing entitles, total datasets, visits, downloads since inception to July 31, 2018. We are moving to the new platform through the Socrata platform, we anticipate additional customers. Texas Secretary of State (SOS) will be one of the new customers for ODP, after we convert over on September 6th, we will be working with SOS to bring them on board.

Mr. Bacarisse asked: What do you anticipate the traffic to be once Texas Secretary of State (SOS) signs onto to ODP.

Mr. Kelly responded: The SOS has asked to practice for a moment with it, they would like to do it in a private mode. They have a lot of public information requests that they hope can be ultimately addressed using the Open Data Portal.

Mr. Bacarisse asked: What drives the data for Texas Department of Family Protective Services (DFPS)?

Mr. Kelly responded: DFPS has always been a strong customer of providing open data for the transparency of the services that they provide. If you were to take a look at the type of information that they have out there, it probably aligns with their open records requests that they receive. DFPS is a strong supporter of the program.

TOPIC **16. Public Testimony**

No public testimony

Mr. Gatzke thanked the board for the continued participation and efforts especially through this budgeting cycle and appreciates your engagement in subcommittee levels and preparedness, which allows for the meetings to go smoothly.

MOTION A motion was made to adjourn the meeting by *Mr. Bacarisse* and *Mr. Alvarado* seconded the motion.

ACTION The meeting adjourned at 11:41 a.m.

Approved by the Board Chair:

Ben Gatzke, Chair

Date