



December 7, 2017

Engagement Letter

Dear Lisa Llamas,

We look forward to the opportunity to perform audit services for the Texas Department of Information Resources (the Agency). This letter is to confirm our engagement to provide audit services and to set the scope, services and deliverables, acceptance of services and deliverables, roles, responsibilities, Staffing Plan, timing, confidentiality of information, dispute resolution, fee arrangements, and requirements. Your single point of contact for the services under this Engagement Letter is Lissette Nadal, DIR Director of Internal Audit. This Engagement Letter forms part of the contract between **Crowe Horwath LLP** and the Texas Department of Information Resources having the number **DIR-IA-2596** (the "Contract"). This Engagement Letter shall constitute an Appendix D document under the Contract. All references herein to "audit services" shall be deemed to be references to Internal Audit services and not to financial statement audit services or other forms of attest or assurance services as defined by the American Institute of Certified Public Accountants (AICPA).

This document also captures the current understanding of the scope and time estimation, describes the approach and contains details of the activities and responsibilities for both parties in accordance with the deliverables and associated tasks mentioned in the Data Center Services (DCS) Compliance with the Texas Administrative Code (TAC) audit services request dated **December 7th, 2017** and **Crowe Horwath LLP** Internal Audit project scope dated **December 19th, 2017**

Objective(s) and Scope of Audit Services

We will work with the DIR Director of Internal Audit and subject matter experts and/or points of contact of the Agency to perform audit services of the agency's operations in accordance with the DIR Internal Audit Charter approved by the DIR Board.

The audit work will be performed in accordance to the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (The IIA), and the Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States, as required by Chapter 2102 of the Texas Government Code, also known as the Texas Internal Auditing Act.

The following assurance audit was included in the Fiscal Year 2018 Internal Audit Annual Plan.

Data Center Services (DCS) Compliance with the Texas Administrative Code (TAC)

Assurance audits are defined as objective examinations of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for DIR.

Preliminary Objective(s)

The preliminary objective of this assurance audit is to assess whether the DCS are performed in accordance to the requirements of the Texas Administrative Code, Chapters 202 and 215.



Preliminary Scope

In determining DCS compliance with the Texas Administrative Code, Chapters 202 and 215, the audit should address: 1) DIR or its contractor(s) compliance with the TAC rules, 2) DIR or its contractor(s) design and implementation of required security controls included in the Security Control Standards Catalog, and 3) validation of the operating effectiveness of the implemented security controls. Any required control that is relevant to the security, availability, processing integrity, confidentiality, or privacy over the DCS information systems' or their data must be determined in scope to accomplish the objective(s) of this audit.

The TAC requirements are publicly available in the Office of the Secretary of State's website.

- TAC 202 – [http://texreg.sos.state.tx.us/public/readtac\\$ext.ViewTAC?tac_view=4&ti=1&pt=10&ch=202](http://texreg.sos.state.tx.us/public/readtac$ext.ViewTAC?tac_view=4&ti=1&pt=10&ch=202)
- TAC 215 – [http://texreg.sos.state.tx.us/public/readtac\\$ext.ViewTAC?tac_view=4&ti=1&pt=10&ch=215](http://texreg.sos.state.tx.us/public/readtac$ext.ViewTAC?tac_view=4&ti=1&pt=10&ch=215)

The Security Control Standards Catalog is publicly available in the DIR's website.

- Security Control Standards Catalog – <http://dir.texas.gov/View-Search/Generic.aspx?keyword=security%20%20control%20%20standards%20%20catalog>

Results of initial planning discussions for in-scope areas will be incorporated into a Planning Summary. The purpose of the Planning Summary is to (1) document that the audit team has planned the audit in accordance with professional standards, and (2) document the results of planning, including:

- Refined audit objective(s),
- Consideration of related risks,
- Information systems requiring testing for data reliability purposes,
- Determined scope and methodology for fieldwork,
- Relevant background information, and
- Proposed milestone dates and budget for completing the audit.

The Planning Summary is a deliverable and it is included as part of the "Deliverables and Work Activities".

Engagement Letter Scope

The period covered by this Engagement Letter shall commence on the last date of signature by DIR and **Crowe Horwath LLP**. This Engagement Letter and all its aspects shall be for the period covered under this Engagement Letter unless terminated, renewed, or extended by DIR.

Deliverables and Work Activities

The following are the deliverables and work activities the vendor will perform under this assurance audit:

- **Entrance Conference – Estimated Start Date is January 8, 2018**
- Risks and Controls Assessment
- Planning Summary
- Audit Program (Fieldwork Program)
- Draft Report



- Exit Conference
- Draft Report – Referenced
- Draft Report with Management Responses
- Meeting with the Executive Director
- Meeting with the Finance and Audit Subcommittee, if requested
- Meeting with the DIR Board, if requested
- **Final Report – May 14, 2018 – Estimated End Date**

Approved Staff, Availability and Certifications

At a minimum, an experienced and qualified “preparer” and “reviewer” are required for this assurance audit. The audit services will also require qualified staff with experience in auditing Information Technology (IT) and Information Security Systems. Personnel requested for this audit should have credentials or certifications to include a minimum of one (1) Certified Information Systems Auditor (CISA), one (1) Certified Information Systems Security Professional (CISSP), and one (1) Confidentiality, Integrity and Availability (CIA) professional or equivalent.

Audit Staff Name	Certification(s) (CISA, CISSP, CIA or Equivalent)	Title	Role	Required Availability	Required Location
Lisette Nadal	N/A	DIR Director of Internal Audit	Point of Contact	M-F 8:00AM – 5:00PM	Local, On-site, DIR Headquarters
Chris Wilkinson	CISSP, CRISC	Principal	Preparer	M-F 8:00AM – 5:00PM	Local, On-site, DIR Headquarters
Mark Maraccini	CPA	Partner	Reviewer	M-F 8:00AM – 5:00PM	Local, On-site, DIR Headquarters
Chris Mitchell	CIA, CISA	Principal	Reviewer	M-F 8:00AM – 5:00PM	Local, On-site, DIR Headquarters
Tom Sideras	CISSP	Manager	Auditor	M-F 8:00AM – 5:00PM	Local, On-site, DIR Headquarters
Mitchell Hennigan	OSCP	Senior Consultant	Auditor	M-F 8:00AM – 5:00PM	Local, On-site, DIR Headquarters
Alex Uresti	N/A	Consultant	Auditor	M-F 8:00 AM – 5:00 PM	Local, On-site, DIR Headquarters

Replacement of Named Audit Staff

If either resource named above is not available or for the replacement of any personnel who may be deemed to be unacceptable by DIR, **Crowe Horwath LLP** shall propose replacement staff to provide services. Replacement staff shall be of similar or increased experience and qualifications. DIR reserves the right to reject any proposed replacement personnel. **Crowe Horwath LLP** may be required to provide a resume, certifications, and/or any other information necessary for DIR to make a determination of the acceptability of the proposed personnel.



Acceptance of Deliverables

Crowe Horwath LLP will provide services and/or work products by the specified due dates, if applicable. For any deliverable provided by **Crowe Horwath LLP** related to this audit service, the Director of Internal Audit or designee will have ten (10) business days to review and either accept or reject each deliverable in writing. If acceptance or rejection is not possible within this time period, DIR and **Crowe Horwath LLP** will mutually determine the necessary additional time for review. In the event a deliverable is not acceptable due to a material and substantial non-conformity, the Director of Internal Audit or designee will provide **Crowe Horwath LLP** a written notice of such non-acceptance with sufficient detail to clearly identify the reason for non-acceptance. **Crowe Horwath LLP** will have ten (10) business days following receipt of such notice of non-acceptance to use reasonable commercial efforts to cure or remedy the problems detailed therein, and resubmit the deliverable to DIR.

In the event the DIR Director of Internal Audit cannot reach agreement about: i) the acceptance of deliverables, ii) the achievement of milestones, or iii) the resolution of routine disputes that may arise during the course of the performance of this Engagement Letter or related contract,

1. The parties can repeat the previous process until acceptance of the deliverables.
2. The matter shall be referred to the DIR General Counsel and the Legal Unit of **Crowe Horwath LLP** in a jointly executed Memorandum of Referral, signed by both DIR Director of Internal Audit and **Crowe Horwath LLP** single point of contact, for resolution no later than five (5) business days after the memorandum is received by both legal teams. In the event that the Director of Internal Audit and/or **Crowe Horwath LLP** single point of contact refuses to sign the pro-offered Memorandum of Referral within five (5) business days of receipt, the referring party may note "refused to sign" on the memorandum and forward it to the corresponding legal units. In the event of failure of DIR and the audit firm to reach a resolution through this process, **Crowe Horwath LLP**, that is dissatisfied, may proceed with the dispute resolution process provided in Chapter 2260 of the Texas Government Code, to the extent applicable, and DIR, if dissatisfied, may exercise its available legal remedies, as appropriate.
3. DIR may terminate this Engagement Letter.

Responsibilities of DIR Internal Audit

- Facilitate the vendor with the on-site space, equipment, network access, and materials necessary to conduct the audit work.
- Provide the vendor with access to DIR's information, activities, programs, property, staff, records, or electronic systems relevant to accomplish the audit work.
- Coordinate with the vendor in a reasonable manner to ensure timely completion of the audit work.
- Monitor the vendor's performance under the contract.
- Provide the vendor with statement documents and templates.
- Coordinate and approve the scope and frequency of audit services, including work deliverables with assistance from the DIR Internal Audit staff.



- Approve the qualifications of the vendor's staff providing audit services and staffing changes.
- Coordinate and schedule meetings between the vendor's staff and DIR staff, as needed.
- Coordinate with the vendor's staff critical deadlines and deliverables, and approved deviations.
- Provide timely approval of work and deliverables, indicating either acceptance or rejection (with reasons for rejection).
- Coordinate with the DIR General Counsel's Office to exclusively handle all Open Records Requests related to the work performed under the contract.
- Approve periodic and final time sheets or reports for time tracking and billing purposes.
- Issue final report to communicate the results of the audit.

Responsibilities of the Vendor

- Provide a main point of contact for the audit service requested.
- Abide to the proposed audit scope.
- Make available the DIR Director of Internal Audit, or designee, all the work papers, information, data, status reports, timesheets, and documentation relevant and necessary to conduct the audit work as it is being prepared and/ or reviewed. DIR Internal Audit templates and software (TeamMate Audit Management System) must be used to document the work performed.
- Notify the DIR Director of Internal Audit of any perceived delays resulting from lack of timely response by DIR staff or vendor staff that might jeopardize the completion of the audit work by the planned deadline(s).
- Notify the Director of Internal Audit of any staffing changes and request approval for replacement of audit staff. Replace audit staff with the same experience and qualifications, if needed.
- Provide resumes and certificates of the staff performing the audit work on behalf of DIR Internal Audit.
- Provide and deliver reviewed audit work at the expected quality level, in a timely manner, and consistent with acceptable auditing standards, law, professional practices and DIR Internal Audit policies and procedures.
- Coordinate with the DIR Director of Internal Audit to present the results of the audit work to the DIR Executive Director, executive leadership staff, and DIR Board.
- Maintain the confidentiality of DIR records, information, and data. Review and sign a Confidential Treatment of Information Acknowledgement (CTIA) Statement.
- Maintain his or her independence and objectivity and freedom from conflicts of interest. Review and sign an Independence Statement.
- Submit a copy of the most recent external quality assurance assessment (Peer Review) report, if applicable.
- Conduct a rigorous background check. Each member of the vendor's staff assigned to perform audit work will be subject to a rigorous background check. The results of the background check must be approved by DIR before commencement of the audit work.



Timing and Delivery of Services

The anticipated start date for these services is January 15, 2018, with an estimated completion date for services of May 14, 2018. Audit services will begin upon mutual agreement, as stated in the Engagement Letter. We will, at all times, coordinate our work with you to provide the least disruption of the DIR's day-to-day operations.

Confidentiality of Information

Crowe Horwath LLP will maintain the confidentiality and security of audit work papers and DIR's confidential information in accordance with applicable professional standards. Accordingly, **Crowe Horwath LLP** will maintain and execute the required safeguards to protect the confidentiality of the audit work papers and DIR's confidential information.

Crowe Horwath LLP agrees that DIR shall have no liability to **Crowe Horwath LLP** or to any person or entity for disclosing information in accordance with the Public Information Act. It is solely **Crowe Horwath LLP** obligation to assert and maintain the confidential or proprietary nature of any information it provides in its response.

Crowe Horwath LLP and any affiliate, subsidiary, parent company, employee, agent or subcontractor shall maintain in a strictly confidential manner any and all information or materials of any kind that are compiled, created, developed, or otherwise obtained from DIR for the internal audit services requested under this Engagement Letter and shall not disclose or otherwise promulgate such confidential information or materials to any person without the express written permission of DIR. Violations may lead to immediate termination of this Engagement Letter and legal action.

Dispute Resolution

Both parties agree that any dispute between DIR and **Crowe Horwath LLP** arising from the services and/or deliverables performed under this Engagement Letter or related contract, or breach of it, may, if negotiations and other discussion fail, be resolved using the dispute resolution process provided for in Chapter 2260 of the Texas Government Code. Actions or proceedings arising from this Engagement Letter or related contract shall be heard in a state court of competent jurisdiction in Travis County, Texas.

In the unlikely event that circumstances occur which **Crowe Horwath LLP** in its sole discretion believe could create a conflict with either the ethical standards of **Crowe Horwath LLP** or the ethical standards of the profession in continuing our services, **Crowe Horwath LLP** may suspend the services until a satisfactory resolution can be achieved or may resign from the services. **Crowe Horwath LLP** will notify the Director of Internal Audit of such conflict as soon as practicable, and will discuss with any possible means of resolving them prior to suspending the services.

This Engagement Letter is also subject to termination by either party upon reasonable notice for any reason. If there were to be such a termination; however, DIR would remain liable for any unpaid charges for services provided **Crowe Horwath LLP**.



Invoices for Audit Services

Crowe Horwath LLP may submit an invoice to DIR for audit services, provided in conjunction with this Engagement Letter and related Purchase Order that have been successfully completed and accepted in writing by DIR.

Crowe Horwath LLP may submit a timely invoice(s) to DIR for audit services that have been successfully completed and accepted in writing by the DIR Director of Internal Audit or his or her designee. Invoices for audit services may be submitted in accordance to the guidelines depicted in the table below.

Invoice Type	Assurance Services (A)	Consulting Services (C)	Financial Audits (F)	Audit Projects (P)
One-time invoice at the end of audit work not exceeding the agreed fixed-fee amount.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

At a minimum, the invoice shall include the following:

- The services performed during the period covered by the invoice.

DIR will serve as client for the audit services provided and will remit payment to **Crowe Horwath LLP**. DIR shall comply with Chapter 2251, Texas Government Code, in making payments to **Crowe Horwath LLP**. The statute states that payments for goods and services are due thirty (30) calendar days after the goods are provided, the services completed, or a correct invoice is received, whichever is later. Payment under this Engagement Letter shall not foreclose the right to recover wrongful payments. As per Section 151.309, Texas Tax Code, DIR under this Engagement Letter is exempt from the assessment of State sales, use and excise taxes. Further, DIR under this Engagement Letter is exempt from Federal Excise Taxes, 26 United States Code Sections 4253(i) and (j).

Crowe Horwath LLP shall submit invoices to DIR addressed as follows:

Department of Information Resources
 Attention: Accounts Payable
 300 West 15th Street
 Suite 1300
 Austin, TX 78701

Fees

Total compensation for this Internal Audit assurance audit shall not exceed **\$169,680** absent any amendments signed by the parties. This amount includes travel expenses, if any, and audit direct time only.

Requirements



- A DIR Board member, **Crowe Horwath LLP**, or DIR employee may not have a direct interest in the gains or profits executed by DIR pursuant to this Engagement Letter and may not receive any payment or emolument for any service performed for DIR.
- **Crowe Horwath LLP** shall hold DIR harmless for and shall indemnify DIR against any and all claims, losses, damages, or liabilities arising out of, or in connection with, the negligent acts or omissions of **Crowe Horwath LLP**, its agents, employees, or subcontractors, arising out of or in connection with any aspect of the audit staff requirements or performance under this Engagement Letter or related contract.
- **Crowe Horwath LLP** agrees that it shall not have the right to assign, transfer or convey any of its rights, title, or interest hereunder or to delegate any of its duties or obligations without the prior written consent of DIR.
- In the event that **Crowe Horwath LLP** fails or refuses to perform, or is negligent in the performance of any of its duties or obligations as provided by this Engagement Letter, DIR without limiting any other rights or remedies it may have by law, equity, or contract, shall have the right to terminate this Engagement Letter immediately.
- Any planned or proposed use of subcontractors shall be clearly documented and communicated in writing to DIR.
- **Crowe Horwath LLP** shall maintain, at its expense, professional liability (errors and omissions) insurance coverage that provides a minimum limit of liability per occurrence of \$1,000,000, to pay on behalf of the insured all sums which the insured shall become legally obligated to pay as damages by reason of any negligent act, error, or omission of the audit firm arising out of the performance of its professional duties under this Engagement Letter.
- If coverage is written on a claims-made basis, the retroactive date shall be prior to or coincident with the term of this Engagement Letter and the certificate of insurance shall state that the coverage is claims made and indicate the retroactive date. This coverage shall be continuous and will be provided for twenty-four (24) months following the completion of this Engagement Letter.
- **Crowe Horwath LLP** understands that acceptance of state funds under this Engagement Letter acts as acceptance of the authority of the State Auditor's Office (SAO) to conduct an audit or investigation in connection with those funds. **Crowe Horwath LLP** further agrees to cooperate fully with the SAO in the conduct of the audit or investigation, including providing all records requested. **Crowe Horwath LLP** agrees the SAO shall at any time have access to and the rights to examine, audit, excerpt, and transcribe any pertinent books, documents, audit documentation, and records relating to this Engagement Letter.

We appreciate the opportunity to be of service to you and believe that this Engagement Letter accurately summarizes the significant terms of the audit service.

If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy to confirm your understanding, and return it to us.

