



An Audit Report on

# **Selected Contracts at the Department of Information Resources**

June 2017  
Report No. 17-038



An Audit Report on

# Selected Contracts at the Department of Information Resources

SAO Report No. 17-038  
June 2017

## Overall Conclusion

Auditors reviewed two contracts at the Department of Information Resources (Department) and determined the following:

- **The Department's Contract with Atos**  
Governmental IT Outsourcing Services LLC (Atos). The Department planned, procured, and formed the data center services contract with Atos in accordance with applicable requirements. However, the Department should improve certain aspects of contract oversight to help ensure that it complies with applicable requirements. For example, the Department should ensure that it updates its contract management plan and risk assessment to align with the most current version of the contract. (See the text box for additional information regarding the Atos contract.)
  
- **The Department's Cooperative Contract with C&T Information Technology, Inc. (C&T).** The Department planned and formed the procurement through which it awarded the C&T contract for information technology staffing augmentation in accordance with applicable requirements. However, it should improve certain aspects of contract procurement, oversight, and training. For example, the Department should improve certain aspects of its review, evaluation, and scoring of proposals and ensure that it obtains all required nondisclosure and disclosure statements. The Department also should monitor payments to subcontractors specified in the **contractor's** historically underutilized business subcontracting plan. (See the text box for additional information regarding the C&T contract.)

It is important to note that the C&T contract was a contract that the Department procured for its Cooperative Contracts program (see the text box for additional details on that program). In addition, the C&T contract is subject to legislation passed during the 84th Legislature (Regular Session), which provided additional requirements for state contracting effective September 1, 2015.

### Background Information on the Two Contracts Audited

#### **The Department's Contract with Atos**

Governmental IT Outsourcing Services LLC. On December 30, 2011, the Department of Information Resources (Department) executed a contract for data center operations, network, server, and mainframe service components with ACS State & Local Solutions, Inc., which was later bought by and became Xerox State and Local Solutions, Inc. In May 2015, the contract was assigned to Atos Governmental IT Outsourcing Services LLC, which remains the contractor. (See Appendix 3 for additional state data center information.)

#### **The contract's term ends on August 31, 2020.**

As of April 2017, expenditures on the contract totaled \$818.9 million.

**The Department's Cooperative Contract with C&T Information Technology, Inc.** On July 26, 2016, the Department executed an information technology staffing augmentation contract with C & T Information Technology, Inc. The contract is **part of the Department's Cooperative Contracts program**, which allows state agencies, higher education entities, and other entities to participate in the contract to obtain discounts not generally available to a single customer.

The contract has a two-year term, with two additional one-year extensions that can be added through contract amendment. As of March 2017, **entities' purchases through the contract** totaled \$4.3 million.

Source: The Department.

This audit was conducted in accordance with Texas Government Code, Sections 321.0131, 321.0132, and 2262.052.

For more information regarding this report, please contact James Timberlake, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

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

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/Subchapter	Title	Issue Rating <sup>a</sup>
1	The Department Planned, Procured, and Formed the Atos Contract in Accordance with Applicable Requirements, But It Should Improve Certain Aspects of Contract Oversight	Low
2-A	The Department Planned and Formed the C&T Contract in Accordance with Applicable Requirements, But It Should Improve Certain Aspects of Contract Procurement	Medium
2-B	The Department Should Improve Oversight of Historically Underutilized Business Compliance for the C&T Contract	Low
2-C	The Department Should Improve Certain Aspects of Contract Training	Low

<sup>a</sup> A chapter/subchapter 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 and reduce risks to the audited entity.

A chapter/subchapter 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 and reduce risks to the audited entity.

A chapter/subchapter 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 and reduce risks to a more desirable level.

A chapter/subchapter 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.**

Auditors communicated other, less significant issues to Department management separately in writing.

## **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 Department agreed with the recommendations in this report.

## **Audit Objective and Scope**

The objective of this audit was to determine whether the Department has administered certain contract management functions for selected contracts in accordance with applicable requirements.

The scope of this audit covered the following two contracts:

- **The Department's** data center services contract with Atos. That contract was executed on December 30, 2011.
- **The Department's Cooperative Contracts program contract with C&T for** information technology staffing augmentation. That contract was executed on July 26, 2016.

**For the Atos contract, auditors reviewed the Department's** contract planning, procurement, and formation; auditors limited the review of contract oversight to **the Department's monitoring** of payments it made to the current contractor on the contract through January 2017. For the C&T contract, auditors reviewed the **Department's contract planning, procurement, formation, and** oversight processes through December 2016.

# Contents

## *Detailed Results*

---

Chapter 1	
The Department Planned, Procured, and Formed the Atos Contract in Accordance with Applicable Requirements, But It Should Improve Certain Aspects of Contract Oversight .....	1
Chapter 2	
The Department Planned and Formed the C&T Contract in Accordance with Applicable Requirements, But It Should Improve Certain Aspects of Contract Procurement, Oversight, and Training .....	5

## *Appendices*

---

Appendix 1	
Objective, Scope, and Methodology .....	13
Appendix 2	
Issue Rating Classifications and Descriptions .....	17
Appendix 3	
State Data Center Background, Organization, and Governance .....	18

# Detailed Results

Chapter 1

## The Department Planned, Procured, and Formed the Atos Contract in Accordance with Applicable Requirements, But It Should Improve Certain Aspects of Contract Oversight

---

Chapter 1  
Rating:

Low <sup>1</sup>

The Department of Information Resources (Department) planned, procured, and formed the data center services contract with Atos Governmental IT Outsourcing Services LLC (Atos) in accordance with applicable requirements.

Contract Planning, Procurement, and Formation

Contract Planning,  
Procurement, Formation, and  
Oversight

Planning - Identify contracting objectives and contracting strategy.

Procurement - Fairly and objectively select the most qualified contractors.

Formation - Ensure that the contract contains provisions that hold the contractor accountable for producing desired results, including all relevant terms and conditions.

Oversight - Monitor and enforce the terms of the contract.

Source: *State of Texas Contract Management Guide*, version 1.16.

Contract Planning. In its planning for the Atos contract, the Department complied with requirements specified in the *State of Texas Contract Management Guide*. For example, the Department involved appropriate sponsors and developed a reasonable estimated cost to aid in its planning of the Atos contract.

Contract Procurement. The Department followed requirements in applicable statutes and the *State of Texas Contract Management Guide* to procure the Atos contract. That included developing appropriate evaluation criteria to score vendors' proposals, reviewing the proposals for responsiveness, and evaluating the proposals accurately. In addition, the Department had appropriate justification for its selection of the contractor.

Contract Formation. The Department reviewed and approved the Atos contract, and the contract included all essential clauses and provisions that the *State of Texas Contract Management Guide* required.

Contract Oversight

The Department appropriately reviewed and approved invoices for the Atos contract before payment; paid the contractor in a timely manner; and, when applicable, recognized credits the State had earned for all 21 payments tested. In addition, auditors reviewed a sample of 24 contract deliverables selected using professional judgement and determined that the Department received the items or services, reviewed and approved the deliverables, and resolved any issues of noncompliance.

---

<sup>1</sup> Chapter 1 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(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.

However, the Department should improve certain aspects of its contract oversight. Specifically, the Department had not updated its contract management plan or its risk assessment for the Atos contract since the contract was assigned to Atos in May 2015. (The Department had made its most recent updates to the contract management plan and risk assessment in April 2015). Therefore, the contract management plan did not encompass the last two contract amendments regarding changes to the master services agreement (including changes to pricing and services) and the implementation of a hybrid cloud initiative.

Because the Department had not updated its contract management plan or risk assessment, it did not actively monitor five contract requirements in areas such as contractor personnel compensation, change management, and the operation-level agreement between Atos and another data center contractor. The Department asserted that it decided not to monitor requirements it determined were redundant, but it did not remove those requirements from the contract through the contract amendment process. In February 2017, the Department informed auditors that it had identified some of those issues through an internal audit and had begun to address them.

In addition, the Department's contract monitoring system, Salesforce, did not have adequate controls for the approval and authorization for the payment of invoices for the Atos contract. Specifically, one user (the Department's chief operating officer) had access that could make it appear that two different users had reviewed an invoice when, in fact, that did not occur. However, auditors determined that the user with that access did not both review and approve any payments during the scope of this audit. In addition, the Department had multiple levels of review and approval for its payments to Atos.

The Department also did not adequately control access to a network location where it maintained key invoice review spreadsheets. Specifically, 195 employees and contractors had access to that network location and, therefore, the invoice review spreadsheets. Of those 195 employees and contractors:

- 140 (72 percent) had no business need for that access.
- 19 (10 percent) had access that exceeded their business needs.
- 36 (18 percent) had access that was appropriate for their business needs.

Providing excessive access increases the risk that information could be compromised or altered without the Department's knowledge. However, in

this case, that risk was mitigated by the fact that the invoice review spreadsheets were subject to additional approvals and reviews.

#### Recommendations

##### The Department should:

- Update its oversight controls, such as its contract management plan and risk assessment, to ensure that they address all significant requirements in the most current version of the contract.
- Update Salesforce controls to ensure that a single user cannot make it appear that two different users have reviewed an invoice.
- Properly restrict access to key network locations where it maintains invoice review spreadsheets.

#### Management's Response

##### *Agree.*

- *DIR is in the process of updating the Enterprise Procedures Guide to include Contract Management oversight controls. Further, DIR is developing separate contract management plans for each enterprise contract. The DCS Contract Manager will incorporate the new procedures to ensure appropriate oversight controls are implemented for the contract.*
- *A validation rule will be configured into the Salesforce Invoice Approval application that will not allow the 2nd level DCS approver (Director) to approve an invoice, if the 1st level DCS approver has not approved it yet. This configuration will ensure that both approvers review and approve invoices in order.*
- *DIR's Information Technology Services (ITS) will change from hierarchical relationship access to group access to properly manage access to the DCS network folders.*

##### *Estimated Implementation Dates:*

- *8/31/2017*
- *6/30/2017*
- *6/30/2017*

*Responsible DIR Management Staff:*

- *Director, Enterprise Contract Management (ECM), Chief Procurement Office (CPO)*
- *Director, Accounting, Chief Financial Office (CFO)*
- *Director, ITS*

*The Department Planned and Formed the C&T Contract in Accordance with Applicable Requirements, But It Should Improve Certain Aspects of Contract Procurement, Oversight, and Training*

---

The Department planned and formed the contract with C&T Information Technology, Inc. (C&T) in accordance with applicable requirements, but it should improve certain aspects of contract procurement, oversight, and training.

It is important to note that the Department procured the C&T contract using a single procurement through which it awarded a total of 124 information technology staffing augmentation contracts for its Cooperative Contracts program. Therefore, although the Department did not purchase services through that contract, other entities have purchased services through that contract.

In addition, the C&T contract is subject to legislation passed during the 84th Legislature (Regular Session), which provided additional requirements for state contracting effective September 1, 2015.

Chapter 2-A

The Department Planned and Formed the C&T Contract in Accordance with Applicable Requirements, But It Should Improve Certain Aspects of Contract Procurement

Chapter 2-A  
Rating:  
Medium <sup>2</sup>

Contract Planning

The Department planned the procurement through which it awarded the C&T contract in accordance with the requirements in the *State of Texas Contract Management Guide*. For example, it:

- Used feedback from information technology staffing augmentation contract customers and vendors to identify and assess the need for the contract services.
- Developed a detailed pricing list for the information technology positions being solicited based on research of current industry wages.
- Performed appropriate assessment of risk associated with the procurement and the contract.

---

<sup>2</sup> Chapter 2-A is rated Medium because 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 and reduce risks to a more desirable level.

## Contract Formation

The Department adequately performed certain contract formation activities for the C&T contract, such as reviewing and approving the contract prior to its execution. In addition, the C&T contract included all essential terms and conditions and recommended clauses that the *State of Texas Contract Management Guide* requires.

## Contract Procurement

The Department adequately performed certain procurement activities for the C&T contract, such as conducting contract negotiations. However, the Department should improve certain aspects of its procurement process. Specifically:

- The Department should improve controls related to its receipt of proposals. The Department properly documented its receipt of C&T's proposal in accordance with Department procedures and as the *State of Texas Procurement Manual* requires. However, it scored two other vendors' proposals without maintaining evidence that it had received them by or on the due date. Although the Department did not contract with either of those vendors, proper receipting of proposals helps to ensure consistency in the procurement process.
- The Department should score proposals using the methodology specified in its solicitation. When the Department scored the vendor proposals, the weight it gave to its consideration of vendor qualifications exceeded the weight it specified in its solicitation. The *State of Texas Contract Management Guide* states that a solicitation should include the relative weights to be assigned to each evaluation criterion or category. Incorrectly describing those weights increases the risk of incorrectly awarding or not awarding a contract to a vendor. Auditors identified one vendor to which the Department did not award a contract that may have been eligible for a contract under the criteria specified in the solicitation. The Department awarded 124 information technology staffing augmentation contracts through its solicitation; therefore, the scoring error did not have a significant effect on overall competition.

Additionally, the Department did not accurately score one vendor's proposal. The Department gave that proposal more points than it should have according to its scoring methodology. However, that scoring error would not have affected whether the Department awarded a contract to that vendor.

- The Department should obtain all required nondisclosure and disclosure statements. **The Department’s policies and procedures related to nondisclosure and disclosure statements did not align with requirements in the *State of Texas Contract Management Guide* and the Texas Government Code (see text box for more details). The Department’s policies and procedures required the contract manager to (1) obtain nondisclosure statements prior to review of vendor proposals only for personnel evaluating proposals and (2) obtain disclosure statements from the contract manager, evaluators, and employees approving the contract prior to the contract award. However, the Department’s policies and procedures did not require personnel involved in planning the procurement, preparing the solicitation, or performing preliminary reviews of proposals to sign nondisclosure and disclosure statements as required by the *State of Texas Contract Management Guide* and Texas Government Code, Section 2262.004.**

**Nondisclosure and Disclosure Statements**

Nondisclosure Statements. The *State of Texas Contract Management Guide*, versions 1.14 and 1.15, requires all employees who participate in the development and/or award of a request for proposals to sign a statement to certify that there are no conflicts of interest that may impair or influence their judgment. In addition, employees agree to maintain the confidentiality of information related to the procurement process.

Disclosure Statements. Texas Government Code, Section 2262.004, requires the completion of disclosure statements by personnel who make decisions on behalf of the agency or recommendations regarding:

- Contract terms or conditions on a major contract.
- Who is to be awarded a major contract.
- Preparation of a solicitation for a major contract.
- Evaluation of a bid or proposal.

The purpose of a disclosure statement is to disclose and identify any personal or financial relationships with any party associated with a contract prior to the award of that contract.

As a result, of the 17 Department employees who were involved in planning the procurement, preparing the solicitation, performing preliminary reviews of proposals, and evaluating proposals, 7 (41 percent) did not sign required nondisclosure statements and 9 (53 percent) did not sign required disclosure statements as required by the *State of Texas Contract Management Guide* and Texas Government Code, Section 2262.004.

In addition to the 17 employees discussed above, 3 other employees signed the approval for the contract award to C&T, and the Department did not have a required disclosure statement for 1 (33 percent) of those 3 employees. Although Department policies and procedures require all contract approvers to sign disclosure statements, the Department did not comply with that policy. Not obtaining required disclosure and nondisclosure statements could impair the Department’s ability to conduct impartial procurements.

## Recommendations

### The Department should:

- Ensure that it scores only vendor proposals for which it has documentation that it received the proposals on or before the date/time specified in the solicitation document.
- Accurately describe in its solicitation the methodology it will use to score vendor proposals, and ensure that it consistently follows that methodology.
- Require all employees involved in procurements to sign the required nondisclosure and disclosure statements.

### Management's Response

*Agree.*

- *In May 2017, DIR launched an e-Procurement System, BidStamp. Vendors should respond to DIR cooperative contracts' solicitations through the BidStamp Vendor Information System Portal. The response due date and time is a hard cut-off in the portal. Vendors will not be able to submit responses via BidStamp after the response due date and time. The portal will capture the date and time of all vendor submissions. For responses received outside of the BidStamp portal, DIR will ensure that it records and retains the date and time the response was received.*
- *DIR will ensure that it scores vendors' responses in accordance with the methodology advertised in the solicitation. In May 2017, DIR launched an e-Procurement System, (BidStamp). BidStamp requires DIR contract managers to develop a scorecard with the evaluation criteria specified in the solicitation. The scorecard must be developed prior to the response submission due date. DIR will update the procedures in the Cooperative Contracts Procedures Manual to address the use of this tool. Likewise, for solicitations processed outside of the BidStamp application, a scorecard with evaluation criteria, as specified in the solicitation, must be developed prior to opening responses.*
- *DIR will update all CPO contract and procurement procedures manuals to address the procurement non-disclosure/ disclosure statement signatory requirements. DIR will implement an annual Non-Disclosure Agreement (NDA) process for individuals routinely involved in procurements.*

*Estimated Implementation Dates:*

- *6/30/2017*
- *6/30/2017*
- *6/30/2017*

*Responsible DIR Management Staff:*

- *Director, ECM; Director, Cooperative Contracts, CPO*
- *Director, ECM; Director, Cooperative Contracts, CPO*
- *Manager, Procurement Services, CPO*

## The Department Should Improve Oversight of Historically Underutilized Business Compliance for the C&T Contract

Chapter 2-B  
Rating:  
Low <sup>3</sup>

The entities that make purchases through Cooperative Contracts, such as the C&T contract, perform oversight activities related to fiscal monitoring and direct monitoring of contractor performance. However, the Department should implement procedures to monitor contractor compliance with applicable historically underutilized business (HUB) subcontracting requirements.

Texas Government Code, Section 2161.253, requires agencies to include in their contracts the HUB subcontracting plans that contractors submitted in their proposals. That statute also requires contractors to make a good-faith effort to implement their HUB subcontracting plans, and it requires agencies to audit compliance with those plans. Additionally, Title 34, Texas Administrative Code, Section 20.287, requires contractors to submit to the Department monthly reports to document their good-faith efforts to comply with their HUB subcontracting plan. To help ensure compliance with those requirements, the Department should monitor C&T's efforts to comply with its HUB subcontracting plan and ensure that it receives required monthly progress assessment reports.

The C&T contract included directions for the contractor to submit the required progress assessment reports to both the Department and the entities that made purchases through the contract. However, the Department did not monitor payments to subcontractors under C&T's HUB subcontracting plan, and it did not require submission of progress assessment reports. As a result, the Department had not received any progress assessment reports from C&T as of the time of this audit.

Not monitoring a contractor's compliance with its HUB subcontracting plan increases the risk of noncompliance with applicable statutes and rules intended to ensure that HUBs are used in state procurement.

---

<sup>3</sup> Chapter 2-B is rated Low because 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.

## Recommendations

### The Department should:

- Develop, document, and implement procedures to monitor its receipt of contractor progress assessment reports related to HUB subcontracting plans.
- Develop, document, and implement procedures help ensure contractor compliance with requirements related to the HUB subcontracting plans.

### Management's Response

#### *Agree.*

- *Currently, the Cooperative Contracts Sales Report that vendors are required to submit is collecting subcontracting data (resellers and subcontractors). Vendors are required to submit the Sales Report monthly and DIR is now capturing the data through the portal.*
- *DIR will be implementing a monthly report using the data from the Sales Report to identify dollar amounts for each contract holder as well as the amount paid to subcontractors/resellers. The DIR HUB Office will use the reports to compare performance against the vendors' HUB Subcontracting Plan (HSP).*
- *DIR will be sending quarterly correspondence to all contract holders reminding them to update their HSP, if needed, by submitting a current HSP to the DIR's HUB Office for approval by the DIR HUB Coordinator.*

#### *Estimated Implementation Dates:*

- *5/31/2017*
- *8/31/2017*

#### *Responsible DIR Management Staff:*

- *Coordinator, HUB, CPO*
- *Coordinator, HUB, CPO*

## The Department Should Improve Certain Aspects of Contract Training

Chapter 2-C  
Rating:  
Low <sup>4</sup>

The Department notified new and existing board members of contract management training required by statute (see text box for additional details). However, because it did not review whether its board members completed that training, the Department could not provide documentation to show that one board member completed that training.

### Required Training for Governing Bodies

Texas Government Code, Section 2262.0535, requires all members of an **agency's governing body to complete an abbreviated contract management training program** offered by the Comptroller of Public Accounts. That statute was enacted through Senate Bill 1681 (83rd Legislature, Regular Session), which became effective on November 1, 2013.

Additionally, although the Department required board members to receive that training “promptly,” it did not specify a due date for receiving that training. Although three board members completed the training in a relatively short amount of time, six board members completed that training after auditors requested training documentation from the Department. For those six board members, the time between when they became required to take training and when they completed that training ranged from 61 days to 1,154 days.

### Recommendation

The Department should improve its processes for ensuring that board members promptly receive required training.

### Management's Response

*Agree.*

*The DIR Office of the General Counsel will create and maintain a record logging system regarding board member completion of required training. The Office will notify the DIR Board members who may be approaching due dates for required training.*

*Estimated Implementation Date:*

*7/1/2017*

*Responsible DIR Management Staff:*

*General Counsel, Office of General Counsel*

---

<sup>4</sup> Chapter 2-C is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(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.

# Appendices

## Appendix 1

### *Objective, Scope, and Methodology*

---

#### Objective

The objective of this audit was to determine whether the Department of Information Resources (Department) has administered certain contract management functions for selected contracts in accordance with applicable requirements.

#### Scope

The scope of this audit covered the following two contracts:

- The Department's data center services contract with Atos Governmental IT Outsourcing Services LLC (Atos). That contract was executed on December 30, 2011.
- The Department's Cooperative Contracts program contract with C&T Information Technology, Inc. (C&T) for information technology staffing augmentation. That contract was executed on July 26, 2016.

For the Atos contract, auditors reviewed the Department's contract planning, procurement, and formation; auditors limited the review of contract oversight to the Department's monitoring of payments it made to the current contractor on the contract through January 2017. For the C&T contract, auditors reviewed the Department's contract planning, procurement, formation, and oversight processes through December 2016.

#### Methodology

The audit methodology included reviewing documentation of planning, procurement, contract award, and oversight activities; conducting interviews with Department staff; and performing selected tests and other procedures.

#### Data Reliability and Completeness

Auditors used expenditure data from the Department's version of the Centralized Accounting and Payroll/Personnel System (CAPPS) to identify a population of payments for testing for the Atos contract. Auditors compared data in CAPPS to contract payments from the Uniform Statewide Accounting System (USAS). Auditors also tested logical access to CAPPS and CAPPS application controls related to segregation of duties for processing

payments. Based on the results of that testing, auditors determined that CAPPs payment data was reliable for the purposes of this audit.

Auditors used data from the Department's contract monitoring system, Salesforce, to identify the population of contracts. Auditors also used Salesforce data to select a sample of deliverables, test change requests, test contract amendments, test historically underutilized business (HUB) reporting and payments, select a sample of vendor proposals, and verify certain Department contract oversight activities. Auditors tested Salesforce's logical access controls and its change management and application controls related to the review and approval of payments and contract deliverables. Based on the results of that testing, auditors determined that Salesforce data was reliable for the purposes of this audit.

Auditors also examined the reliability of Atos invoice, payment approval, and supporting documentation maintained on the Department's shared drive. Additionally, auditors tested logical access to the files and folders on that shared drive. Based on results of that testing, auditors determined that data was of undetermined reliability. However, auditors were able to use the payment and invoice approval data in Salesforce to corroborate the data the Department maintained on that shared drive.

#### Sampling Methodology

Auditors used professional judgment to select a risk-based sample of 24 deliverables for testing for the Atos contract. The sample items were generally not representative of the population and, therefore, it would not be appropriate to project those test results to the population.

Primarily through random selection, auditors selected a nonstatistical sample of 28 vendor proposals submitted in response to the solicitation that resulted in the Department's awarding of an information technology staffing augmentation contract to C&T. Auditors also used professional judgment to select three additional vendor proposals for testing. Auditors used the sample of proposals to test proposal responsiveness and recalculate proposal evaluation scores. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- The Department's solicitations and vendor proposals submitted in response to the solicitations.
- Executed contracts, including all appendices and exhibits, for the Atos contract and the C&T contract.

- The Department's planning and procurement files for the Atos contract and the C&T contract.
- The Department's proposal evaluation documentation and evaluation criteria.
- The Department's policies and procedures related to contract processes, including policies and procedures related to HUBs, board member training, and approval matrices.
- The Department's conflict of interest forms, disclosure statements, and nondisclosure statements.
- Contract expenditure data from USAS and CAPPs.
- Department documentation for payments to Atos, including invoices and payment approvals.
- Department documentation for contract amendments, including approvals and change requests.
- Department documentation related to contract oversight, including approval of deliverables for the Atos contract and sales reports and administrative fees for the C&T contract.

Procedures and tests conducted included the following:

- Interviewed Department employees.
- Tested conflict of interest forms, disclosure statements, and nondisclosure statements.
- Reviewed contracts to determine whether they included all essential and applicable recommended clauses in the *State of Texas Contract Management Guide*.
- Tested vendor proposal responsiveness and recalculated evaluation scores using the Department's scoring methodology for a sample of vendor proposals for the C&T contract.
- Tested contract amendments for appropriateness and Department approval for the Atos contract.
- Reviewed the timeliness and accuracy of sales reports and administrative fees that C&T submitted.

- Reviewed the Department's monitoring of contractor compliance with HUB subcontracting plans.
- Tested payments to Atos to ensure that they were accurate, approved, and supported.

Criteria used included the following:

- Texas Government Code, Chapters 2155, 2156, 2157, 2161, 2252, 2261, and 2262.
- Title 34, Texas Administrative Code, Chapter 20.
- Contracts, amendments, appendices, and exhibits for the Atos contract and the C&T contract.
- *State of Texas Contract Management Guide*, versions 1.07 through 1.16.
- *State of Texas Procurement Manual*.
- The Department's policies and procedures.

#### Project Information

Audit fieldwork was conducted from December 2016 through April 2017. 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:

- Thomas Andrew Mahoney, CGAP (Project Manager)
- Nakeesa Shahparasti, CPA, CFE (Assistant Project Manager)
- Brady Bennett, MBA, CFE
- Nick Hoganson
- Richard Wyrick
- Ann E. Karnes, CPA (Quality Control Reviewer)
- James Timberlake, CIA, CFE (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/sub-chapters. The issue ratings were determined based on the degree of risk or effect 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; noncompliance with 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 2 provides a description of the issue ratings presented in this report.

Table 2

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.

### Background and Organization

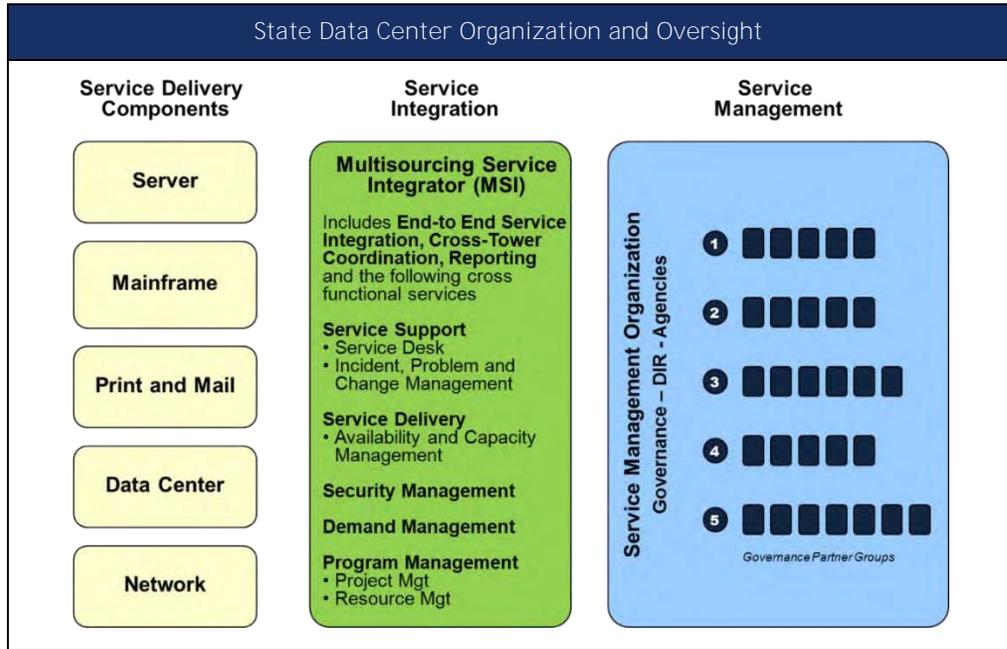
The Department of Information Resources (Department) offers network, print and mail, server, mainframe, and data center services to state agencies through the consolidated state data center. The objective of maintaining the data center and related services is to consolidate state agencies' information technology needs to reduce the costs of infrastructure, hardware, software, and information technology staff that state agencies would use to perform those functions in-house. The Department is responsible for procurement, contract management, and other oversight of the vendors selected to provide data center services. The Department established interagency contracts with participating agencies that define services and terms for engaging in data center services through the Department. It charges state agencies an administrative fee to recover costs associated with managing the program.

House Bill 1516 (79th Legislature, Regular Session) directed the Department to manage statewide data centers. In November 2006, the Department and IBM signed a seven-year contract with three optional one-year extensions. The State Auditor's Office audited state data center consolidation under that contract (see *An Audit Report on the Department of Information Resources and State Data Center Consolidation*, State Auditor's Office Report No. 09-051, August 2009). The Department subsequently identified a material breach in the contract and initiated a reprocurement in 2010.

The Department divided data center services into five service components and a multi-sourcing integrator (MSI). The MSI was responsible for coordinating and integrating operations of the service components, which would allow the Department to bid out each of the service components to different contractors to ensure the most value at the lowest potential cost.

Figure 1 depicts state data center organization and oversight.

Figure 1



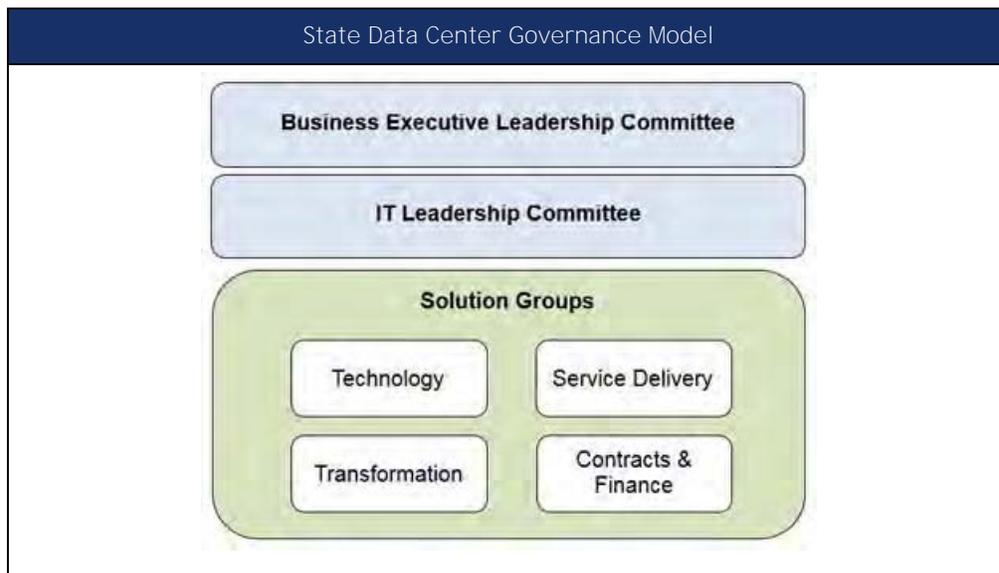
Source: The Department.

The Department awarded the contract for the data center operations, network, server, and mainframe components to ACS State & Local Solutions, Inc.; the Department awarded the contract for print and mail services to Xerox Corp. During the awarding process, ACS State & Local Solutions, Inc. was bought by and became Xerox State and Local Solutions, Inc. In May 2015, the contract for the data center operations, network, server, and mainframe components was assigned to Atos Governmental IT Outsourcing Services LLC, which has been the contractor for those service components since that time.

## Governance

The Department created an owner-operator governance model for the data center services program that involves the Department and data center services customers (see Figure 2).

Figure 2



Source: The Department.

The three levels of governance include:

- The Business Executive Leadership Committee, which has overall responsibility for the data center services program governance and strategy.
- The IT Leadership Committee, which defines enterprise technology strategic goals and promotes their achievement. That committee also resolves enterprise information technology issues that are escalated from the solution groups and makes critical enterprise information technology decisions.
- Solution groups, which address most enterprise issues that are not initially resolved between data center services customers, the Department, and contractor staff.

With the exception of the Contract and Finance Solution Group and the Business Executive Leadership Committee, contractor representatives are participating members of the solution groups and committees. (Contractor representatives participate on the Contract and Finance Solution Group and the Business Executive Leadership Committee by invitation.)

Data Center Participation

**Table 3 summarizes the entities that used state data center services as of January 24, 2017, and the types of services they used. Table 3 also specifies whether each entity is a designated user (which means that the entity was required to participate in the state data center) or a discretionary user (which means that the entity voluntarily chose to participate in the state data center).**

Table 3

Summary of Entities That Used State Data Center Services as of January 24, 2017		
Entity Name	Type(s) of Data Center Services Used	Type of User
Alcoholic Beverage Commission	Full	Designated
Angelo State University	Full	Designated
Bexar Metro 9-1-1 Network District	Imagery	Discretionary
Board of Architectural Examiners	Office 365	Discretionary
Board of Law Examiners	Print and Mail	Discretionary
Board of Professional Engineers	Office 365	Discretionary
Capital Area Council of Governments	Office 365	Discretionary
City of Abilene/Taylor County	Imagery	Discretionary
Commission of Environmental Quality	Full	Designated
Commission on State Emergency Communications	Imagery (moving to Full in fiscal year 2018)	Discretionary
Department of Aging and Disability Services	Full	Designated
Department of Agriculture	Print and Mail	Discretionary
Department of Criminal Justice	Full	Designated
Department of Family and Protective Services	Full	Designated
Department of Housing and Community Affairs	Disaster Recovery as a Service	Discretionary
Department of Information Resources	Full	Designated
Department of Insurance	Full	Designated
Department of Licensing and Regulation	Full	Designated
Department of Motor Vehicles	Full	Designated
Department of Public Safety	Office 365, Imagery, and Windows 2003 Customer Support Agreement	Discretionary
Department of State Health Services	Full	Designated
Department of Transportation	Full	Designated
Facilities Commission	Full	Designated
General Land Office	Office 365	Discretionary
Health and Human Services Commission	Full	Designated
Higher Education Coordinating Board	Full	Designated
Historical Commission	Office 365	Discretionary
Juvenile Justice Department	Full	Designated

Summary of Entities That Used State Data Center Services  
as of January 24, 2017

Entity Name	Type(s) of Data Center Services Used	Type of User
Library and Archives Commission	Full	Designated
Lottery Commission	Office 365	Discretionary
Lower Rio Grande Valley Development Council	Imagery	Discretionary
Military Department	Office 365	Discretionary
Office of the Attorney General	Full	Designated
Office of the Secretary of State	Full	Designated
Parks and Wildlife Department	Full	Designated
Public Utility Commission of Texas	Full	Designated
Racing Commission	Office 365	Discretionary
Railroad Commission	Full	Designated
Real Estate Commission	Office 365	Discretionary
Securities Board	Office 365	Discretionary
Tarleton State University	Full	Discretionary
Texas A&M University - Central Texas	Full	Discretionary
Texas Education Agency	Full	Designated
Texas Workforce Commission	Full	Designated
Texas.Gov (a public/private partnership between the Department and Texas NICUSA, LLC).	Full	Designated
Veterans Commission	Full	Designated
Water Development Board	Full	Designated

Source: The Department.

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 Zerwas, 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

Ms. Linda Shaunessy, Chair

Mr. Charles Bacarisse

Mr. Stuart Bernstein

Mr. Ben Gatzke

Mr. Jeffrey Tayon

Mr. Rigoberto Villarreal

Ms. Sonya Medina Williams

Ex Officio Members

Mr. Bryan Collier, Executive Director, Department of Criminal  
Justice

Ms. Dawn Heikkila, Deputy Executive Director of Policy and  
Administration, Parks and Wildlife Department

Ms. Melody Parrish, Chief Information Officer, Texas Education  
Agency

Ms. Stacey Napier, 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](http://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.