



An Audit Report on

# **Selected Contracts at the Office of the Attorney General**

June 2017  
Report No. 17-039



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SAO Report No. 17-039  
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## Overall Conclusion

The Office of the Attorney General (Office) generally planned, procured, and formed the two contracts audited in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts requirements, and Office policies and procedures to help **ensure that the State's interests were protected**. The two contracts audited were:

- **The Office's contract with Adjacent Technologies, Inc.** for services related to the Office's Crime Victim Services Web Portal Project (Web Portal contract).
- **The Office's contract with YoungWilliams P.C.** for services related to gathering employer information and following up on income withholding orders (YoungWilliams contract).

(See text box for additional details about the contracts audited.)

The Office planned and procured the Web Portal contract in accordance with applicable statutes and rules. However, it should strengthen its policies and procedures and contract formation processes. It should also strengthen its processes to ensure that it complies with contracting-related document posting requirements as defined in Texas Government Code, Chapter 2261.

The Office adequately planned and formed the YoungWilliams contract; however, it should improve its processes related to retaining planning- and procurement-related supporting documentation and update its policies and procedures. The Office adequately monitored the YoungWilliams contract to determine whether the contractor performed its assigned work; however, the Office did not sufficiently document changes it made to contract terms. Additionally, the Office developed a

### Background Information

Crime Victim Services Web Portal Project contract (Web Portal contract). The Office of the Attorney General (Office) entered into a contract with Adjacent Technologies, Inc. for an ongoing effort to modernize its Crime Victim Services Web Portal. The contract term is from November 22, 2016, through August 31, 2017; however, the contract permits four 1-year renewals and one 120-day extension. The awarded value of the contract is \$3,527,650. The **Office's Administrative and Legal Divisions** administer the Web Portal contract.

The Employer Repository Maintenance and Verification and Administrative Income Withholding Order Follow-up Services contract (YoungWilliams contract). The Office entered into a contract with YoungWilliams P.C. for the entry and verification of data into its Employer Repository database, which contains general employer information and contact addresses to assist with child support enforcement. The contract also included follow-up and tracking **services for the Office's income withholding orders**. The contract concluded on December 31, 2016; the term was from September 14, 2010, through December 31, 2016, which included four 1-year renewals and one 120-day extension. The awarded value of the contract was \$16,876,981. **The Office's Child Support Division** administered the YoungWilliams contract.

Sources: The Office and the Legislative Budget Board's Contracts Database.

contract closeout process to verify that both parties fulfilled their contractual obligations.

Auditors communicated other, less significant issues to the Office separately in writing.

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 Office Generally Planned, Procured, and Formed the Web Portal Contract in Compliance with Requirements; However, It Should Strengthen Its Policies and Procedures for Those Processes	Medium
2-A	The Office Generally Planned, Procured, and Formed the YoungWilliams Contract in Compliance with Requirements; However, It Did Not Have All Supporting Documentation or Updated Policies and Procedures	Medium
2-B	The Office Adequately Monitored the YoungWilliams Contract; However, It Should Strengthen Its Policies and Procedures for Modifying Contracts	Medium
2-C	The Office Developed a Contract Closeout Process to Verify That Both Parties Fulfilled Their Contractual Obligations	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.

## ***Summary of Management's Response***

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The Office agreed with the recommendations in this report.

## *Audit Objective and Scope*

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

The scope of **this audit covered the Office's contracting process related to the following contracts:**

- **The contract with Adjacent Technologies, Inc. to modernize the Office's Crime Victim Services Division Web Portal**, which was effective November 2016. Auditors reviewed **the Office's processes for contract planning, contract procurement, and contract formation** through December 31, 2016.
- The contract with YoungWilliams P.C. for services related to the verification **and entry of data for the Office's Employer Repository database and for following up on non-paying income withholding orders**, which was effective **September 2010**. Auditors reviewed **the Office's processes for contract planning, contract procurement, contract formation, and contract oversight** through December 31, 2016; **auditors reviewed the Office's processes** for contract closeout work performed through March 31, 2017.

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## *Detailed Results*

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# Detailed Results

## Chapter 1

### *The Office Generally Planned, Procured, and Formed the Web Portal Contract in Compliance with Requirements; However, It Should Strengthen Its Policies and Procedures for Those Processes*

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Chapter 1  
Rating:  
Medium <sup>1</sup>

The Office of the Attorney General (Office) generally planned and procured the Web Portal contract with Adjacent Technologies Inc. in accordance with applicable statutes, rules, and *State of Texas Contract Management Guide* requirements.

In planning for the contract, the Office prepared a cost estimate, involved the appropriate staff and experts from its Crime Victim Services and Information Technology Services divisions, selected the appropriate procurement method, and prepared a statement of work for the solicitation that contained the required elements in the *State of Texas Contract Management Guide*.

In procuring the contract, the Office properly advertised the solicitation, ensured that staff had the proper purchasing certifications, reviewed solicitation proposals for responsiveness, and properly filed a Certificate of Interested Parties for the contract with the Texas Ethics Commission, as required by Texas Government Code, Section 2252.908.

However, the Office should strengthen its contract management policies and procedures and contract formation processes. The Office also should strengthen its processes to ensure that it complies with contracting-related document posting requirements.

#### **The Office did not have specific contract planning and formation policies and procedures.**

The Office developed a *Contract Management Handbook* in accordance with Texas Government Code, Section 2261.256(b). That handbook provided the Office's global principles for contract management, which were to be further defined in processes and procedures at the division level. However, the Office's Administrative and Legal Divisions, which administer the Web Portal contract, did not have specific contract planning and formation procedures. While there were procedures that largely covered the procurement of

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<sup>1</sup> Chapter 1 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.

contracts, the Office asserted that it relied on the *State of Texas Contract Management Guide* for any further guidance related to the other phases of contracting.

The Office did not identify certain weaknesses in the Web Portal contract during contract formation.

Although the Office largely included the required and recommended contract terms in the *State of Texas Contract Management Guide*, the Web Portal contract did not include a force majeure clause. Under a force majeure clause, the Office would not be held responsible for delays in performance under the contract from natural disasters or other unavoidable events beyond the control of the Office.

Additionally, the total compensation to be paid to the contractor specified in the contract was inconsistent with what the contract specified the contractor was to be compensated for total deliverables, resulting in a total discrepancy of \$257,000. As a result of that discrepancy, the total agreed-upon cost of the signed contract was unclear.

**The Office did not fully comply with contracting-related document posting requirements.**

The Office complied with requirements in Texas Government Code, Chapter 2261, in (1) developing purchasing accountability and enhanced contract monitoring procedures and (2) posting information on its Web site related to each contract it entered.

However, the Office did not post to its Web site the purchasing accountability and enhanced contract monitoring procedures (included in the Office's *Contract Management Handbook*) as required by Texas Government Code, Section 2261.256(c). Additionally, the Office did not post the request for proposals for the Web Portal contract to the Office's Web site, which Texas Government Code, Section 2261.253(a)(3), requires for competitively bid contracts.

Recommendations

The Office should:

- Ensure that its Administrative and Legal Divisions develop specific contract planning and formation procedures.
- Strengthen its contract formation processes to ensure that contracts contain all required clauses and that contract language is consistent.

- Post contracting-related information, including its purchasing accountability and enhanced contract monitoring procedures and requests for proposals for competitively bid contracts, on its Web site, as required by Texas Government Code, Chapter 2261.

### **Management's Response**

*The Office of the Attorney General (OAG) agrees it should enhance and modify its contract and planning formation procedures for its Administrative and Legal Divisions. The OAG has hired a technical writer to assist in the development of new and revised procedures. These procedures will include the planning and formation of all contracts. Development of the contract process work plan will be complete by June 7<sup>th</sup>, with revisions to existing procedures to be completed by November 2017.*

*The OAG agrees to identify weaknesses in the contract formation stage. The weaknesses identified in the Crime Victim Services Web Portal contract have been remedied by amending the contract. Additionally, in February 2017, the OAG restructured the legal review process for contracts and procurements within the Administrative and Legal Divisions to strengthen its contract formation procedures. All procurements for the Administrative and Legal Division initiated after that date are handled through this new process. Furthermore, the development and revision of internal written procedures will add quality review steps prior to the conveyance of a contract to a vendor.*

*The OAG agrees the posting of certain contract related documents was not completed by time of the audit. However, Section 28 of Senate Bill 20 states the changes enacted by Senate Bill 20 should be implemented as soon as practicable after the effective date. The technology developed to automate the process of posting the voluminous solicitation documents required additional programming resources. Additionally, resolving defects in the posting process took longer than anticipated. This posting process is currently in production and the solicitation documents are being updated. We note the OAG is in full compliance with the data that is required to be posted to the LBB contracts database which includes the aforementioned contracts and related documents.*

*In response to the purchasing accountability and enhanced contract monitoring procedures, these were mistakenly uploaded to the Comptroller's website rather than the OAG website. When the error was discovered, the OAG immediately remedied the error.*

*Responsible Party: Procurement Division Chief*

*Target Date: November 2017*

*The Office Generally Planned, Procured, Formed, Monitored, and Closed Out the YoungWilliams Contract in Compliance with Requirements; However, It Should Improve Its Document Retention and Contracting Policies and Procedures*

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The Office generally complied with applicable statutes and *State of Texas Contract Management Guide* requirements for planning, procurement, and formation for the YoungWilliams contract. However, the Office did not have all required supporting documentation, and current contracting policies and procedures allowed for deviations from those policies and procedures and did not always align with current practices. The Office adequately monitored the YoungWilliams contract to determine whether the contractor performed its assigned work; however, it did not sufficiently document changes it made to contract terms. Additionally, the Office developed a contract closeout process to verify that both parties fulfilled their contractual obligations.

Chapter 2-A

The Office Generally Planned, Procured, and Formed the YoungWilliams Contract in Compliance with Requirements; However, It Did Not Have All Supporting Documentation or Updated Policies and Procedures

The Office generally planned and procured the YoungWilliams Contract in accordance with applicable statutes, rules, and *State of Texas Contract Management Guide* requirements. Specifically:

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

- In planning for the contract, the Office involved the appropriate staff and experts from the Child Support Division, selected the appropriate procurement method, and prepared the statement of work for the solicitation with the elements required by the *State of Texas Contract Management Guide*.
- In procuring the contract, the Office ensured that the final evaluation criteria used to score the proposals were consistent with the criteria identified in the solicitation. In addition, the Office scored all proposal evaluations correctly, and the Office selected the appropriate contractor based on its evaluation criteria.

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<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.

The Office did not have all supporting documentation for the YoungWilliams contract related to planning and procurement requirements.

The Office was unable to provide supporting documentation showing how it developed the cost estimate for the YoungWilliams contract. The *State of Texas Contract Management Guide* states that agencies should develop an estimated cost of procurement during planning for a contract. Without supporting documentation, auditors could not determine whether the cost estimate for the YoungWilliams contract was based on reasonable information. While auditors could not determine the reasonableness of the cost estimate, the payments on the contract did not exceed the estimated cost: the contract was awarded for \$16.9 million and the Office paid \$9.7 million.

Process Advisory Team

The **Child Support Division's** Process Advisory Team comprises a representative from Contract Operations, a representative from the Transactional Law Section, and a representative from the Procurement Division or their designees.

Source: The Office.

The Office also was unable to provide evidence that it obtained all required reviews and approvals of the solicitation. Specifically, the Office did not have documentation showing that its Process Advisory Team reviewed and approved the solicitation as required by the Child Support Division's policies and procedures (see text box for more information about the Process Advisory Team). Without ensuring that all required approvals by the appropriate knowledgeable staff are obtained, there is an increased risk that the solicitation deliverables will not be completed in accordance with applicable procurement statutes and Office policy.

In addition, the Office did not always retain supporting documents for the YoungWilliams contract in compliance with its record retention schedule. Specifically:

- The Office did not have documentation showing that it screened vendor proposals for responsiveness to solicitation requirements, as required by the request for proposal and evaluation plan for the contract and the *State of Texas Contract Management Guide*. Screening proposals is a key control to ensure that only responsive proposals are evaluated and eligible to receive a contract. The Office asserted that it performed the screening but had not retained the screening documentation. The Office's record retention schedule requires screening documentation to be retained for four years after the close of a contract. Auditors verified that all three proposals received were responsive to the solicitation requirements. However, there is a lack of assurance that the Office complied with the proposal screening requirements because it did not comply with its record retention requirements for the responsiveness screening documents.
- The Office did not have documentation showing that the vendors submitted proposals by the date and time specified in the request for proposal as required by the *State of Texas Procurement Manual*. The

Office's record retention policy requires date and time information for submitted proposals be retained for four years after the close of the contract. Without verifying that the proposals were submitted within the required time frame, a vendor that submitted a proposal late could be allowed to unfairly compete for the contract.

- The Office did not have documentation showing that the former deputy director of purchasing, who was one of two purchasing staff members involved in the procurement of the YoungWilliams contract, had the purchasing certification required by the Office of the Comptroller of Public Accounts. The Office's record retention schedule required training and educational achievement records be retained for five years after the termination of employment; in this case, the Office should have retained the documentation until May 2017.
- The Office did not have signed disclosure statements for all purchasing staff associated with the contract. The Office asserted that it could no longer locate the documents, even though its record retention policy requires disclosure statements be retained for four years after the close of the contract. Without ensuring that all purchasing staff sign disclosure statements and retaining that documentation, there is an increased risk that purchasers may have undisclosed conflicts of interest.

**The Office's current** contracting policies and procedures allowed for deviations from those policies and procedures and did not always align with current practices.

The Child Support Division's documented policies and procedures for contracting state that "management may, in its sole discretion, deviate from the contents [of the policies and procedures] at any time." However, the policies and procedures did not define who is able to exercise that discretion, how deviations should be documented, and whether any approval is necessary to do so. That clause could limit the effectiveness of the policies and procedures.

In addition, the Office's Child Support Division's documented policies and procedures did not always reflect current practices. Specifically, not all contract amendments tested had completed nepotism forms as required by the Child Support Division's policies and procedures. However, Child Support Division management stated that it was the current practice to obtain nepotism forms only for contract amendments that change personnel or pricing, or that require a material change to the contract.

## Recommendations

### The Office should:

- Create and retain documents related to the planning and procurement of contracts, including certifications of purchasing personnel, in compliance with records retention requirements.
- If deviations from documented policies and procedures are allowed, define who has authority to do so and how deviations should be documented and approved.
- Ensure that its Child Support Division updates its policies and procedures to reflect current practices.

### Management's Response

*The OAG agrees that policies and procedures should be strengthened. Specific actions include:*

- *The OAG will enhance processes associated with creating and retaining planning documents. In addition, the retention of purchasing documentation has been addressed since this audit began. The bid receipt process was updated and training completed to ensure staff have a thorough understanding of the need to document all procurement processes.*
- *For deviations from documented policies and procedures, the OAG will define who has authority to do so and how deviations should be documented and approved.*
- *The OAG will update its policies and procedures to reflect current practices.*

*Responsible Party: Procurement Division Chief and Child Support Contract Operations Division Chief*

*Target Date: August 31, 2017*

The Office Adequately Monitored the YoungWilliams Contract;  
However, It Should Strengthen Its Policies and Procedures for  
Modifying Contracts

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

The Office's Child Support Division adequately monitored the YoungWilliams contract to verify that the contractor performed its assigned work. The Office also ensured that it made contractor payments within 30 days of receiving the invoice as required, and complied with the pricing terms of the contract. In addition, the contract closeout process verified that both parties fulfilled their contractual obligations.

To monitor the contractor's work for accuracy and compliance with the terms of the contract, the Office statistically sampled invoiced items to evaluate the contractor's services against performance standards established in the contract. Auditors re-performed that quality assurance testing using source documentation, including phone calls, faxes, and prior records. Auditors tested 4 invoices, testing 30 billed items from each invoice, and determined that 118 (98 percent) of the 120 items tested were appropriately supported and accurately tested by the Office to verify that the contractor performed its assigned work.

The Office also monitored whether the contractor performed work assignments within the required time frames. Specifically, the Office used its own data and other supporting information to determine whether the contractor performed administrative income withholding follow-up orders and data entry of general company information and employers' addresses in compliance with the contract's timeliness standards. However, for other work assignments, the Office relied on self-reported data from the contractor to determine compliance with timeliness standards. For example, rather than use its own data to determine when it assigned the work to the contractor, the Office used the work assigned dates that the contractor provided. Although auditors did not identify any instances of contractor manipulation of that data, there is a risk that self-reported data may be manipulated or otherwise inaccurate.

The Office also performed reconciliations between the invoices and a detailed listing of work that the contractor performed to determine whether the invoices were complete, supported, and conformed to contract requirements. The Office had supporting documentation for the reconciliations for 8 (89 percent) of the 9 invoices submitted between fiscal year 2013 and December 31, 2016, that auditors tested. The reconciliations

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<sup>3</sup> Chapter 2-B 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.

showed that the majority of the invoices were complete and supported with only small variances between the summarized information and the detailed information.

In addition, the Office had an adequate payment review process, which included appropriate segregation of duties to approve invoice payments. The Office made payments to the contractor in a timely manner, and it ensured that the total payments did not exceed the contract amount.

While the Office adequately monitored the contract, it did not document changes made to contract terms.

During testing, auditors identified a service for which the contractor billed the Office that was not included in the contract. While the contract allows new services to be added as long as those services are within the contract's scope, the Office did not formally document the new service being performed and the pricing for that service using the change management procedures specified in the contract.

In addition, the Child Support Division asserted that it reduced a performance standard for the timeliness of administrative income withholding order follow-up from 100 percent to 98 percent; however, it did not have any documentation supporting that assertion. The 4 invoices tested for quality assurance had timeliness results that were more than 98 percent but lower than 100 percent. The Office waived all financial remedies and did not request any corrective action plans when the contractor did not achieve the stated 100 percent performance standard. In addition, it did not formally modify the contract's performance standard.

The contract states "The OAG, at its discretion, may reduce, waive, or increase any remedy or performance standard in this Contract." The Office's Child Support Division did not have documented policies and procedures specifying who had the authority to reduce, waive, or increase any remedy or performance standard in the YoungWilliams contract. That could lead to inappropriate changes to the contract and impair the effectiveness of the Office's contract monitoring.

## Recommendations

### The Office should:

- Independently verify contractor performance by using its own data and supporting information to monitor future contracts.

- Ensure that material changes made to performance standards, financial remedies, and billing are sufficiently documented using the change management procedures specified in the contract.
- Develop and implement policies and procedures specifying when changes to contract terms are considered appropriate and how changes to contract terms should be documented, reviewed, and approved.

### **Management's Response**

*The OAG agrees with the auditor's recommendations.*

- *The OAG agrees that using its own data is preferred when evaluating vendor performance. Since this contract was awarded, all subsequent contracts use OAG data and source documents to monitor vendor performance.*
- *The OAG will ensure that material changes made to performance standards, financial remedies, and billing are sufficiently documented and policies and procedures will be implemented specifying who has the authority to reduce, waive, or increase any remedy or performance standard. The OAG agrees that the contract authorized the reduction in the performance to be made by contract management, but the decision should have been documented.*
- *The OAG will review and implement changes to policy and procedures to clarify when changes to contract terms are considered appropriate and how changes to contract terms should be documented, reviewed, and approved. The work assigned to this vendor was found by the assigned attorney to be within the scope of the contract, and included in the pricing. The work that the contractor was required to perform did not change, only the way the OAG identified and assigned the work changed.*

*Responsible Party: Child Support Contract Operations Division Chief*

*Target Date: August 31, 2017*

## The Office Developed a Contract Closeout Process to Verify That Both Parties Fulfilled Their Contractual Obligations

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

As part of the contract's closeout process, the Child Support Division and the contractor developed a plan for the transition of all services and operations from the contractor to the Office. That transition plan addressed the method by which operations would be continued during the transition period, closeout procedures for financial processes, the transition of open operational items including pending customer service and contract monitoring issues, and the transfer of data.

In addition to the transition plan, the contract outlined the record retention policy and requirements that the contractor must adhere to after termination of contract and the process for the final month's invoice. The invoice process that the contract required to be used to closeout the contract was sufficient to allow the Child Support Division to ensure that it performed all quality assurance and applied all financial penalties before it completed the last contract payment.

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<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)/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.

# Appendices

## Appendix 1

### *Objective, Scope, and Methodology*

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#### Objective

The objective of this audit was to determine whether the Office of the Attorney General (Office) administered certain contract management functions for selected contracts in accordance with applicable requirements.

#### Scope

The scope of this audit covered the Office's contracting process related to the following contracts:

- The contract with Adjacent Technologies, Inc. to modernize the Office's Crime Victim Services Division Web Portal (Web Portal contract), which was effective November 2016. Auditors reviewed the Office's processes for contract planning, contract procurement, and contract formation through December 31, 2016.
- The contract with YoungWilliams P.C. for services related to the verification and entry of data for the Office's Employer Repository database and for following up on non-paying income withholding orders (YoungWilliams contract), which was effective September 2010. Auditors reviewed the Office's processes for contract planning, contract procurement, contract formation, and contract oversight through December 31, 2016; auditors reviewed the Office's processes for contract closeout work performed through March 31, 2017.

#### Methodology

The audit methodology included collecting and reviewing contract documentation; conducting interviews with Office staff; reviewing statutes, Office of the Comptroller of Public Accounts' (Comptroller's Office) requirements, and Office policies and procedures; and performing selected tests and other procedures.

#### Data Reliability and Completeness

Auditors reviewed contract expenditure data obtained from the Office's accounting system, OAG Mainframe, for fiscal years 2011 through 2017 to test the Office's payment of vendor invoices for the YoungWilliams contract. Expenditure data entered into the OAG Mainframe was transferred to the Uniform Statewide Accounting System (USAS) for actual payment. Auditors

determined that the Office's contract expenditure data was sufficiently reliable for the purposes of this audit by (1) comparing the OAG Mainframe expenditure data to the data in USAS and (2) tying USAS data to payment and contractor information in supporting documentation.

#### Sampling Methodology

For contract payment testing, auditors selected a nonstatistical sample of nine invoices from fiscal year 2013 through December 31, 2016, primarily through random selection. In one case, auditors used professional judgment to select an additional invoice for testing. The sampled invoices were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

For contract oversight testing, auditors used professional judgment to select a risk-based sample of 120 billed items from 4 different monthly invoices (30 billed items selected from each invoice) from August 2014 through December 31, 2016. The sampled 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 contract with Adjacent Technologies, Inc.
- The contract with YoungWilliams P.C.
- Office solicitation documents for the two contracts audited and vendor responses to those solicitations.
- Office contracting policies and procedures.
- Office personnel and training certification records.
- Office conflict of interest forms and non-disclosure forms.
- Office contract expenditure data from USAS and the Office's accounting system, OAG Mainframe.
- Office documentation of contract payments, including invoices, supporting documentation, and Office invoice approvals.
- Supporting documentation of contract oversight completed by the Office, including (1) report query code from the Office's Texas Child Support Enforcement System for reports used in invoice reconciliation and quality assurance testing, (2) source documentation the Office used for accuracy

and compliance testing, and (3) the results of the Office's quality assurance testing.

- Office contract closeout documentation for the contract with YoungWilliams P.C.

Procedures and tests conducted included the following:

- Interviewed Office employees regarding the Office's contracting processes.
- Reviewed the Office's policies and procedures to determine whether they aligned with the guidance in the *State of Texas Contract Management Guide*.
- Reviewed procurement documentation to determine whether the solicitations for the contracts were properly posted and advertised; vendor proposals were properly reviewed for responsiveness; bid proposals were properly completed and scored; there was proper justification to select the vendors; and the award notices were posted properly.
- Reviewed contracts to determine whether the Office included contract terms that were essential and recommended by the *State of Texas Contract Management Guide*.
- Tested conflict of interest forms and disclosure forms to identify any potential conflict of interests and to determine whether conflicts of interest were properly disclosed.
- Tested contractor invoices to determine whether they were adequately supported, invoice reconciliations were properly performed, and contractor invoices were reviewed and approved before payment.
- Tested data from the Texas Child Support Enforcement System and source documentation to determine whether the Office adequately monitored YoungWilliams P.C. for compliance with contractual performance standards for accuracy, compliance, completeness, and timeliness.
- Reviewed closeout documents for the Office's contract with YoungWilliams P.C. to determine whether the Office complied with closeout requirements specified in the contract.

Criteria used included the following:

- Texas Government Code, Chapters 322, 572, 2151, 2155-2158, 2161, 2251, 2254, and 2261-2263.
- Title 34, Texas Administrative Code, Chapter 20.
- *2012 State of Texas Procurement Manual*.
- *State of Texas Contract Management Guide*, versions 1.15, 1.16, and 1.7.
- Office Record Retention Schedule Form SLR 105.
- Office contracting 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:

- Anna Howe, CFE (Project Manager)
- Quang Tran (Assistant Project Manager)
- Michelle Rodriguez
- Sherry Sewell, CGAP
- Daniel Spencer, MSA
- Dana Musgrave, MBA (Quality Control Reviewer)
- John Young, MPAff (Audit Manager)

## Issue Rating Classifications and Descriptions

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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.

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**

### Office of the Attorney General

**The Honorable Ken Paxton, Attorney General**



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