



An Audit Report on

**Selected Agencies' Use of
Department of Information Resources
Information Technology
Staffing Services Contracts**

March 2016

Report No. 16-020



An Audit Report on

Selected Agencies' Use of Department of Information Resources Information Technology Staffing Services Contracts

SAO Report No. 16-020
March 2016

Overall Conclusion

The Department of State Health Services (DSHS) and the Texas Workforce Commission (TWC) generally complied with requirements for obtaining information technology staffing services through Department of Information Resources (DIR) contracts. However, DSHS and TWC should strengthen certain aspects of their processes for using those contracts.

Contract Planning and Procurement. DSHS and TWC documented their justifications for selecting specific contractors¹ from approved vendors to provide services for all of the purchase orders² tested.

Contract Formation and Oversight. DSHS and TWC had adequate procedures to obtain and document approvals prior to making changes that would result in an increase in the dollar amount on a purchase order associated with a DIR contract. In addition, DSHS and TWC adequately monitored the contractors tested, and all associated payments were approved and fully supported by invoices. However:

- DSHS and TWC should include additional steps in their procedures to verify that the vendors to which they issued purchase orders conducted due diligence regarding (1) confirmation of the employment eligibility of their staff who will provide services and (2) disclosure of any actual or potential conflicts of interest.
- Although it is not statutorily required, TWC performed criminal background checks for each of the contractors tested. DSHS should consider performing criminal background checks when hiring contractors to maintain or develop

Background Information

Texas Government Code, Section 2157.068, requires the Department of Information Resources (DIR) to procure commercial software, hardware, or technology services, other than telecommunications services, that are generally available to businesses or the public and for which DIR determines that a reasonable demand exists in two or more state agencies.

Through its Information and Communications Technology Cooperative Contracts Program, DIR establishes contracts with vendors to provide information resources technology products and related services, including information technology staffing services contracts.

In addition to state agencies and higher education institutions, Texas Government Code, Section 2054.0565, allows local governments, school districts, assistance organizations, and out-of-state governmental entities to use those contracts to obtain discounts not generally available to single customers.

From September 1, 2012, through October 31, 2015, the vendors associated with DIR's information technology staffing services contracts self-reported sales totaling \$383,714,691.

Source: data.texas.gov.

¹ For the purposes of this report only, the term "contractor" refers to the individual who provides services (and not the vendor with which DIR has a contract).

² Entities procure information technology staffing services through DIR's contracts by issuing purchase orders.

critical systems or hiring contractors who will have access to potentially sensitive information.

Contract Management Function. DSHS and TWC purchasers responsible for the procurement of the purchase orders tested complied with the training and certification requirements in the *State of Texas Procurement Manual*. However, neither DSHS nor TWC had adequately documented procedures for obtaining and managing information technology staffing services. Although it was not applicable to the purchase orders tested, DSHS and TWC also should require all contract managers to disclose potential conflicts of interest to ensure compliance with Texas Government Code, Section 2261.252 (which became effective on September 1, 2015). In addition, the Health and Human Services Commission (HHSC), which performs procurement operations for DSHS, should ensure that all purchasers complete conflict of interest statements annually.

Implementation of Prior Audit Recommendations. DIR had fully implemented 18 (54.5 percent) of the 33 prior audit recommendations in *An Audit Report on the Information and Communications Technology Cooperative Contracts Program at the Department of Information Resources* (State Auditor's Office Report No. 14-007, October 2013). It had substantially implemented seven prior audit recommendations, and its implementation of six prior audit recommendations was incomplete or ongoing. Two prior audit recommendations were not implemented.

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

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating ^a
1	DSHS's Use of DIR's Information Technology Staffing Services Contracts Generally Complied with State Laws, Rules, Policies, and Procedures; However, DSHS Should Improve Certain Aspects of Its Contract Management Processes Related to Those Contracts	Medium
2	TWC's Use of DIR's Information Technology Staffing Services Contracts Generally Complied with State Laws, Rules, Policies, and Procedures; However, TWC Should Improve Certain Aspects of Its Contract Management Processes Related to Those Contracts	Medium
3	DIR Fully Implemented More Than Half of the Audit Recommendations in a Prior State Auditor's Office Report, But It Should Complete the Implementation of the Remaining Recommendations That Auditors Identified as Substantially Implemented or Incomplete/Ongoing	Medium

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

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

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

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

Summary of Management's Response

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

Audit Objectives and Scope

The objectives of this audit were to:

- Determine whether selected state agencies used DIR's information technology staffing services contracts in accordance with applicable statutes, rules, and agency policies and procedures.
- Determine the implementation status of prior State Auditor's Office (SAO) recommendations related to the information technology staffing services contracts and evaluate whether management has taken corrective actions to address the recommendations as reported in *An Audit Report on the Information and Communications Technology Cooperative Contracts Program at the Department of Information Resources*, SAO Report No. 14-007, October 2013.

The scope of the first objective covered DSHS's and TWC's information technology staffing services procurements during the period from September 1, 2012, through September 1, 2015.

The scope of the second objective covered contracts that DIR had established on or after the date the prior audit recommendations were implemented, as reported by DIR management. The scope also covered changes to policies, procedures, and contract templates as of the date of recommendation implementation as reported by DIR management. The audit concentrated on all phases of the contract management process (the contract management function, planning, procurement, formation and cost-savings, and oversight).

Contents

Detailed Results

Chapter 1
DSHS’s Use of DIR’s Information Technology Staffing
Services Contracts Generally Complied with State Laws,
Rules, Policies, and Procedures; However, DSHS Should
Improve Certain Aspects of Its Contract Management
Processes Related to Those Contracts..... 1

Chapter 2
TWC’s Use of DIR’s Information Technology Staffing
Services Contracts Generally Complied with State Laws,
Rules, Policies, and Procedures; However, TWC Should
Improve Certain Aspects of Its Contract Management
Processes Related to Those Contracts..... 8

Chapter 3
DIR Fully Implemented More Than Half of the Audit
Recommendations in a Prior State Auditor’s Office
Report, But It Should Complete the Implementation of
the Remaining Recommendations That Auditors
Identified as Substantially Implemented or
Incomplete/Ongoing 14

Appendices

Appendix 1
Objectives, Scope, and Methodology 25

Appendix 2
Issue Rating Classifications and Descriptions..... 31

Detailed Results

Chapter 1

DSHS's Use of DIR's Information Technology Staffing Services Contracts Generally Complied with State Laws, Rules, Policies, and Procedures; However, DSHS Should Improve Certain Aspects of Its Contract Management Processes Related to Those Contracts

Chapter 1
Rating:
Medium³

The Department of State Health Services' (DSHS) use of Department of Information Resources' (DIR) information technology staffing services contracts generally complied with state laws, rules, policies, and procedures. Auditors tested five DSHS purchase orders for information technology staffing services that totaled \$2,695,670. The results of that testing identified opportunities to improve certain aspects of its contract management processes related to these contracts.

Contract Management Function.⁴ DSHS had documented procedures that addressed most of its processes for obtaining information technology staffing services through a DIR contract. However, the version of those procedures effective from December 2011 through May 2015 did not adequately address DSHS's internal procedures for:

- Complying with DIR-established competitive solicitation and best value purchase methods (see text box for the definitions of both methods).
- Renewing or extending a purchase order for an existing, filled, contractor position.
- Filling a vacant contractor position.

DIR's Purchase Methods for Information Technology Staffing Services Contracts

When acquiring information technology staffing services through a DIR contract, a customer may use (1) the competitive solicitation method or (2) the best value method.

Both purchase methods require the consideration of qualified TIBH Industries candidates and require the customer to issue a purchase order directly payable to the vendor. However:

- A customer may use the competitive solicitation method when it knows the qualifications it needs in a contractor and wishes to review qualified candidates from multiple vendors, including TIBH Industries.
- A customer may use the best value method when it knows the qualifications it needs in a contractor and has already identified a specific vendor and contractor.

When using the best value method, a state agency customer must provide DIR with a best value letter of justification that includes the reason for selecting a specific contractor and key information regarding the selected vendor and contractor.

Source: DIR.

³ Chapter 1 is rated as Medium because it presents risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concerns and reduce risks to a more desirable level.

⁴ The contract management function consists of an agency's policies, procedures, and processes for effectively planning, procuring, forming, and administering contracts to ensure compliance with laws, rules, and regulations.

- Overseeing the contractor and the services provided, including steps for recording hours worked and reviewing and reconciling time sheets with invoices.

However, with the exception of a procedure for overseeing contractors, DSHS incorporated the procedures listed above into its procedures dated June 2015.

The Health and Human Services Commission (HHSC) purchasers for the five purchase orders tested complied with the training and certification requirements in the *State of Texas Procurement Manual* (see text box for more information on HHSC's role in health and human services agency procurement). In addition, the DSHS contract managers for the purchase orders tested were qualified to manage information technology staffing services procured through DIR contracts. However:

- HHSC could not provide the purchasers' annual conflict of interest statements, required by the *State of Texas Procurement Manual*, that were in effect when three⁵ of the five purchase orders tested were issued.
- The *HHS Procurement Manual* (manual) and the *HHS Contract Management Handbook* (handbook), with which all health and human services agencies must comply, did not address conflicts of interest for contract managers who select and negotiate hourly rates with vendors for information technology staffing services. The manual requires only nepotism disclosure forms for purchasing personnel prior to the award of a major contract. Although it was not applicable to the purchase orders tested, as of September 1, 2015, Texas Government Code, Section 2261.252, requires each state agency employee involved in the procurement or management of a contract with a private vendor to disclose to the agency any potential conflicts of interest.

DSHS Information Technology Staffing Services Purchases

According to vendor self-reported sales information, from fiscal year 2013 through fiscal year 2015, DSHS's purchases of information technology staffing services through DIR contracts totaled \$34,194,523.

Source: data.texas.gov.

Role of the Health and Human Services Commission

According to a Health and Human Services Commission (HHSC) memo, all procurement operations and personnel across each of the health and human services agencies were consolidated with HHSC's procurement and contracting services (PCS) division effective April 1, 2013.

While the *HHS Procurement Manual* and *HHS Contract Management Handbook* apply to all health and human services agencies, each health and human services agency may develop additional policies and procedures that meet or exceed the minimum requirements of that manual and that handbook.

HHSC's PCS division is responsible for reviewing procurement request documentation and issuing purchase orders for information technology staffing services contracts on behalf of the Department of State Health Services (DSHS). However, DSHS is responsible for the planning and oversight of information technology staffing services procured through a DIR contract.

Source: HHSC.

⁵ One of those three purchase orders was issued on September 1, 2012; the other two purchase orders were issued on September 1, 2013.

- DSHS's procedures, the manual, and the handbook did not include steps to ensure that the vendors for information technology staffing services represent and warrant that their provision of services does not constitute an actual or potential conflict of interest, as required by the *State of Texas Contract Management Guide*. While the handbook and the manual both include requirements for solicitation respondents to disclose any potential conflicts of interest, there are no documented requirements for disclosing conflicts of interest when issuing purchase orders for information technology staffing services through DIR contracts.

Contract Formation. DSHS and HHSC had an adequate process to obtain prior approval before increasing the dollar amount on a purchase order (for example, through increasing the hourly rate or the number of hours).

In addition, for each of the three instances tested in which a contractor separated from the vendor and was replaced, DSHS updated the purchase orders with the new contractor's name, start date, and end date.

However, DSHS's procedures, the manual, and the handbook did not include steps to verify vendors' compliance with Executive Order No. RP-80 (effective December 2014), which required them to use the U.S. Department of Homeland Security's E-Verify system to determine the employment eligibility of all persons assigned to perform work on a contract.

DSHS also did not perform criminal background checks for any of the contractors for the five purchase orders tested. Texas Government Code, Section 411.1405, authorizes state agencies to perform criminal background checks on information technology employees and contractors. While it is not a statutory requirement, performing criminal background checks could provide DSHS useful information when hiring contractors to maintain or develop critical information technology systems or hiring contractors who will have access to potentially sensitive information.

Contract Planning and Procurement. DSHS's planning process generally ensured compliance with state purchasing requirements, DIR's guidance, and DSHS and HHSC policies and procedures. For example:

- All five applicable purchase order line items tested had documented and approved exceptions to a hiring freeze instituted for all health and human services agencies in January 2010.
- All six applicable purchase order line items tested had an approved capital information technology procurement form that contained all required information.

- All five purchase orders tested had an original requisition that was approved prior to the issuance of the purchase order.

DSHS also documented its justifications for selecting specific contractors to provide services for each of the five purchase orders tested.

Contract Oversight. DSHS adequately monitored the contractors associated with the five purchase orders tested. For all 10 associated invoices tested:

- Total hours billed, hourly rates, and other vendor information matched the time sheets of the contractors who provided services and the DSHS purchase orders.
- The DSHS contract manager or DSHS's IT Business Services unit approved the payments, and those payments were supported by invoices that matched the information on the payment vouchers.
- Total hours the contractors charged were reasonable and allowable.

However, from fiscal year 2013 through fiscal year 2015, DSHS did not submit vendor performance reports to the Office of the Comptroller of Public Accounts for the vendors of its information technology contracts—as required by Texas Government Code, Section 2262.055, and Title 34, Texas Administrative Code, Section 20.108(b) —for all purchases that exceeded \$25,000.

Recommendations

DSHS should:

- Develop written procedures to document its process for overseeing and monitoring information technology staffing services it obtains through DIR contracts.
- Develop and implement procedures to require vendors for information technology staffing services to represent and warrant that their provision of services will not constitute an actual or potential conflict interest.
- Develop and implement procedures to determine whether the vendors for information technology staffing services have used E-Verify to determine employment eligibility.
- Consider performing criminal background checks when hiring a contractor who will maintain or develop critical information systems or that will have access to potentially sensitive information.

- Submit vendor performance reports to the Office of the Comptroller of Public Accounts for purchases that exceed \$25,000, as required by Texas Government Code, Section 2262.055, and Title 34, Texas Administrative Code, Section 20.108(b).

HHSC should:

- Ensure that all purchasers sign annual conflict of interest statements.
- Develop and implement policies and procedures to require the vendors for information technology staffing services to represent and warrant that their provision of services will not constitute an actual or potential conflict of interest.
- Develop and implement policies and procedures to require DSHS contract managers to disclose any potential conflicts of interest, as required by Texas Government Code, Section 2261.252.
- Develop and implement policies and procedures to verify whether the vendors for information technology staffing services have used E-Verify to determine employment eligibility.

Management's Response from DSHS

We agree that certain aspects of contract management processes for information technology staffing services contracts can be improved. DSHS will formalize the current internal procedures for overseeing and monitoring information technology staffing services obtained through DIR contracts and place them on the Intranet for access by all IT staffing services contract monitors. Procedures will include steps for recording hours worked, reviewing and reconciling time sheets with invoices.

DSHS has relied upon DIR, as the contract holder, to ensure vendors of IT staffing services comply with all contract provisions. This includes the representation and warranting that the contractor's provision of services does not constitute an actual or potential conflict of interest and that the e-Verify process has been completed to determine employment eligibility. DSHS will work with HHSC and DIR regarding policies or procedures relating to the contracting and IT responsibilities to capture conflict of interest assertions and use of e-Verify by contract managers.

DSHS recognizes that we are authorized to perform criminal background checks and will evaluate the performance of criminal background checks for IT contractors, in consultation with HHSC, to work toward a more consistent HHS system-wide approach.

DSHS IT will incorporate vendor performance reports to CPA as required by Texas Government Code, Sect 2262.055, and Title 34, Texas Administrative Code, Sect 20.108(b) for all purchases that exceed \$25,000, into their annual procurement training for IT staff.

Target Implementation date: December 31, 2016

Title of individual(s) with responsibility for this response: Chief Operating Officer

Management's Response from HHSC

The Health and Human Services Commission (HHSC) is in agreement with the HHSC portion of the findings and associated recommendations and offer the following responses.

Conflict of Interest Statements - *HHSC has processes in place to ensure that purchasers sign an annual conflict of interest (and non-disclosure) form, every fiscal year. Procurement and Contracting Services (PCS) sends out the forms to every employee at the start of each fiscal year and the managers in PCS ensure that every employee signs and understands the form's requirements. Since the forms in question may have been in files that are no longer accessible due to employee turnover or lost during the physical move of the PCS group from one state building to another; PCS is in the process of developing an electronic shared internal site to centralize, better manage, and improve accessibility to this and other critical forms.*

Vendor Requirements - *HHSC will develop a disclosure form that all vendors will be required to sign which will represent and warrant that their provision of services will not constitute an actual or potential conflict of interest.*

DSHS Contract Managers - *HHSC will amend the HHS Contract Management Handbook to include a requirement that all HHS System contract managers must disclose and document any potential conflicts of interest in accordance with the requirements of Texas Government Code, Section 2261.252. PCS will also develop a form for this documentation and the completed form will be stored electronically in the shared internal site (currently under development).*

E-Verify - *HHS already has E-Verify policies for all hiring activities. HHSC will repeat this policy language in the Contract Management Handbook, to make it clear that it also applies to staff augmentation contractors.*

Implementation Date:

June 30, 2016

Responsible Person:

Deputy Executive Commissioner, Procurement and Contracting Services

TWC's Use of DIR's Information Technology Staffing Services Contracts Generally Complied with State Laws, Rules, Policies, and Procedures; However, TWC Should Improve Certain Aspects of Its Contract Management Processes Related to Those Contracts

Chapter 2
Rating:
Medium⁶

The Texas Workforce Commission's (TWC) use of DIR information technology staffing services contracts generally complied with state laws, rules, policies, and procedures. Auditors tested five TWC purchase orders for information technology staffing services that totaled \$768,310. The results of that testing identified opportunities to improve certain aspects of its contract management processes related to those contracts.

TWC Information Technology Staffing Services Purchases

According to vendor self-reported sales, from fiscal year 2013 through fiscal year 2015, TWC's purchases of information technology staffing services through DIR contracts totaled \$5,148,871.

Source: data.texas.gov.

Contract Planning and Procurement. TWC's planning process for acquiring information technology staffing services through DIR contracts generally ensured compliance with state purchasing requirements, DIR's guidance, and TWC policies and procedures. For example:

- The one purchase order tested that TWC processed through DIR's competitive solicitation purchase method included a completed DIR information technology staffing services request form. In addition, TWC submitted to DIR information on the contractor it selected to provide services through a finalized response tabulation document that included all required information.
- All four purchase orders tested that TWC processed through DIR's best value purchase method included the required best value justification letter.
- All five purchase orders tested had an original requisition that was approved prior to the issuance of the purchase order.

TWC also documented its justifications for selecting specific contractors to provide services for each of the five purchase orders tested.

However, for three of the five purchase orders tested, TWC selected specific information technology contractors through DIR's best value method without

⁶ Chapter 2 is rated as Medium because it presents risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concerns and reduce risks to a more desirable level.

first soliciting a response from TIBH Industries, as required by Texas Human Resources Code, Section 122.008.

Contract Management Function. TWC did not have documented procedures for procuring information technology staffing services through a DIR contract. However, the project management office in TWC's information technology division had a standard operating procedures document that addressed the oversight and monitoring of information technology contractors.

The TWC purchaser for the five purchase orders tested signed annual conflict of interest statements and complied with the training and certification requirements in the *State of Texas Procurement Manual*. In addition, the TWC contract managers for the purchase orders tested were qualified to manage information technology staffing services procured through the DIR contracts. However, TWC's policies did not address conflicts of interest for contract managers who select and negotiate hourly rates with vendors for information technology staffing services. TWC's policies require only nepotism disclosure forms for purchasing personnel prior to the award of a major contract. Although it was not applicable to the purchase orders tested, as of September 1, 2015, Texas Government Code, Section 2261.252, requires each state agency employee involved in the procurement or management of a contract with a private vendor to disclose to the agency any potential conflict of interest.

TWC's standard contract terms and conditions required vendors to certify that they have disclosed any existing or potential conflicts of interest relative to the performance of a contract. However, TWC does not have a process to verify whether the vendors for information technology staffing services represent and warrant that their provision of services does not constitute an actual or potential conflict of interest, as required by the *State of Texas Contract Management Guide*.

Contract Formation. TWC had an adequate process to obtain prior approval before increasing the dollar amount on a purchase order (for example, through increasing the hourly rate or the number of hours).

Although it was not required to do so, TWC performed criminal background checks for the information technology contractors who were associated with all five purchase orders tested.

However, TWC procedures did not include steps to verify vendors' compliance with Executive Order No. RP-80 (effective December 2014), which required them to use the U.S. Department of Homeland Security's E-Verify system to determine the employment eligibility of all persons assigned to perform work on a contract.

Contract Oversight. TWC adequately monitored the contractors associated with the five purchase orders tested. For all 10 associated invoices tested:

- Total hours billed, hourly rates, and other contractor information matched the time sheets of the individuals who provided services and the TWC purchase orders.
- The TWC contract manager approved the payments, those payments were supported by invoices that matched the information on the payment vouchers, and TWC made the payments in a timely manner.
- Total hours the contractors charged were reasonable and allowable.

However, from fiscal year 2013 through fiscal year 2015, TWC did not submit vendor performance reports to the Office of the Comptroller of Public Accounts for the vendors of its information technology contracts—as required by Texas Government Code, Section 2262.055, and Title 34, Texas Administrative Code, Section 20.108(b)—for all purchases that exceeded \$25,000.

Recommendations

TWC should:

- Develop and implement policies and procedures to ensure that it solicits a response from TIBH Industries when obtaining information technology staffing services through a DIR contract, as required by Texas Human Resources Code, Section 122.008.
- Develop and implement standardized, entity-wide procedures for obtaining information technology staffing services through DIR contracts, including procedures for planning, procurement, formation, and oversight.
- Require TWC contract managers to disclose any potential conflicts of interest, as required by Texas Government Code, Section 2261.252.
- Develop and implement procedures to require vendors for information technology staffing services to represent and warrant that their provision of services will not constitute an actual or potential conflict of interest.
- Develop and implement procedures to determine whether vendors for information technology staffing services have used E-Verify to determine employment eligibility.

- Submit vendor performance reports to the Office of the Comptroller of Public Accounts for purchases that exceed \$25,000, as required by Texas Government Code, Section 2262.055, and Title 34, Texas Administrative Code, Section 20.108(b).

Management's Response from TWC

TWC should:

- *Develop and implement policies and procedures to ensure that it solicits a response from TIBH Industries when obtaining information technology staffing services through a DIR contract, as required by Texas Human Resources Code, Section 122.008.*
 - ♦ *Management Response: TWC management agrees. TWC complied with this requirement for posted staffing services positions but not for all best value procurements. TWC will develop and implement procedures that include this step.*
 - ♦ *Responsible Party: TWC Purchasing Director*
 - ♦ *Timeline: April 29, 2016*
- *Develop and implement standardized, entity wide procedures for obtaining information technology staffing services through DIR contracts, including procedures for planning, procurement, formation, and oversight.*
 - ♦ *Management Response: TWC management agrees. TWC will develop and implement procedures for planning, procurement, formation, and oversight of information technology staffing services, ensuring that all recommendations and best practices identified by SAO are included.*
 - ♦ *Responsible Party: TWC Purchasing Director and IT Project Management Office Director*
 - ♦ *Timeline: April 29, 2016*
- *Require TWC contract managers to disclose any potential conflicts of interest, as required by Texas Government Code, Section 2261.252.*
 - ♦ *Management Response: TWC management agrees. TWC complied with this requirement for deliverables-based vendor procurements but not for IT staffing services. TWC will develop and implement procedures that include this step. TWC will go beyond the recommendation for TWC contract managers to disclose potential*

conflicts of interest by requiring all staff involved in the selection or supervision of the contractor to disclose potential conflicts of interest. TWC will expand the use of our existing Non-Disclosure/ Conflict of Interest form to include information technology staffing services.

- ♦ *Responsible Party: TWC Purchasing Director and IT Project Management Office Director*
- ♦ *Timeline: April 29, 2016*
- *Develop and implement procedures to require vendors for information technology staffing services to represent and warrant that their provision of services will not constitute an actual or potential conflict of interest.*
 - ♦ *Management Response: TWC management agrees. TWC's standard terms and conditions, Section 3.14, require vendors to disclose conflicts of interest. TWC will develop and implement procedures that include a verification step.*
 - ♦ *Responsible Party: TWC Purchasing Director*
 - ♦ *Timeline: April 29, 2016*
- *Develop and implement procedures to determine whether vendors for information technology staffing services have used E-Verify to determine employment eligibility.*
 - ♦ *Management Response: TWC management agrees. TWC's standard terms and conditions, Section 3.2, require vendors to determine employment eligibility. TWC will develop and implement procedures that include a verification step.*
 - ♦ *Responsible Party: TWC Purchasing Director*
 - ♦ *Timeline: April 29, 2016*
- *Submit vendor performance reports to the Office of the Comptroller of Public Accounts for purchases that exceed \$25,000, as required by Texas Government Code, Section 2262.055, and Title 34, Texas Administrative Code, Section 20.108(b).*
 - ♦ *Management Response: TWC management agrees. TWC will develop and implement procedures that include this step.*
 - ♦ *Responsible Party: TWC Purchasing Director and IT Project Management Office Director*

♦ *Timeline: April 29, 2016*

DIR Fully Implemented More Than Half of the Audit Recommendations in a Prior State Auditor’s Office Report, But It Should Complete the Implementation of the Remaining Recommendations That Auditors Identified as Substantially Implemented or Incomplete/Ongoing

**Chapter 3
Rating:
Medium ⁷**

DIR had fully implemented 18 (54.5 percent) of the 33 audit recommendations in *An Audit Report on the Information and Communications Technology Cooperative Contracts Program at the Department of Information Resources* (State Auditor’s Office Report No. 14-007, October 2013). DIR had substantially implemented seven prior audit recommendations, and its implementation of six prior audit recommendations was incomplete or ongoing. Two prior audit recommendations were not implemented. Table 2 provides additional details (see text box for definitions of each implementation status).

Implementation Status Definitions

Fully Implemented - Successful development and use of a process, system, or policy to implement a prior recommendation.

Substantially Implemented - Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.

Incomplete/Ongoing - Ongoing development of a process, system, or policy to address a prior recommendation.

Not Implemented - Lack of a formal process, system, or policy to address a prior recommendation.

Table 2

Status of DIR’s Implementation of Prior Audit Recommendations				
No.	Recommendation	Implementation Status as Reported by DIR (as of November 2015)	Implementation Status as Determined by Auditors	Auditor Comments
1	[DIR] should ensure that its review of vendor proposal scoring documentation is complete and accurate prior to approval.	Fully Implemented	Substantially Implemented	DIR did not use the weights specified in the request for offers (RFO) in its scoring of vendor proposals for one RFO tested.
2	[DIR] should require [Information and Communications Technology Cooperative Contracts Program] Program vendors to specify [manufacturer’s suggested retail price] MSRP at the time of negotiation and include in its contracts either the MSRP amount or a not-to-exceed price.	Fully Implemented	Fully Implemented	
3	[DIR] should include in Program contracts volume discounts that increase as total statewide purchases in the aggregate increase.	Fully Implemented	Incomplete/Ongoing	Any customer of DIR’s Program can take advantage of a volume discount, if available, regardless of size and buying power. However, the contracts reviewed containing volume discount pricing did not explicitly state that volume discounts increased as total statewide purchases increase.

⁷ Chapter 3 is rated as Medium because it presents risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concerns and reduce risks to a more desirable level.

Status of DIR's Implementation of Prior Audit Recommendations

No.	Recommendation	Implementation Status as Reported by DIR (as of November 2015)	Implementation Status as Determined by Auditors	Auditor Comments
4	[DIR] should develop and implement internal policies and procedures that clearly identify (1) the employees involved in contract establishment and contract management who need to attend training and obtain certifications and (2) the types of certifications [DIR] requires.	Fully Implemented	Fully Implemented	
5	[DIR] should specify the time frame in which an employee involved in contract establishment and contract management is required to complete training and obtain the required certification.	Fully Implemented	Fully Implemented	
6	[DIR] should implement a process to track employees' training hours to ensure they comply with statutory requirements.	Fully Implemented	Fully Implemented	
7	[DIR] should ensure that primary customer groups are represented on the customer advisory committee.	Fully Implemented	Fully Implemented	
8	[DIR] should evaluate its new product and/or service request form and whether the information on that form is valuable in identifying information technology needs. [DIR] should then educate its customers on using that form and encourage them to communicate their needs through that form.	Fully Implemented	Fully Implemented	
9	[DIR] should establish a process to collect input from all Program customers in a manner that allows [DIR] to consolidate that information and establish new Program contracts based on that information.	Fully Implemented	Incomplete/ongoing	DIR has updated its policies and procedures to establish a process to allow it to collect input from Program customers. DIR is collecting information from some Program customers through the use of emails, surveys, and focus groups. However, DIR is not collecting that information from all Program customers, nor is it consolidating that information and performing analysis on that information for the purpose of establishing new Program contracts.
10	[DIR] should review its exemption request log and determine whether requesting more specific information would enable [DIR] to identify the need to establish new Program contracts. [DIR] should also determine whether implementing an electronic exemption request process would be beneficial.	Fully Implemented	Fully Implemented	

Status of DIR's Implementation of Prior Audit Recommendations

No.	Recommendation	Implementation Status as Reported by DIR (as of November 2015)	Implementation Status as Determined by Auditors	Auditor Comments
11	[DIR] should require state agencies to prepare and submit procurement schedules for information technology commodities they are planning to purchase in a prescribed format that [DIR] can use to identify statewide needs and establish new Program contracts.	Fully Implemented	Not Implemented	DIR does not plan to implement the recommendation to require state agencies to submit procurement schedules for information technology commodities they are planning to purchase. DIR asserted that its efforts to address audit recommendation number 9 above, once fully implemented, should also address the intent of audit recommendation numbers 11 and 12.
12	[DIR] should review biennial operating plans to identify proposed information technology projects for which [DIR] could establish new Program contracts.	Fully Implemented	Not Implemented	DIR does not plan to implement the recommendation to review biennial operating plans to identify proposed information technology projects for which it could establish new Program contracts. DIR asserted that its efforts to address audit recommendation number 9 above, once fully implemented, should also address the intent of audit recommendation numbers 11 and 12.
13	[DIR] should fully implement prior audit recommendations regarding terms for corrective action and late fees in its Program contracts.	Fully Implemented	Fully Implemented	
14	[DIR] should ensure that all contracts (1) are reviewed and approved by required staff prior to vendor signature and (2) include required signatures in accordance with [DIR] policies and procedures.	Fully Implemented	Substantially Implemented	For one of three contracts tested, the review and approval of the contract by the DIR technology sourcing office and the general counsel occurred after the date the vendor signed the contract. In addition, for one of three contracts tested, the general counsel did not document the final review/approval of the contract; that should occur after the vendor signs the contract, but prior to the final signature by DIR (in this case, by the chief operating officer).
15	[DIR] should develop and implement a process for regularly verifying the completeness and accuracy of monthly sales reports that Program vendors submit and the administrative fees that Program vendors pay.	Incomplete/Ongoing	Incomplete/Ongoing	DIR asserted that it is in the process of creating a Web-based portal that will address this recommendation.
16	[DIR] should revise the monthly sales reports that Program vendors submit to require vendors to report (1) the discounts they agreed to in their contracts and the actual discounts the vendors provided to customers and (2) any other information [DIR] determines would enable its contract managers to monitor whether vendors provided the discounts specified in their Program contracts.	Incomplete/Ongoing	Incomplete/Ongoing	DIR asserted that it is in the process of creating a Web-based portal that will address this recommendation.

Status of DIR's Implementation of Prior Audit Recommendations

No.	Recommendation	Implementation Status as Reported by DIR (as of November 2015)	Implementation Status as Determined by Auditors	Auditor Comments
17	[DIR] should restore its policies and procedures that require contract managers to review Program vendors' monthly sales reports and monitor whether vendors provide customers the discounts specified in their Program contracts.	Fully Implemented	Fully Implemented	
18	[DIR] should comply with its policy requiring contract managers to fully document their review of vendors' compliance with requirements for the submission of monthly sales reports and payment of administrative fees in a timely manner, and follow up on those reviews as necessary.	Fully Implemented	Fully Implemented	
19	[DIR] should clearly define in its policies and procedures how contract managers should determine vendor's compliance with reporting requirements and how to proceed when they identify noncompliance.	Fully Implemented	Fully Implemented	
20	[DIR] should include in all Program contracts a provision for a late fee penalty that [DIR] can impose when vendors do not comply with requirements regarding administrative fee payment and monthly sales reporting.	Fully Implemented	Fully Implemented	
21	[DIR] should seek guidance and work with the Legislative Budget Board to update, implement, and follow an agreed-upon methodology for calculating Program cost savings for all contracts.	Fully Implemented	Fully Implemented	
22	[DIR] should obtain formal approval for all Program cost-savings calculation procedures and formally incorporate the approved procedures into its policies and procedures.	Fully Implemented	Fully Implemented	
23	[DIR] should ensure that contract managers follow established policies and procedures to calculate Program cost savings.	Fully Implemented	Substantially Implemented	<p>For one of three contracts tested, DIR did not accurately record the date on which it conducted cost avoidance in Salesforce, its contracts system.</p> <p>In addition:</p> <ul style="list-style-type: none"> ▪ For one contract tested, DIR did not ensure that it used a minimum of 10 products to perform pricing research and calculate cost avoidance. ▪ For one contract tested, DIR used an incorrect MSRP amount to determine the cost avoidance. ▪ For one contract tested, DIR entered two incorrect source prices into the cost avoidance spreadsheet.

Status of DIR's Implementation of Prior Audit Recommendations

No.	Recommendation	Implementation Status as Reported by DIR (as of November 2015)	Implementation Status as Determined by Auditors	Auditor Comments
24	[DIR] should, after seeking performance measure clarification and guidance from the Legislative Budget Board, update its policies and procedures to align with the cost-savings performance measure definition, methodology, and data source guidance in [the Automated Budget and Evaluation System of Texas] ABEST and ensure that its procedures are detailed enough to enable [DIR] to perform calculations consistently. This should include establishing clear guidance on how to use the cost-savings calculation template and clarification of the purpose of all formulas.	Fully Implemented	Substantially Implemented	DIR's policies and procedures do not incorporate methodology language regarding contracts for which no cost avoidance is conducted (for example, deliverables-based information technology services contracts). Although DIR specifies that the top 10 selling products should be used to calculate cost avoidance for new contracts, guidance remains vague for contract renewals, as well as for what constitutes a "large number" or "small number" for sampling.
25	[DIR] should develop and implement a process that includes a full review of supporting documentation for Program costs-savings calculations, including a review of the mathematical accuracy of the calculations, before obtaining management approval.	Fully Implemented	Substantially Implemented	See the auditor comments for recommendation 23 above.
26	[DIR] should ensure that contract managers follow established policies and procedures to calculate Program cost savings, including verifying and documenting all information [DIR] uses to calculate cost-savings rates.	Fully Implemented	Substantially Implemented	See the auditor comments for recommendation 23 above.
27	[DIR] should regularly review access to Program contract data to help ensure that (1) it limits access only to current employees whose job duties necessitate access and (2) only required user accounts are active on servers, databases, applications, and shared drives.	Fully Implemented	Fully Implemented	
28	[DIR] should ensure that its password policies and procedures comply with Texas Administrative Code requirements and the password guidelines for state agencies available on [DIR's] Web site.	Fully Implemented	Fully Implemented	
29	[DIR] should implement its updated policy on all environments where Program data resides.	Fully Implemented	Substantially Implemented	For one database that contains data related to Program contracts, not all password settings were aligned with DIR's password policy.
30	[DIR] should require staff to document their reviews of contract data completeness and accuracy.	Fully Implemented	Fully Implemented	DIR updated its policies and procedures to require staff to document their reviews of contract data completeness and accuracy.
31	[DIR] should document and implement a process to help ensure that it updates and reviews Salesforce data when a Program contract is renewed or amended.	Fully Implemented	Fully Implemented	

Status of DIR's Implementation of Prior Audit Recommendations

No.	Recommendation	Implementation Status as Reported by DIR (as of November 2015)	Implementation Status as Determined by Auditors	Auditor Comments
32	[DIR] should implement a quality review process to help ensure that Salesforce data is free of manual data entry errors.	Fully Implemented	Incomplete/Ongoing	<p>DIR updated its policies and procedures to require a quality review process to help ensure that Salesforce data is free of manual data entry errors.</p> <p>However, DIR's review of the contract data in Salesforce for 2 the 3 contracts tested occurred more than 12 months after the contracts were executed; DIR reviewed the third contract 6 months after it was executed. For two of three contracts tested, contract managers did not document their review of contract data in Salesforce through the use of a new contract administrative review note, as required by DIR's policies and procedures.</p>
33	[DIR] should add automation controls and edit checks to Salesforce to assist in minimizing errors.	Incomplete/Ongoing	Incomplete/Ongoing	<p>DIR has not implemented three of the six recommended automation controls and edit checks for Salesforce. Specifically, it has not:</p> <ul style="list-style-type: none"> ▪ Configured the cost avoidance field to be required (even if the value is zero). ▪ Implemented autopopulation of the contract end date field and the contract expiration date field based on the contract start date. ▪ Limited the value entered in the administrative fee field to no more than 2 percent, which is the limit in the General Appropriations Act.

Recommendation

DIR should complete the implementation of the prior audit recommendations from *An Audit Report on the Information and Communications Technology Cooperative Contracts Program at the Department of Information Resources* (State Auditor's Office Report No. 14-007, October 2013) that the SAO identified as substantially implemented or incomplete/ongoing.

Management's Response from DIR

The following are presented in connection with your examination of the Department of Information Resources (Department) as of March 18, 2016. We understand that the objectives of your audit were to:

1. Determine whether selected state agencies used Department information technology (IT) staffing services contracts in accordance with applicable statutes, riders, and agency policies and procedures.
2. Determine the implementation status of prior State Auditor's Office recommendations related to the IT staffing services contracts and evaluate whether management has taken corrective actions to address the recommendations as reported in An Audit Report on the Information and Communications Technology Cooperative Contracts Program at the Department of Information Resources, SAO Report No. 14.007, October 2013.

These responses pertain to the work performed to accomplish the second audit objective and respond to the outstanding recommendations.

No.	Recommendation	Implementation Status, as Determined by Auditors	DIR Management Response	Responsible DIR Management Staff
1	DIR should ensure that its review of vendor proposal scoring documentation is complete and accurate prior to approval.	Substantially Implemented	Agree. DIR will provide additional training for staff to ensure accuracy during the evaluation and review process. Estimated Implementation Date: April 2016	Manager, Contracts and Vendor Management, Technology Sourcing Office (TSO)
3	DIR should include in Program contracts volume discounts that increase as total statewide purchases in the aggregate increase.	Incomplete/Ongoing	Agree. DIR will request volume discounts that increase, as total statewide purchases in the aggregate increase, in its solicitations when appropriate. Estimated Implementation Date: April 2016	Manager, Contracts and Vendor Management, TSO
9	DIR should establish a process to collect input from all Program customers in a manner that allows DIR to consolidate that information and establish new Program contracts	Incomplete/Ongoing	Agree. DIR currently collects information to assist with establishing new solicitations; however, previous SAO audit recommendations included the use of the Biennial Operating Plan (BOP) and the Planned Procurement Schedule (PPS) Texas Government Code §2054.1015 2b as datasets. DIR identified that the use of the BOP and	<ul style="list-style-type: none"> • Director, TSO • Director, Information Technology Services (ITS), Digital Government (DG) • Customer Service Operations (CSO), Director, Chief

No.	Recommendation	Implementation Status, as Determined by Auditors	DIR Management Response	Responsible DIR Management Staff
	based on that information.		<p>the PPS were not adequate to identify and gather information from program customers and be utilized to establish new contracts. The PPS data contained program customer information where funding was not provided to support the future procurement/ implementation and limited the usefulness of the data being collected. The BOP in its current format restricts the ability to pull datasets that would improve collection results. Efforts to work with the Legislative Budget Board to have the datasets placed into a format that would allow for better collection and use of datasets has not yet produced successful results and were therefore not implemented from the previous SAO audit (refer to recommendations #11 and #12 of the audit report, determined to be “not implemented”). DIR did however review other methods to achieve the overall desired outcome of the finding. DIR has identified that the use of customer surveys, focus groups, customer outreach sessions as well as exemptions, emails, and other requests from customers produce more meaningful, real time input on the current and future needs of the program customers and is using these methods to assist in the identification of new contract opportunities that meet the program customer’s needs. DIR will work to utilize the centralized customer engagement process that is being developed for agency use in the Customer Relationship Management System (CRMS) to consolidate all of these efforts into one location.</p> <p>Estimated Implementation Date: March 2017</p>	Operations Office (COO)
14	DIR should ensure that all contracts (1) are reviewed and approved by required staff prior to vendor	Substantially Implemented	Agree. DIR will ensure Standard Operating Procedures provide clarity on when contracts will be signed by each party.	Manager, Contracts and Vendor Management, TSO

No.	Recommendation	Implementation Status, as Determined by Auditors	DIR Management Response	Responsible DIR Management Staff
	signature and (2) include required signatures in accordance with [DIR] policies and procedures.		Estimated Implementation Date: April 2016	
15	DIR should develop and implement a process for regularly verifying the completeness and accuracy of monthly sales reports that Program vendors submit and the administrative fees that Program vendors pay.	Incomplete/ Ongoing	Agree. Programming changes are underway to add additional fields to the Vendor Sales Report (VSR) which will improve reporting processes. Estimated Implementation Date: December 2016	<ul style="list-style-type: none"> • Director, TSO • Director, ITS, DG
16	DIR should revise the monthly sales reports that Program vendors submit to require vendors to report (1) the discounts they agreed to in their contracts and the actual discounts the vendors provided to customers and (2) any other information DIR determines would enable its contract managers to monitor whether vendors provided the discounts specified in their Program contracts.	Incomplete/ Ongoing	Agree. Programming changes are underway to add the additional fields to the Vendor Sales Report (VSR) to implement this recommendation along with several data fields needed to improve reporting processes. Estimated Implementation Date: December 2016	<ul style="list-style-type: none"> • Director, TSO • Director, ITS, DG
23	DIR should ensure that contract managers follow established policies and procedures to calculate Program cost savings.	Substantially Implemented	Agree. DIR will provide additional training for staff to ensure accuracy during the evaluation and review process. Estimated Implementation Date: April 2016	Manager, Contracts and Vendor Management, TSO
24	DIR should, after seeking performance measure clarification and guidance from the Legislative Budget Board, update its policies and procedures to align with the cost-	Substantially Implemented	Agree. DIR will update Standard Operating Procedures language to reflect the existing practice of placing a "Note to File" when no Cost Avoidance is conducted. DIR will clarify language in its Standard Operating Procedures for Cost	<ul style="list-style-type: none"> • Manager, Contracts and Vendor Management, TSO • Manager, Enterprise Contract Management, TSO

No.	Recommendation	Implementation Status, as Determined by Auditors	DIR Management Response	Responsible DIR Management Staff
	savings performance measure definition, methodology, and data source guidance in [the Automated Budget and Evaluation System of Texas] ABEST and ensure that its procedures are detailed enough to enable DIR to perform calculations consistently. This should include establishing clear guidance on how to use the cost-savings calculation template and clarification of the purpose of all formulas.		Avoidance and provide staff training on the updates. Estimated Implementation Date: April 2016	
25	DIR should develop and implement a process that includes a full review of supporting documentation for Program costs-savings calculations, including a review of the mathematical accuracy of the calculations, before obtaining management approval.	Substantially Implemented	Agree. DIR will provide additional training for staff to ensure accuracy during the evaluation and review process. Estimated Implementation Date: April 2016	Manager, Contracts and Vendor Management, TSO
26	DIR should ensure that contract managers follow established policies and procedures to calculate Program cost savings, including verifying and documenting all information DIR uses to calculate cost-savings rates.	Substantially Implemented	Agree. DIR will provide additional training for staff to ensure accuracy during the evaluation and review process. Estimated Implementation Date: April 2016	Manager, Contracts and Vendor Management, TSO
29	DIR should implement its updated policy on all environments where Program data resides.	Substantially Implemented	Agree. The two previously non-implemented findings for the database server have been addressed: <ul style="list-style-type: none"> • Disabled the guest account. 	Director, ITS, DG

No.	Recommendation	Implementation Status, as Determined by Auditors	DIR Management Response	Responsible DIR Management Staff
			<ul style="list-style-type: none"> • Set up a database password policy regarding length and required characters. <p>Actual Implementation Dates:</p> <ul style="list-style-type: none"> • March 2016 • January 2016 	
32	DIR should implement a quality review process to help ensure that Salesforce data is free of manual data entry errors.	Incomplete/ Ongoing	<p>Agree. DIR provided additional training to Contract and Vendor Management staff in February 2016 and created an improved process (New Contract Administrative Review Checklist) which was presented to Contract and Vendor Management staff on January 4, 2016 to capture the data which is to be reviewed. Training of Enterprise Contract Managers and reinforcement training of Contract and Vendor Management Contract Managers will be conducted in April 2016.</p> <p>Estimated Implementation Date: April 2016</p>	<ul style="list-style-type: none"> • Manager, Contracts and Vendor Management, TSO • Manager, Enterprise Contract Management, TSO
33	DIR should add automation controls and edit checks to Salesforce to assist in minimizing errors.	Incomplete/ Ongoing	<p>Agree. DIR has fully implemented three of the six recommended automation controls and edit checks for Salesforce. The remaining three are being implemented:</p> <ul style="list-style-type: none"> • Configuring the cost avoidance field to be required (even if the value is zero). • Implementing auto population of the contract end date field and the contract expiration date field based on the contract start date. • Limiting the value entered in the administrative fee field to no more than 2 percent, which is the limit in the General Appropriations Act. <p>Estimated Implementation Dates:</p> <ul style="list-style-type: none"> • April 2016 • June 2016 • April 2016 	Director, ITS, DG

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether selected state agencies used Department of Information Resources' (DIR) information technology staffing services contracts in accordance with applicable statutes, rules, and agency policies and procedures.
- Determine the implementation status of prior State Auditor's Office (SAO) recommendations related to the information technology staffing services contracts and evaluate whether management has taken corrective actions to address the recommendations as reported in *An Audit Report on the Information and Communications Technology Cooperative Contracts Program* at the Department of Information Resources, SAO Report No. 14-007, October 2013.

Scope

The scope of the first objective covered the Department of State Health Services' (DSHS) and the Texas Workforce Commission's (TWC) information technology staffing services procurements during the period from September 1, 2012, through September 1, 2015.

The scope of the second objective covered contracts that DIR had established on or after the date the prior audit recommendations were implemented, as reported by DIR management. The scope also covered changes to policies, procedures, and contract templates as of the date of implementation as reported by DIR management. The audit concentrated on all phases of the contracting process (the contract management function, planning, procurement, formation and cost-savings, and oversight).

Methodology

The audit methodology consisted of collecting and reviewing agency procurement and contract documentation, vendor invoices and other payment documentation, and vendor contracts; reviewing statutes, rules, Office of the Comptroller of Public Accounts' requirements, DIR's guidance on the use of information technology staffing services contracts, and agency policies and procedures; performing selected tests and other procedures;

identifying and collecting information on the implementation of selected prior audit recommendations; and interviewing agency management and staff.

Sample Selection - Objective 1

For the sample selections below, auditors applied a nonstatistical methodology. The sample items generally were not representative of the entire population and, therefore, it would not be appropriate to extrapolate results to the population. Auditors selected the following samples:

- To test the agencies' use of DIR's information technology staffing services contracts, auditors used professional judgment to select five information technology staffing purchase orders each at DSHS and at TWC, based on the purchase order amount, information gathered during the gaining-an-understanding phase of the audit, and the purchase method used (DIR's best value method or DIR's competitive solicitation method).
- To test the payments of contractor invoices, auditors selected invoices for information technology staffing services provided in the months of August and January, where available, for each of the five purchase orders selected at TWC and each of the five purchase orders selected at DSHS (for a total of 20 invoices). Auditors used professional judgment to select the months of August and January because those months corresponded to the end of the fiscal year and the beginning of the calendar year, respectively. If invoices were not available for those months, auditors used professional judgment to select a new month as a replacement, based on the circumstances of each purchase order.
- To test for vendor double-billing, auditors analyzed and reviewed (1) all of the payments TWC made to the vendors on the selected purchase orders from September 2012 through November 2015 and (2) all of the payments DSHS made to the vendors on the selected purchase orders from September 2012 through December 2015.

Sample Selection - Objective 2

Because auditors applied a nonstatistical methodology to the selection of samples for objective 2, the sampled items generally were not representative of the entire population and, therefore, it would not be appropriate to extrapolate results to the population.

When using professional judgment in selecting the contracts for testing at DIR, auditors considered contracts that DIR had established on or after the date the prior audit recommendations were implemented, as reported by DIR management. Auditors also considered contract status (for example,

active contracts); contract subtype (for example, networking equipment); frequency of use; and amount of vendor-reported sales. When sampling was required, auditors tested a sample size of up to three contracts, as necessary, to determine the implementation status of the recommendations.

Data Reliability

For the first objective, auditors assessed the reliability of contract and accounting data in TWC's Integrated Statewide Accounting System (ISAS) and DSHS's Health and Human Services Administrative System (HHSAS), which the respective agencies used to request purchases, issue purchase orders, and pay vendor invoices. That assessment included (1) observing controls over data integrity, (2) reviewing administrative access and segregation of duties, (3) reviewing the completeness of data through observation and the comparison of record totals, and (4) relying on prior audit work performed on the accounting systems at TWC and DSHS as a part of the State of Texas Single Audit. Auditors determined that the data in ISAS and HHSAS was sufficiently reliable for the purposes of this audit.

For the second objective, auditors assessed the reliability of the contract data in DIR's Salesforce system. SAO Audit Report No. 14-007 concluded that data in Salesforce was unreliable for the purposes of that audit. However, during the current audit, auditors performed general controls and application controls testing on Salesforce and compared hard-copy documentation of selected contracts to the data in Salesforce. In addition, auditors reviewed the completeness of Salesforce data through observation and the comparison of record totals. As a result of that testing, auditors determined that Salesforce data was sufficiently reliable to select contracts to facilitate the testing of each recommendation as part of the second objective.

Information collected and reviewed for the first objective included:

- Agency policies and procedures, including procurement manuals and contracting manuals.
- Agency staffing request files, including planning documentation, evaluation criteria and documentation, and related supporting documentation.
- Agency procurement files, including purchase requisition forms, purchase orders, approvals, invoices, and other supporting documentation.
- Uniform Statewide Accounting System vendor payment data and vendor information.

- Office of the Comptroller of Public Accounts list of individuals' certifications.
- Monthly, self-reported vendor sales reports from data.texas.gov.
- Emails and other documentation that supported information that agency personnel provided during interviews.

Information collected and reviewed for the second objective included the following:

- Contracts between DIR and vendors that participate in information technology staffing services contracts.
- DIR procurement files, including contract templates, planning documentation, bidders' proposals, evaluation scoring results, cost-avoidance calculations, and other supporting documentation.
- Contract information from SalesForce.
- DIR's Customer Advisory Committee meeting minutes and agendas.
- DIR's Contract Management Procedures, version 2.82.
- DIR's Enterprise Contract Management Guide, version 1.37.
- Prior State Auditor's Office reports.
- DIR's procurement and contract manager training and certification records and conflict of interest statements.
- Office of the Comptroller of Public Accounts list of individuals' certifications.
- Emails and other documentation that supported information that DIR personnel provided during interviews.

Criteria used included the following:

- Contracts between DIR and vendors, including information technology staffing services contracts.
- *State of Texas Contract Management Guide*, versions 1.09, 1.10, 1.11, 1.12, and 1.13.
- State of Texas Procurement Manual, version 2012.
- General Appropriations Acts (82nd and 83rd Legislatures).

- Agency policies, procedures, and other guidance.
- Executive Order No. RP-80 relating to state agencies using the U.S. Department of Homeland Security's E-Verify System (effective December 2014).
- Texas Human Resources Code, Chapter 122.
- Texas Government Code, Chapters 411, 2054, 2155, 2157, 2251, 2261, and 2262.
- Title 1, Texas Administrative Code, Chapters 202 and 212.
- Title 34, Texas Administrative Code, Chapter 20.108(b).
- Recommendations from prior SAO Report No. 14-007 and the implementation status of those recommendations as reported by DIR.

Project Information

Audit fieldwork was conducted from November 2015 through February 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Justin H. Griffin, CISA (Project Manager)
- Link S. Wilson (Assistant Project Manager)
- Valeria Aguirre, MPA
- Pamela A. Bradley, CPA
- Kelly Bratton, CFSA, CRMA
- Brithani Byrd
- Naima Hafeez, MBA
- Lisa Lack
- Jonathan W. Morris, MBA
- George D. Eure, CPA (Quality Control Reviewer)

- John Young, MPAff (Audit Manager)

Issue Rating Classifications and Descriptions

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

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

Table 3 provides a description of the issue ratings presented in this report.

Table 3

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

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable John Otto, House Appropriations Committee
The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Department of Information Resources

Members of the Department of Information Resources Governing Board

Mr. John B. Scott, Chair
Mr. Charles Bacarisse
Mr. Stuart A. Bernstein
Mr. P. Keith Morrow
Ms. Wanda Chandler Rohm
Ms. Linda I. Shaunessy
Mr. Rigoberto "Rigo" Villarreal

Ex Officio Members

Mr. Darran Anderson, Chief Strategy and Innovation Officer,
Department of Transportation

Mr. Bowden Hight, Deputy Executive Commissioner of Information
Technology and Chief Information Officer,
Health and Human Services Commission

Mr. David C. Mattax, Commissioner of Insurance,
Department of Insurance

Ms. Stacey Napier, Executive Director

Mr. Todd Kimbriel, Deputy Executive Director/Texas Chief Information
Officer

Department of State Health Services

Dr. John Hellerstedt, Commissioner

Health and Human Services Commission

Mr. Chris Traylor, Executive Commissioner

Texas Workforce Commission

Members of the Texas Workforce Commission

Mr. Andres Alcatar, Chair
Mr. Julian Alvarez
Ms. Ruth R. Hughes
Mr. Larry Temple, Executive Director



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: www.sao.texas.gov.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.