



**John Keel, CPA**  
**State Auditor**

An Audit Report on

**The Telecommunications  
Managed Services Contract at  
the Health and Human Services  
Commission**

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# **The Telecommunications Managed Services Contract at the Health and Human Services Commission**

## **Overall Conclusion**

The Health and Human Services Commission (Commission) did not fully comply with state requirements to manage and monitor the Telecommunications Managed Services (TMS) contract audited to help ensure that the contractor performed according to the terms of the contract and contractor billings were valid and supported.

The Commission awarded the TMS contract to AT&T Global Services (AT&T) for an initial term of August 29, 2008, through August 29, 2013, with the option to renew it for up to four more years. The initial total cost of the contract was \$47,948,920. On September 1, 2011, the Commission amended the contract's cost to \$80,633,059. In September 2013, the Commission extended the contract's term through August 31, 2015, and increased the contract's cost to \$105,000,000 effective September 1, 2013.

The Commission did not adequately monitor and enforce the terms of the contract or adequately review payments. In addition, the Commission did not adequately estimate the contract's cost during planning or ensure that employees adequately completed conflict of interest forms. However, the Commission generally complied with the majority of contract planning and procurement requirements that auditors reviewed, and it ensured that the contract contained all required essential contract terms.

### **Background Information on the Telecommunications Managed Services (TMS) Contract**

The purpose of the TMS contract audited is to provide telecommunications services to all five health and human services agencies. The contract covers three categories of telephone systems:

- Category 1 is a leased telephone system from AT&T Global Services (AT&T).
- Category 2 is a telephone system owned by the health and human service agencies.
- Category 3 is a telephone system that is at or near the end of its useful life and is no longer supported by the equipment manufacturer.

According to the contract, most of the Commission's existing telephone systems fall into Category 3 and are supported internally or by AT&T on a time and materials basis under the terms of the contract audited.

Telecommunication services include services such as moves, additions, or changes to a telephone handset; time and material costs for repairs; and special projects, such as setting up new phone sites. Source: The Health and Human Services Commission.

### **Contract Management Processes**

- **Planning** - Identify contracting objectives and contracting strategy.
- **Procurement** - Fairly and objectively select the most qualified contractors.
- **Contract Formation/Rate/Price Establishment** - Ensure that the contract contains provisions that hold the contractor accountable for producing desired results, including all relevant terms and conditions, and establish processes that are cost-effective and aligned with the cost of providing goods and services.
- **Contract Oversight** - Monitor and enforce the terms of the contract.

Source: *State of Texas Contract Management Guide*, Version 1.3.

**There were deficiencies in the Commission's payment processes.**

The Commission did not adequately review payments to verify that they were supported, were for items within the scope of the contract, and were for the appropriate amounts. That resulted in payments to the contractor for items that were out of scope and incorrect payment amounts. In addition, the Commission did not review contractor invoices to determine whether discounts due to the Commission were applied according to the contract terms.

**The Commission cannot determine the total amount expended for the TMS contract.**

In addition, the Commission did not adequately track transactions related to the TMS contract. Inconsistent processing of purchase orders and not entering key data into the Commission's accounting system, such as the contract number and/or purchase order number, limits the Commission's ability to determine whether certain expenditures are related to the TMS contract. In addition, financial information in the Commission's contract tracking system for the TMS contract is not complete, largely because information is missing from the Commission's accounting system. As a result, the Commission cannot provide a supportable total amount spent on the TMS contract because there may be unidentified transactions related to the contract.

Using data provided by two divisions within the Commission, auditors calculated that the Commission spent at least \$72,514,646 on the TMS contract from August 29, 2008, through June 30, 2014. However, the actual total may be higher than that amount because of the weaknesses discussed above.

**The Commission did not verify the accuracy of contractor-provided information.** The Commission did not verify the accuracy of contractor-provided monitoring reports. For example, the contractor reported that it met the performance standard for responding to and completing repairs and help desk tickets for all 12 months tested. However, auditors determined that the contractor did not meet that performance standard for any of the 12 months tested. In addition:

- The Commission did not adequately monitor or verify the contractor's calculations of labor hours and use of credits to ensure that they were accurate and complied with contract terms. Incorrect calculations could subject the Commission to a potential liability.
- The Commission did not adequately monitor contract deliverables to ensure that they are received and reviewed.

**The Commission did not adequately determine the contract's cost.**

The Commission did not develop a contract cost model to determine the original contract cost. In documentation submitted to the State's Contract Advisory Team in June 2007, the Commission reported an initial cost estimate for the TMS

contract of \$1,000,000. However, the contract was executed on August 29, 2008, with a total cost of \$47,948,920. The Commission has subsequently approved contract amendments increasing the contract's price. The most recent amendment increased the contract's price to \$105,000,000 effective September 1, 2013.

**The Commission did not ensure that employees adequately completed conflict of interest forms.**

Thirteen (68 percent) of 19 Commission employees signed conflict of interest forms. One employee had a clear conflict of interest, but that employee, who was a member of the evaluation team, did not disclose that conflict on the signed form. That employee also served as the initial contract manager and had previously worked for the contractor. In addition, the Commission's contract manager during fiscal year 2014 also was a former employee of the contractor and was responsible for approving payments to the contractor.

**The Commission generally complied with the majority of planning requirements that auditors reviewed.**

The Commission had adequate policies and procedures for contract planning. It also developed a communication plan for internal and external stakeholders. In addition, Commission management properly approved the posting of the procurement and solicitation documents related to the contract.

**The Commission selected a procurement method—issuing a request for proposal (RFP)—that complied with the *State of Texas Contract Management Guide*.**

In addition, the Commission provided the RFP to the Contract Advisory Team as required. The Commission conducted a vendor conference and complied with requirements to advertise its solicitations, required vendor conflict of interest disclosures, and required vendors to submit Historically Underutilized Businesses (HUB) subcontracting plans.

Auditors communicated other, less significant issues related to contract documentation and information technology to the Commission separately in writing.

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

The Commission's responses included plans to implement processes to address the recommendations in this report, with the exception of the recommendation to review all past invoices noted on page 3 of this report. The Commission plans to review a sample of prior invoices, rather than all invoices. The Commission's detailed management responses are presented immediately following each set of recommendations in the Detailed Results section of this report.

## ***Summary of Information Technology Review***

Contract information in the Health and Human Services Contract Administration Tracking System (HCATS) and the Health and Human Services Administrative System (HHSAS) was not reliable for the purposes of this audit. Contract information for the TMS contract was not complete in those two systems because data was missing from HHSAS, which is used to populate HCATS. Auditors identified \$25,995,800 in payments for the TMS contract that were not included in HCATS. In addition, key contract data in HHSAS was not complete or left blank.

## ***Summary of Objectives, Scope, and Methodology***

The objectives of this audit were to determine whether the Commission:

- Planned, procured, and established selected contracts for goods and services in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts (Comptroller's Office) requirements, and state entity policies and procedures to help ensure that the State's interests were protected.
- Managed and monitored selected contracts for goods and services to help ensure that contractors performed according to the terms of the contracts and that contractor billings were valid and supported, in accordance with applicable statutes, rules, Comptroller's Office requirements, and state entity policies and procedures.

The scope of this audit covered the TMS contract from its inception in fiscal year 2008 through February 2014. The audit concentrated on all phases (planning, procurement, contract formation, and contract oversight) of the contracting process.

The audit methodology consisted of collecting and reviewing procurement documentation; conducting interviews with Commission staff; reviewing statutes, rules, Comptroller's Office requirements, and Commission policies and procedures; and performing selected tests and other procedures.

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# Detailed Results

Chapter 1

## ***The Commission Did Not Appropriately Monitor the TMS Contract***

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The Health and Human Services Commission (Commission) did not appropriately monitor AT&T Global Services (AT&T), the contractor for the Telecommunications Managed Services contract (TMS contract). There were deficiencies in the payment process for the TMS contract, and the Commission did not adequately determine the contract costs. As a result, the Commission made payments for items that were not supported or appropriate, and it could not provide the total amount paid for the contract. In addition, the Commission did not verify the accuracy of contractor-provided monitoring reports or reported contractor performance. Although the Commission received monthly, quarterly, and annual deliverables related to the TMS contract, the Commission lacked processes to effectively monitor those deliverables.

Chapter 1-A

### **The Commission Did Not Adequately Review Payments**

The Commission did not have an adequate payment review process related to portions of the TMS contract. As a result, it made payments to the contractor for items that were out of scope and paid incorrect amounts. Although the Commission's payment process required that the contract manager and accounts payable manager review and approve all payments, it did not require any verification that the Commission received the deliverables before finalizing the payment.

The TMS contract inappropriately served as an umbrella contract under which several departments within the Commission purchased telecommunications equipment and services without centralized approval. According to Commission management, regional offices could use the TMS contract as a "purchase vehicle" for paging systems. However, those purchases were outside of the scope of the contract. Eight (27 percent) of 30 randomly selected payments that auditors tested that were for paging equipment. The total amount paid for those items was \$3,411.

In addition, the Commission did not have a process to verify that a discount was applied before payment was made. According to the TMS contract, the Commission should have received discounts of between 40 percent and 60 percent on certain equipment. Auditors tested 19 payments that had discounts applied and determined that 10 (53 percent) of the discounts were not applied correctly. Specifically:

- Nine payments tested did not receive the contracted discount. The discounts applied ranged from 8 percent to 37 percent.
- One payment lacked supporting documentation; therefore, auditors could not determine the discount applied.

The prices of the same equipment were not consistent throughout the term of the TMS contract. Of the 30 randomly selected payments tested, 9 (30 percent) contained examples of price differences for the same equipment. The differences included 29 price increases and 5 price decreases for the same equipment and ranged from a 1 percent difference to a 190 percent difference, with an average of a 42 percent difference in pricing. For example, the Commission paid up to 190 percent more for one piece of equipment from November 2010 to February 2012. The Commission stated that it did not verify equipment prices against an independent, third-party source until the beginning of calendar year 2013.

Auditors used professional judgment to select an additional 37 payments for testing. Of those 37 payments, 4 (11 percent) were not supported and contained errors in the payment calculations. Three of those 4 payments resulted in underpayments of \$7,162 to the contractor. One of those 4 payments resulted in a \$4,851 overpayment to the contractor.

Additionally, auditors tested 18 purchase orders and 40 purchase requisitions that are required to initiate a purchase order and determined that:

- Seventeen (94 percent) of the 18 purchase orders tested were approved by a certified Texas procurement manager as required.
- Twelve completed purchase orders lacked a pre-requisition form, which provides an item/service description, quantity, estimated cost, and total estimated cost. Without consistently maintaining supporting documentation, the Commission may not know how much it is obligated to pay.
- Eight (20 percent) of the 40 purchase requisitions tested did not have supporting documentation to indicate why the purchase was necessary.

## **Recommendations**

The Commission should:

- Develop a process to verify that it received deliverables before finalizing payment to the contractor.
- Ensure that all payments for equipment and services rendered are within the scope of the contract by having the existing contract manager review the purchase order, with an additional supervisory review.

- Develop a process to monitor equipment pricing on all contracts and to verify that discounts are verified and applied correctly.
- Review all past invoices to determine whether it is owed a refund for additional discounts that should have been applied on equipment purchased.
- Maintain supporting documentation for:
  - ♦ All payments to contractors to help the Commission verify the accuracy of the payments.
  - ♦ All purchase orders for services and equipment, including a justification for why the purchase was necessary.
- Ensure that a certified Texas procurement manager approves purchase orders.

### **Management's Response**

*HHSC formed a Contract Management Workgroup in July 2013 to develop an enterprise-wide Contract Management and Risk Assessment Manual. The manual will formalize and include comprehensive contract management policies and procedures, universal guidelines, best practices, and standards that will apply to HHSC and all enterprise agencies in accordance with H.B. 3648 and S.B. 1681, 83<sup>rd</sup> Legislature, Regular Session, 2013. In addition, Procurement and Contracting Services (PCS) Contract Oversight and Support will be implementing quality assurance monitoring and providing training on best practices to contract managers, including appropriate review of contractor payments, across HHSC and all enterprise agencies to facilitate compliance with the manual and identify opportunities for improvement.*

*Within 90 days of the manual's publication, HHSC Enterprise Customer and Support Services (ECSS) will initiate review, and revise as necessary, its Operations Policy Manual for monitoring the Telecommunications Managed Services (TMS) contract to ensure it is in compliance with the Contract Management and Risk Assessment Manual.*

*In addition, ECSS is in the process of hiring a contract administration manager who will perform monitoring, oversight, and quality assurance activities to ensure that ECSS contracts are managed appropriately.*

*ECSS will review a sample of prior invoices to assess the effort necessary to review and the potential financial benefit of reviewing prior invoices. ECSS will consider the results of the review and determine whether all prior invoices will be reviewed internally or outsourced to a third party, and whether based on the review, a comprehensive review or a limited review should be conducted.*

*PCS has strengthened its quality assurance processes and procedures to ensure that purchases are approved by an individual with the appropriate certification. These revised procedures were communicated to all PCS as part of its 2014 annual conference.*

***Estimated Completion Date:***

<i>February 2015</i>	<i>Hire Contract Administration Manager</i>
<i>March 2015</i>	<i>Issue Contract Management and Risk Assessment Manual</i>
<i>March 2015</i>	<i>Conduct prior invoice assessment</i>
<i>June 2015</i>	<i>Review Operations Policy Manual</i>
<i>August 2015</i>	<i>Revise Operations Policy Manual</i>
<i>August 2015</i>	<i>Complete review of all prior invoices, if cost-effective</i>
<i>September 2015</i>	<i>Implement quality assurance activities</i>

***Title of Responsible Person:***

*Director, HHSC IT Enterprise and Customer Support Services*

*Deputy Executive Commissioner for Procurement and Contracting Services*

Chapter 1-B

**The Commission Could Not Determine the Total Amount Expended for the TMS Contract and Did Not Ensure That Contract Amendments Were Adequately Supported**

The Commission did not consistently track transactions related to the TMS contract. As a result, it could not provide the total amount paid for the contract. According to the Commission's *Contracting Processes and Procurement Manual*, a payment to a contractor is initiated by a requisition. The requisition goes through multiple internal approvals by division/program staff and purchasing staff before the accounts payable division issues a payment. The contractor's information is then entered into the Health and Human Services Administrative System (HHSAS). The accounts payable division verifies within HHSAS that funds are available to make purchases for goods and services and pays the contractor.

Auditors calculated that the Commission spent at least \$72,514,646 on the TMS contract from August 29, 2008, through June 30, 2014. However, the actual total may be higher than that amount.

While it had a process for approving contract payments, the Commission's inconsistent processing of purchase orders and omission of key data from its accounting system, such as the contract number and/or purchase order number, limits the Commission's ability to determine whether certain expenditures are related to the TMS contract. As a result, the Commission cannot provide a supportable total amount spent on the TMS contract because there may be unidentified transactions related to the contract.

HHSAS has several items that can be used to identify payments, including the contract number, purchase order number, and department identification number. The Commission did not use any one field consistently to track the payments, and the information in HHSAS was not complete. Of 756 HHSAS transactions identified as TMS contract payments, 248 (32.8 percent) transactions, which accounted for \$25,971,611 in payments, did not have a contract number listed and 41 (5.4 percent) transactions, which accounted for \$1,554,224 in payments, did not have a purchase order number.

Financial information in the Health and Human Services Contract Administration Tracking System (HCATS) for the TMS contract is not complete because data is missing from HHSAS, which is used to populate HCATS. Auditors identified \$25,995,800 in payments for the TMS contract that were not included in HCATS.

## Recommendations

The Commission should:

- Ensure that accounting data related to contracts is complete and accurate in all information systems containing contract information.
- Periodically reconcile contract accounting information HCATS with the data in HHSAS.

## Management's Response

*Beginning in February 2014, Fiscal Management returns requests for payments to the requestor when a purchase order is not referenced in the Health and Human Services Accounting System (HHSAS) for those goods or services being purchased that require one. Requestors are asked to obtain a purchase order before payment will be processed.*

*HHSAS is the financial system of record, while the Health and Human Services Contract Administration Tracking System (HCATS) is a contract*

*tracking system that is populated by information contained in HHSAS. A reconciliation process that involves ensuring HHSAS and HCATS are in agreement will not necessarily address the issue of HHSAS not containing accurate and complete purchase order or contract number with each payment.*

*PCS will formulate and issue a policy that provides guidance to HHSC and enterprise agency contract managers to periodically review the accounting data related to their contracts in HHSAS to ensure that it is complete and accurate. Additional periodic comparisons are performed to confirm HCATS data was updated accurately from HHSAS.*

***Estimated Completion Date:***

*March 2015      Implement policy to provide guidance to contract managers*

***Title of Responsible Person:***

*Deputy Executive Commissioner for Procurement and Contracting Services*

Chapter 1-C

**The Commission Does Not Verify the Accuracy of Contractor-provided Monitoring Reports or Adequately Monitor Contractor Performance**

**Service Level Agreement**

The service level agreement for the TMS contract is a document that defined the required service levels the contractor must provide for the Commission's voice-prompted telephone systems, and it set restoration time dependent on severity of an outage and/or the number of stations needed to be moved or added. When the restoration time was not met, the Commission was entitled to a service credit. The contractor was required to perform to the levels established in the service level agreement and report on its performance on a monthly basis.

Source: The Commission's service level agreement for the TMS contract.

**Monthly Detail Report**

The contractor must submit a monthly report to the Commission detailing all help desk and repair ticket activity by type of ticket, severity level (if applicable), location, date received and completed, and number of hours required to complete the service.

Source: Amendment 1 to the TMS contract.

The Commission did not effectively use the monitoring reports required by the contract because it did not verify the accuracy of the information that the contractor self-reported in its *Service Level Agreement Summary Reports*. As a result, there is an increased risk that errors are not identified or corrected and that the Commission is not effectively evaluating the contractor's performance or quality of work.

Auditors randomly selected 13 of 63 months for testing. The performance reports for one month selected for testing were not available. Auditors identified several errors in the *Service Level Agreement Summary Reports* for the other 12 months tested. Specifically:

- The information in the contractor's *Service Level Agreement Summary Reports* for repairs, moves, additions, or changes for telephones differed from the contractor-prepared *Monthly Detail Reports* (see text box for information about the *Service Level Agreement and Monthly Detail Report*). For 6 (50 percent) of the 12 months tested, the reported percent that the contractor met the required restoration times differed between the *Service Level*

*Agreement Summary Reports* and the *Monthly Detail Reports*. For example, the May 2010 *Service Level Agreement Summary Report* stated that the contractor met the restoration times for 96.1 percent of the help desk and repair tickets, while the *Monthly Detail Report* for the same time period stated that the contractor met the restoration times for 94.7 percent of the help desk and repair tickets.

- For 2 (17 percent) of the 12 months tested, the contractor's *Monthly Detail Reports* did not support the *Service Level Agreement Summary Reports'* information on response times.
- For all 12 months tested, there were differences between performance metrics calculated by auditors and those reported by the contractor. The contractor reported that, for all 12 months tested, it met the performance standard of responding to and completing 95 percent of the repairs and help desk tickets within the time frames stated in the service level agreement. However, based on the information in the *Monthly Detail Reports*, auditors calculated that, for the 12 months tested, the contractor responded to and completed only 73 percent to 84 percent of the requested repairs and help desk tickets within the required time frames. As a result, the contractor did not meet the performance standards for any of the 12 months tested.

In addition, the Commission did not verify that the contractor's Monthly Detail reports were supported by the daily ticket logs that track repairs, moves, additions, and changes to the phone systems for 22 (18 percent) of 120 daily ticket logs tested.

The Commission also did not maintain documentation to support help desk and repair tickets. Specifically:

- The Commission did not create or maintain internal monitoring documents for tracking help desk and repair tickets opened and completed each month. Furthermore, the Commission could not provide the contractor-supplied documentation for help desk and repair tickets opened and completed for 5 (38 percent) of 13 months tested.
- The Commission could not provide support for any of the 60 repair tickets tested that the contractor originated, or for 36 (60 percent) of 60 repair tickets tested that the Commission originated. In addition, the Commission did not have a process to track the repair tickets that the contractor originates.

**The Commission is not monitoring to verify that the contractor correctly identified performance deficiencies.** The Commission's *Contracting Processes and Procedures Manual* states that the Commission should initiate a corrective action plan if a contractor is determined to be in noncompliance with contract terms. Although the contractor reported, as of June 2014, that it had not met

the requirements in the service level agreement for 33 of 57 months, the Commission requested only one corrective action plan during that time period, which was in January 2014. The contractor provided a draft of the corrective action plan in April 2014 that would address all identified performance deficiencies. However, as of June 2014, the Commission had not developed monitoring processes to verify that the contractor implemented the corrective action plan.

The Commission also did not adequately monitor or verify the contractor's calculations and use of contract credits to verify that they were accurate and complied with contract terms.

**The Commission did not report contract performance deficiencies to the Office of the Comptroller of Public Accounts as required.** According to the Title 34, Texas Administrative Code, Section 20.108, state agencies must report a contractor's performance on any purchase of \$25,000 or more from contracts the Office of the Comptroller of Public Accounts administers or any other purchase made through agencies' delegated authority. The Office of the Comptroller of Public Accounts maintains a vendor performance tracking system that measures vendor performance in the areas of commodity delivery and service delivery. By not reporting deficiencies to the Office of the Comptroller of Public Accounts, the Commission increases the risk that other state agencies may select vendors with previous performance issues.

**The Commission did not consistently calculate liquidated damages for identified deficiencies.** As of June 2014, the contractor calculated a total of \$114,119 in liquidated damages, which represented 0.16 percent of the total payments the Commission made to the contractor from December 2008 through August 2013. The Commission had not calculated liquidated damages since August 2013.

## Recommendations

The Commission should:

- Verify any deliverable and any performance report provided by the contractor for accuracy and compliance with the contract. Specifically, it should:
  - ♦ Ensure that *Service Level Agreement Summary Reports* reconcile with the contractor's *Monthly Detail Reports*.
  - ♦ Maintain all supporting documentation related to contractor performance and deliverables.
  - ♦ Verify all contractor calculations related to performance.

- Develop a corrective action plan for the contractor for all identified noncompliance with contract terms, and monitor to verify that the contractor implements each plan.
- Report contractor performance deficiencies to the Office of the Comptroller of Public Accounts as required by the Texas Administrative Code.
- Ensure that liquidated damages are calculated, reported, and collected in a timely manner.

**Management’s Response**

*ECSS is monitoring a contractor corrective action plan developed in January 2014, to verify its full implementation. In addition, in September 2014 HHSC recommitted to reviewing contractor performance in a variety of different meetings such as (a) weekly change management meetings, (b) Service Level Agreement Dispute review meetings, (c) monthly executive touchpoint meetings, and (d) quarterly service delivery meetings.*

*While HHSC already utilizes the Comptroller's Vendor Performance Tracking System to report contractor performance, it will, in conjunction with implementation of the Contract Management and Risk Assessment Manual, strengthen policies and procedures and formalize management reporting, including expanding the use of the Vendor Performance Tracking System to report contractor performance and instances of repeated noncompliance.*

**Estimated Completion Date:**

*August 2015      Verify implementation of corrective action plan*

**Title of Responsible Person:**

*Director, HHSC IT Enterprise and Customer Support Services*

*Deputy Executive Commissioner for Procurement and Contracting Services*

Chapter 1-D

**The Commission Lacks Processes to Adequately Monitor Contract Deliverables**

As of January 2014, the Commission was not effectively monitoring contractor performance to verify that the contractor was meeting performance standards. Instead, the Commission relied on the contractor to report whether it was meeting specific contractor requirements. The Commission did not maintain separate documentation to verify that the contractor-created reports were accurate and complete. Specifically:

### Help Desk Ticket

A help desk ticket is a request for the addition, move, replacement, or removal of one or more telephone handsets.

### Repair Ticket

A repair ticket is a request for repairs stemming from an equipment- or infrastructure-related failure causing an interruption in services. Repair tickets are classified as Severity 1, Severity 2, or Severity 3 depending on the functional ability of the affected units.

### Daily Ticket Log

A daily ticket log is a repository of all help desk tickets and repair tickets received by the contractor's help desk for a given day, including basic information about the client location and services requested.

- Ninety-six (80 percent) of 120 monthly help desk and repair tickets tested lacked supporting documentation, such as an email or verification from the contractor that the ticket was completed and closed (see text box for more information on help desk and repair tickets).
- The Commission did not ensure that regional employees consistently documented reviews of help desk and repair tickets. Specifically, 11 (9 percent) of 120 help desk and repair tickets tested did not indicate whether the regional employees approved or disputed the work completed. That is important because if the Commission disputed the work completed and the contractor agreed with the dispute, the Commission would receive a credit on a future invoice.
- The Commission could not provide daily ticket logs for January 2011 through March 2011 (see text box for more information on daily ticket logs).

- The Commission did not always have supporting documentation for special projects, which included requests for moves, additions, or changes consisting of more than 10 telephones. Specifically, 22 (17 percent) of the 129 special projects tested, the Commission did not have the forms that initiated a change request.

In addition to not effectively verifying contractor performance, the Commission did not create a contract monitoring plan identifying the contract deliverables. According to the Commission's *Contracting Processes and Procedures Manual*, the contract manager must develop a comprehensive contract monitoring plan during the planning or procurement phase, and the plan must be implemented no later than 90 days after a contract's execution. The contract monitoring plan must document the procedures used to identify the deliverables associated with the contract and describe the regular monitoring of contract performance.

Monitoring contractor performance is important because, as of February 2014, the Commission was spending more than \$800,000 per month for services related to its telephone systems.

## Recommendations

The Commission should:

- Monitor contractor performance to verify that the contractor meets the requirements as stated in the contract, including:
  - ♦ Verifying that the contractor completed help desk and repair tickets.

- ♦ Ensuring that supervisory reviews of help desk and repair tickets are completed.
- ♦ Maintaining ticket logs and change requests as required by the Commission's record retention schedule.
- Complete a contract monitoring plan as required by its *Contracting Processes and Procedures Manual*.

### **Management's Response**

*ECSS's Operations Policy Manual currently serves as the Contract Monitoring Plan for the TMS contract. The Operations Policy Manual will be updated, in coordination with the re-procurement of the TMS contract, to ensure monitoring efforts are appropriate and effective for the subsequent contract.*

### ***Estimated Completion Date:***

*August 2015      Revise Operations Policy Manual*

### ***Title of Responsible Person:***

*Director, HHSC IT Enterprise and Customer Support Services*

## ***The Commission Did Not Adequately Determine the TMS Contract's Cost; However, It Generally Complied with Other Contract Planning and Procurement Requirements***

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While the Commission generally complied with contract planning and procurement requirements, it could not provide documentation that it developed a contract cost model to determine the original TMS contract cost. The Commission's *Contracting Processes and Procedures Manual* requires that a cost/benefit analysis be performed in addition to identifying the preliminary budget and preparing an initial cost estimate. In addition, the Commission did not have support for the contract amendments that increased the TMS contract price. The Commission also did not comply with certain conflict of interest and nondisclosure requirements. One former Commission employee, the initial contract manager, had a clear conflict of interest with the contractor that was not disclosed.

### Chapter 2-A

#### **The Commission Did Not Adequately Determine the Contract's Cost**

The Commission could not provide documentation that it developed a contract cost model to determine the original contract cost. In documents it submitted to the State's Contract Advisory Team in June 2007, the Commission included an initial cost estimate for the TMS contract procurement of \$1,000,000. However, on August 29, 2008, the contract was executed for \$47,948,920.

The Commission's *Contracting Processes and Procedures Manual* requires that a cost/benefit analysis be performed, in addition to identifying the preliminary budget and preparing an initial cost estimate. According to the Commission, it was unable to provide documentation supporting its methodology for the initial \$1,000,000 estimate because the Commission did not retain that documentation, and the initial cost estimates were considered planning documentation and were not required to be retained under its records retention schedule.

In addition, the Commission did not have support for the contract amendments that increased the TMS contract cost to \$105.0 million as of September 1, 2013. Specifically, the Commission did not create a detailed analysis or budget to support the contract price increases approved in the contract amendments. Table 1 on the next page lists the original contract cost and the approved amendments to the TMS contract and their related cost increases.

Table 1

Approved Amendments to the TMS Contract			
Action Item	Effective Date	Cost Increase	Total Contract Cost
Original Contract	August 29, 2008	Not applicable	\$ 47,948,920
Amendment 1	September 1, 2009	None	\$ 47,948,920
Amendment 2	September 1, 2011	\$32,684,139	\$ 80,633,059
Amendment 3	September 1, 2013	\$24,366,941	\$105,000,000

The Commission also did not obtain all required approvals for the contract amendments until after the amendments' effective dates. Specifically, each of the three contract amendments was signed 9 to 160 days after the effective date of the amendment. According to the Commission's *Contracting Processes and Procedures Manual*, contract amendments should be routed to certain agency staff before they are executed. In addition, the Commission did not retain all supporting documentation for Amendment 3 in compliance with its records retention schedule. Specifically, the Commission did not have a contract routing form, which would have contained the signed approvals of the contract manager, division/program staff, and chief of staff/general counsel. According to the Commission's *Contracting Processes and Procedures Manual*, the division/program should forward the contract amendment, including all supporting documentation, to the Enterprise Contract and Procurement Services Contract Repository. According to the Commission's records retention schedule, contract documentation should be retained for up to four years after the contract expires.

### Recommendations

The Commission should:

- Document its planning process for all contracts, including a completed cost estimate.
- Ensure that it develops and maintain support for all contract amendments, included support for any changes to the contract amount.
- Develop detailed justifications for contract price increases and maintain all supporting documentation according to the Commission's record retention schedule.
- Ensure that all contracts and amendments are signed before their execution date and maintain all supporting documentation related to those contracts and amendments as required by the Commission's record retention schedule.

## Management's Response

*HHSC is developing an enterprise-wide Contract Management and Risk Assessment Manual, and will be implementing quality assurance monitoring and providing training on best practices to contract managers across HHSC and all enterprise agencies to facilitate compliance with the manual and identify opportunities for improvement, including methods for estimating contract costs.*

### ***Estimated Completion Date:***

*March 2015      Issue Contract Management and Risk Assessment Manual*

*September 2015      Implement quality assurance activities*

### ***Title of Responsible Person:***

*Deputy Executive Commissioner for Procurement and Contracting Services*

Chapter 2-B

## **The Commission Generally Complied with Other Contract Planning Requirements**

The Commission conducted planning for the contract, including creating project objectives, identifying assumptions and constraints, and identifying project needs. Auditors determined that the Commission identified the following project objectives:

- Financial Economy – That includes establishing methods of finance for the project, identifying costs for the *Legislative Appropriations Request*, and targeting potential cost savings.
- Operational Efficiency – That includes addressing problems with the Commission's voicemail system, providing telecommunications services that did not exist at the time of the contract's initiation, and improving the Commission's ability to deliver services to its customers.
- Technical Effectiveness – That includes developing short- and long-term strategies for meeting the needs of the health and human services agencies, such as a migration from existing and outdated technologies to newer technologies.

The Commission was able to identify key assumptions regarding the project, such as disaster recovery requirements. Among the key constraints identified was that the Legislature had to approve funding for the TMS contract. In addition, within the project scope, the Commission identified project needs

and completed a preliminary risk assessment that identified project risks that would need to be monitored.

Commission management properly approved the posting of the procurement and solicitation documents regarding the TMS contract. Specifically, the Commission:

- Posted the solicitation to the *Electronic State Business Daily* and properly advertised the solicitation.
- Waited the required number of days before awarding the contract.
- Notified the Centralized Master Bidders List vendors about the solicitation.
- Used electronic transmission as the bid solicitation medium.

Chapter 2-C

### **The Commission Did Not Comply with Certain Conflict of Interest Requirements; However, It Generally Complied with Other Contract Procurement Requirements**

Only 13 (68 percent) of the 19 employees involved with the solicitation of the original TMS contract signed a required conflict of interest form. One employee, the initial contract manager, did not disclose a conflict of interest on the signed form. That employee had previously worked for the contractor. Auditors also noted that the subsequent contract manager was a former employee of the contractor and was responsible for approving payments to the contractor.<sup>1</sup>

According to Texas Government Code, Section 2262.004, before a state agency may award a major contract for the purchase of goods or services to a business entity, each employee working on the contract must disclose in writing any relationship the employee has with an employee, a partner, a major stockholder, other owners of, or a paid consultant with a contractor for contracts that exceeds \$25,000.

The initial contract manager for the TMS contract was also a member of the bid response evaluation team and had knowledge of scoring weights prior to proposal evaluations. The initial contract manager's scores for the bid responses differed from the other seven evaluators' scores. However, all evaluators used the same scoring matrix with the same point scale, and the calculations for the scores were mathematically accurate.

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<sup>1</sup> The subsequent contract manager was not required to complete a conflict of interest form. Only employees involved in the initial solicitation and bid response evaluation stages are required to complete conflict of interest forms.

In addition, the Commission could not provide nondisclosure agreements for the 19 employees involved in procurement, bid evaluation, and contract management for the TMS contract. According to the *State of Texas Contract Management Guide*, each member of the procurement team should sign and submit a nondisclosure statement to the agency's purchasing department prior to engaging in any discussion about, or having access to, proposal documents.

**The Commission generally complied with contract procurement requirements.**

The Commission complied with most contract procurement requirements. Specifically, the Commission:

- Used an appropriate procurement method to solicit the TMS contract by issuing a request for proposals (RFP). That procurement method complied with the requirements in the *State of Texas Contract Management Guide*.
- Provided the initial RFP to the State's Contract Advisory Team (when the former Texas Building and Procurement Commission was part of that team) for review as required. The Contract Advisory Team provided recommendations to improve the RFP, and the Commission incorporated those recommendations into the RFP.
- The Commission conducted a vendor conference and required all respondents to the RFP to attend, as required by the RFP.
- The Commission developed a communication plan as required by the *State of Texas Contract Management Guide*. That plan identified internal and external stakeholders, the types of communication that should be used to provide updates and other information, how often project information should be distributed, and how the information should be stored. No time table regarding the procurement of the TMS contract was noted within the communication plan; however, the RFP contained a time table for the procurement.

**The Commission included the best value criteria for the procurement of the TMS contract as specified by Texas Government Code, Chapter 2157.**

Specifically, the criteria were included in the solicitation material and evaluation criteria, and the Commission selected the contractor based on that criteria. The Commission complied with requirements to advertise its solicitations, require vendor conflict of interest disclosures, and require the contractor to complete HUB subcontracting plans. In addition, all 38 subcontracting plans tested included the names of all subcontractors. However, the Commission did not ensure that Historically Underutilized Businesses (HUB) subcontracting plans were complete and accurate. Auditors noted the following errors on the contractor's HUB subcontracting plans:

- Nine (69 percent) of the 13 subcontracting plans tested did not include subcontractor vendor identification numbers, indicating that the

Commission did not audit the contractor for compliance with the subcontracting plans.

- For 1 (8 percent) of the 13 subcontracting plans tested, the plan and the vendor-provided information for reporting period payments to subcontractors did not reconcile. In addition, for 5 (38 percent) of the 13 plans tested, the subcontracting plan and the vendor-provided information on year-to-date aggregate payments to subcontractors did not reconcile.

In addition, the Commission did not independently maintain a complete list of subcontractors for monitoring purposes. As a result, the Commission's ability to monitor all contractors and subcontractors may be limited.

### **Recommendations**

The Commission should:

- Ensure that all employees involved with purchasing, contract administration, and contract management disclose any conflicts of interest and evaluate that disclosure for potential independence issues.
- Ensure that all employees involved with purchasing, contract administration, and contract management complete conflict of interest forms and nondisclosure forms and maintain those forms for four years after the contract expiration date.
- Ensure that all contracted vendors complete HUB subcontracting plans and review those plans for completeness and accuracy.

### **Management's Response**

*In accordance with the Procurement Manual issued in October 2010, when subcontracting opportunities are probable, the HUB Program Office works with the PCS purchaser and the applicable HHS agency to ensure a HUB subcontracting plan (HSP) or appropriate language regarding the subcontracting opportunities is included in the solicitation. All interested respondents, when responding to a solicitation, must submit a completed HSP response with their proposals when subcontracting opportunities are available.*

*The Contract Management and Risk Assessment Manual will provide guidance to clarify that all HHSC and enterprise employees who are involved with purchasing, contract administration, or contract management must complete conflict of interest and non-disclosure forms.*

*PCS provided ethics training as part of its quality assurance training at the 2014 PCS annual conference. This training included information on ethics*

*policies and responsibilities, as well as required ethics forms including (a) Texas Comptroller of Public Accounts Conflict of Interest, (b) State Auditor's Office Nepotism Disclosure, (c) HHSC Acknowledgement of Duties, and (d) HHSC Nondisclosure and Procurement Integrity. PCS also requires all new employees to sign required ethics forms and has updated its Procurement Manual to specify that required ethics forms will be signed at the PCS annual conference, or no later than November of each year. The documents will be maintained four years after the contract expiration date in accordance with records retention schedules.*

***Estimated Completion Date:***

*March 2015      Issue Contract Management and Risk Assessment  
Manual*

***Title of Responsible Person:***

*Deputy Executive Commissioner for Procurement and Contracting Services*

## ***The TMS Contract Contained All Required Essential Contract Terms, But It Lacked Additional Terms for Contract Deliverables***

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The TMS contract contained all required essential contract terms as specified in the *State of Texas of Contract Management Guide*. However, it did not include additional terms related to contract deliverables. Specifically, the TMS contract did not include the methods to be used to verify that contract deliverables meet agreed-upon standards, a process to be used to monitor the quality of the services and products delivered, an acceptance process for deliverables, and a compensation structure for each deliverable. That contributed to some of the deficiencies in the Commission's monitoring of deliverables discussed in Chapter 1-D.

### **The TMS contract contained all required essential contract terms.**

The TMS contract contained all 20 required essential contract terms as stated in the *State of Texas of Contract Management Guide*. In addition, the TMS contract included six recommended clauses that auditors selected for testing. The TMS contract contained well-defined information technology-related provisions, such as identifying quantifiable goals, including best value criteria, specifying remedies and sanctions for nonperformance, and including vendor contact information.

### **The TMS contract did not have a clearly defined process for monitoring and paying for deliverables.**

The TMS contract did not have all elements for deliverables as required in the *State of Texas Contract Management Guide*. Specifically, the TMS contract lacked:

- A method or procedure to verify that deliverables met the specified performance standards.
- An acceptance process for each deliverable.
- A compensation structure for each deliverable in the contract.

### **Recommendation**

The Commission should ensure that its contracts contain all required elements for deliverables, including a methodology to review and approve deliverables, an acceptance process for each deliverable, and a compensation structure for each deliverable.

## **Management's Response**

*HHSC is developing an enterprise-wide Contract Management and Risk Assessment Manual that will include guidance for improving contract terms related to performance deliverables. In addition, PCS will be implementing quality assurance monitoring and providing training on best practices to contract managers across HHSC and all enterprise agencies to facilitate compliance with the manual and identify opportunities for improvement.*

### ***Estimated Completion Date:***

*March 2015      Issue Contract Management and Risk Assessment Manual*

*September 2015    Implement quality assurance activities*

### ***Title of Responsible Person:***

*Deputy Executive Commissioner for Procurement and Contracting Services*

# Appendices

Appendix 1

## **Objectives, Scope, and Methodology**

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### **Objectives**

The objectives of this audit were to determine whether the Health and Human Services Commission (Commission):

- Planned, procured, and established selected contracts for goods and services in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts (Comptroller's Office) requirements, and state entity policies and procedures to help ensure that the State's interests were protected.
- Managed and monitored selected contracts for goods and services to help ensure that contractors performed according to the terms of the contracts and that contractor billings were valid and supported, in accordance with applicable statutes, rules, Comptroller's Office requirements, and state entity policies and procedures.

### **Scope**

The scope of this audit covered the Telecommunications Managed Services (TMS) contract from its inception in fiscal year 2008 to February 2014. The audit concentrated on all phases (planning, procurement, contract formation, and contract oversight) of the contracting process.

### **Methodology**

The audit methodology consisted of collecting and reviewing procurement documentation; conducting interviews with Commission staff; reviewing statutes, rules, Comptroller's Office requirements, and Commission policies and procedures; and performing selected tests and other procedures.

### **Data Reliability and Completeness**

Contract information in the Health and Human Services Contract Administration Tracking System (HCATS) and the Health and Human Services Administrative System (HHSAS) was not reliable for purposes of this audit. Contract information for the TMS contract was not complete in those two systems because data was missing from HHSAS, which is used to populate HCATS. In addition, key contract data in HHSAS was not complete or left blank. The Uniform Statewide Accounting System was also used to verify completeness of the data in HHSAS.

### **Sampling Methodology**

To test the Commission's payment of contractor invoices, auditors selected samples through random selection; results may be extrapolated to the population, but the accuracy of the extrapolation cannot be measured. Auditors also used professional judgment to select a sample of contractor invoices for testing. Those sampled payments were not representative of the population and, therefore, it would not be appropriate to extrapolate the test results to the population.

To test contractor deliverables, auditors selected samples through random selection; results may be extrapolated to the population, but that accuracy of the extrapolation cannot be measured.

Information collected and reviewed included the following:

- The TMS contract and associated amendments between the Commission and SBC Global Services, Inc. (doing business as AT&T Global Services).
- Commission policies and procedures, manuals, and applicable rules and regulations.
- Commission solicitation and bid documentation, evaluation criteria and documentation, major contract questionnaires, and related supporting documentation.
- Commission procurement files, including planning documentation, purchase requisition forms, purchase orders, approvals, invoices, and other supporting documentation.
- Commission past and present organizational charts for applicable divisions, and Commission personnel training and certification records and nondisclosure forms.
- Commission reports, workbooks, and spreadsheets used to monitor contracts and contract costs, including supporting documentation.
- Commission contract expenditure data from HHSAS and USAS.
- Emails and other documentation that supported information that Commission employees provided during interviews.

Procedures and tests conducted included the following:

- Interviewed employees at the Commission.
- Tested whether the Commission followed applicable requirements in the *State of Texas Contract Management Guide* and the *State of Texas Procurement Manual*.

- Reviewed applicable conflict of interest statements and nondisclosure agreements.
- Tested whether the Commission properly documented bid evaluation criteria and evaluation scores.
- Reviewed the TMS contract to determine whether the Commission included essential contract terms listed in the *State of Texas Contract Management Guide*.
- Reviewed the contract and amendments for appropriate authorizations.
- Tested criteria the Commission used to evaluate vendor proposals to determine whether it followed applicable requirements in the Texas Government Code.
- Tested scoring of Commission evaluations to determine whether all evaluators completed the same scoring matrix and to test mathematical accuracy.
- Tested samples of payments on invoices for appropriate documentation and whether the payments were within the scope of the contract, had required approvals, and were made in a timely manner.
- Tested samples of deliverables to evaluate the Commission's monitoring processes.

Criteria used included the following:

- Texas Government Code, Chapters 322, 572, 2054, 2151, 2155-2158, 2161, 2251, 2252, 2261, and 2262.
- Title 34, Texas Administrative Code, Chapter 20.
- Title 1, Texas Administrative Code, Chapter 391.
- *State of Texas Contract Management Guide*, Versions 1.3 and 1.5.
- *State of Texas Procurement Manual* (version released in 2012 and version in effect prior to 2012).
- Commission policies and procedures.
- The State of Texas's and the Commission's records retention schedules.

### **Project Information**

Audit fieldwork was conducted from March 2014 through August 2014. 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.

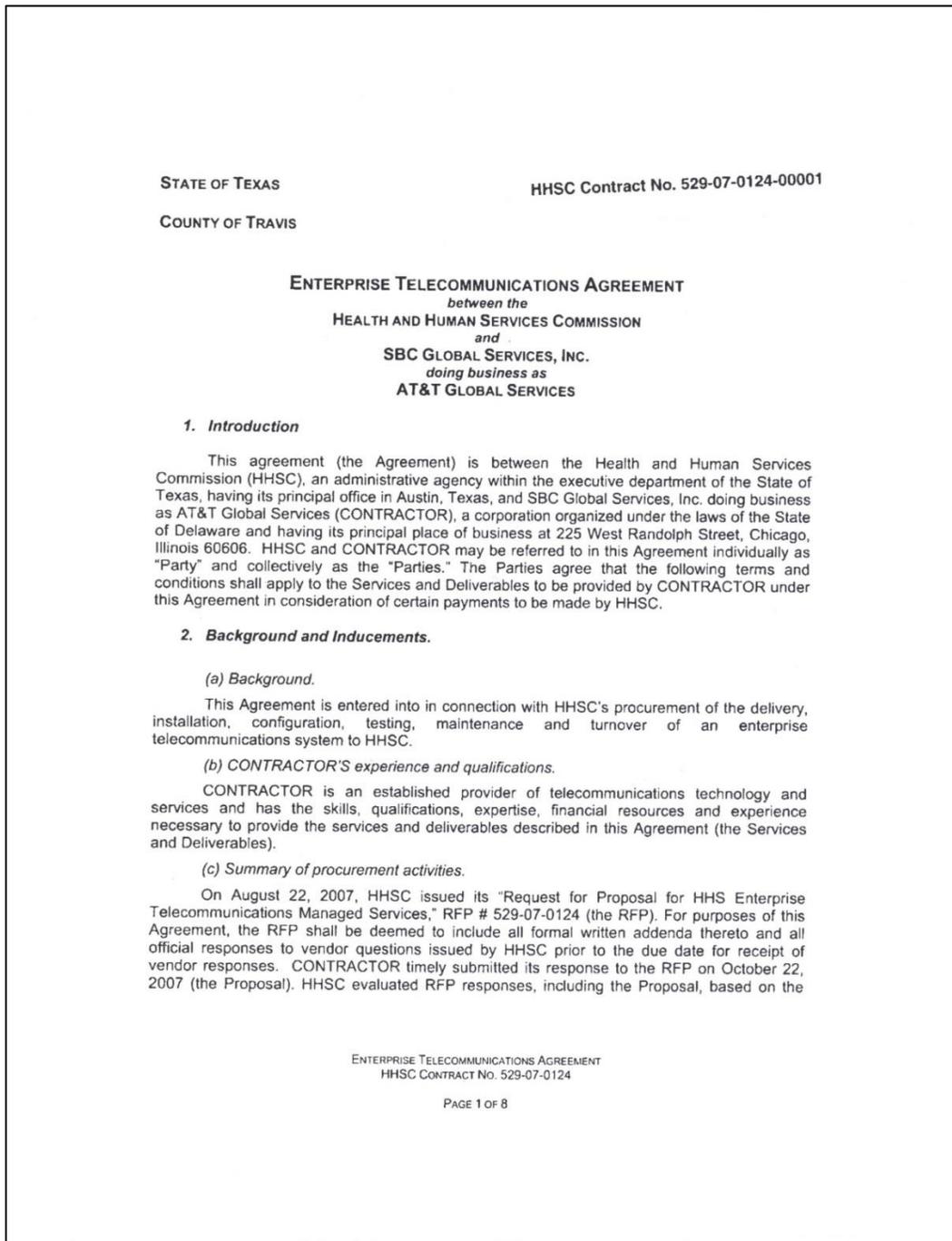
The following members of the State Auditor's staff performed the audit:

- Michael Simon, MBA, CGAP (Project Manager)
- Ann E. Karnes, CPA (Assistant Project Manager)
- Nathan Beavers
- Robert H. (Rob) Bollinger, CPA, CFE
- Michael Gieringer, CFE
- Michael Goodwin
- Valentine A. Reddic
- Steven Summers, CPA, CISA, CFE
- Dana Musgrave, MBA (Quality Control Reviewer)
- Angelica M. Ramirez, CPA (Audit Manager)

## Original Contract and Related Amendments

Below are copies of the original Telecommunications Managed Services (TMS) contract and three contract amendments between the Health and Human Services Commission and AT&T Global Services effective August 29, 2008. Figure 1 is the original TMS contract

Figure 1



selection criteria set forth in the RFP and determined that entering into this Agreement with the CONTRACTOR is in the best interest of the State of Texas.

*(d) CONTRACTOR's commitment and understanding.*

CONTRACTOR has had the opportunity to review and understand HHSC's mission and objectives as stated in the RFP, and based on such review and understanding, CONTRACTOR represents to HHSC that it currently has the capacity to perform in accordance with the terms and conditions of this Agreement.

### **3. Agreement Elements**

*(a) Agreement Documentation.*

The Agreement between the Parties consists of:

(1) This final executed document entitled "Enterprise Telecommunications Agreement between the Texas Health and Human Services Commission and AT&T," including Exhibits A, B and C listed below, each of which is expressly incorporated herein by reference (collectively, the Enterprise Telecommunications Agreement):

- (A) The Contract Terms and Conditions attached hereto as Exhibit A;
- (B) The Modifications to the Proposal attached hereto as Exhibit B; and
- (C) The Pricing Information attached hereto as Exhibit C.

(2) The RFP, which is expressly incorporated herein by reference as Attachment 1; and

(3) The Proposal, which is attached and expressly incorporated herein by reference as Attachment 2.

*(b) Order of Precedence.*

In the event of any conflict or contradiction between or among the Agreement elements, the documents shall control in the following order of precedence:

- (1) The Enterprise Telecommunications Agreement;
- (2) The RFP; and
- (3) The Proposal.

### **4. Term of the Agreement**

This Agreement is effective as of the date of execution by both Parties (the Effective Date), and shall continue in effect until the expiration of the initial term of the Agreement or the expiration of any extension period, or unless otherwise terminated in accordance with the provisions of the Agreement. The initial term of the Agreement commences on the Effective Date and ends on the fifth anniversary after the Effective Date. HHSC may extend the term of

ENTERPRISE TELECOMMUNICATIONS AGREEMENT  
HHSC CONTRACT NO. 529-07-0124

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this Agreement for up to four (4) successive one-year periods after the expiration of the initial term, or as necessary to complete the mission of the procurement.

#### 5. Project Managers

The following Project Managers will serve as the primary contacts for all administrative issues:

**CONTRACTOR:**

[REDACTED], Director of Service Development  
23500 Northwestern Highway, Building S, Suite S130  
Southfield, Missouri 48075 MICHIGAN (mb)  
Phone/voice mail: [REDACTED]

**HHSC:**

[REDACTED], Director of HHSC IT Operations  
HHSC Commission IT  
701 W. 51st Street, Bldg. 2C  
Mail Code C-732  
Austin, TX 78751  
Phone/Voice mail: [REDACTED]  
Fax: 512-438-4737

#### 6. Notices

*(a) Delivery of Notice.*

Any notice or other legal communication required or permitted to be made or given by either Party pursuant to this Agreement will be in writing and deemed to have been duly given:

- (1) Three (3) business days after the date of mailing if sent by registered or certified U.S. mail, postage prepaid, with return receipt requested;
- (2) When transmitted if sent by facsimile, provided a confirmation of transmission is produced by the sending machine; or
- (3) When delivered if delivered personally or sent by express courier service.

*(b) Notice to CONTRACTOR.*

Any notice under this Agreement will be sufficient if delivered to the following persons or their successors.

- (1) Communications that are routine and administrative in nature should be sent to the Project Managers identified in Section 5 above.
- (2) Legal notices should be sent to the following:

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**CONTRACTOR:**

Account Manager for HHSC  
712 E. Huntland Drive  
Austin, Texas 78752  
Fax: 512-870-4388

**HHSC:**

Albert Hawkins, Executive Commissioner  
Health and Human Services Commission  
4900 North Lamar Blvd.  
Austin, Texas 78751  
Fax: 512-424-6586

*With required copy to:*

Steve Aragon, Chief Counsel  
Health and Human Services Commission  
4900 North Lamar Blvd.  
Austin, Texas 78751

*(c) Change of Designee.*

Either Party may change the above-referenced designees or address with five (5) days' written notice to the other Party.

**7. Laws and Regulations Governing the Administration of the Agreement**

The Parties shall administer the Agreement in accordance with the following rules and regulations:

- (a) Texas Government Code, Chapter 531, as amended or modified, and any administrative rules adopted there under; and
- (b) Any other applicable provisions of state or federal law.

**8. Laws and Regulations Governing the Procurement of the Services**

It is the express intention of the Parties that this Agreement be a procurement of services meeting all applicable requirements of the following:

- (1) Texas Government Code Section 2155.144 and Chapter 2157;
- (2) 1 T.A.C. Chapter 391; and
- (3) Any other applicable provisions of state or federal law.

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HHSC CONTRACT NO. 529-07-0124

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**9. Services and Deliverables**

The CONTRACTOR will provide the Services and Deliverables identified or described in the Agreement, including any agreed modifications to the Agreement.

**10. Payment**

(a) During the term of this Agreement, HHSC will compensate the CONTRACTOR for the Services and Deliverables specified herein following the receipt, and as applicable, testing and acceptance of Services and Deliverables. Payment will be made in accordance with all applicable provisions of the Agreement.

(b) The total cost of the Services and Deliverables supplied by CONTRACTOR to HHSC during the term of this Agreement will not exceed \$47,948,920, unless modified by the Parties in accordance with Section 14 of this Enterprise Telecommunications Agreement and Article 7 of the Contract Terms and Conditions.

(c) CONTRACTOR understands and expressly assumes all risks associated with the commitment of delivery of the contracted Services and Deliverables, including the failure, termination or suspension of funding to HHSC, delays or denials of required third party approvals, and cost overruns not reasonably attributable to HHSC.

**11. Invoices**

The CONTRACTOR will be paid upon HHSC's acceptance of Services and Deliverables. CONTRACTOR will, in accordance with the Payment terms in Section 10 above, submit an invoice for each health and human services agency that obtains goods or services under this Agreement to:

Original:

Health and Human Services Commission IT  
Strategic Planning and Budget  
ATTN: [REDACTED]  
P.O. Box 85200  
Mail Code H-900  
Austin, TX 78708-5200

Duplicate:

Health and Human Services Commission IT  
IT Operations  
ATTN: [REDACTED]  
P.O. Box 149030  
MC-C-732  
Austin, TX 78714-9030

The invoice will include a brief summary of all Services and Deliverables provided. Upon HHSC's request, CONTRACTOR shall provide additional information to the degree of detail

necessary to resolve any review, examination, inquiry, or audit by HHSC or any other responsible authority.

**12. Time and manner of payment.**

Payments for Services and Deliverables under the Agreement will be made in accordance with the Texas Prompt Payment Act, Chapter 2251, Texas Government Code. In the event HHSC disputes payment of an invoice for purposes of enforcing a remedy or obtaining set-off against payments due, HHSC may limit payments in accordance with the provisions contained in the Contract Terms and Conditions attached hereto as Exhibit A.

**13. Performance Remedies / Damages**

The CONTRACTOR is expected to meet or exceed the objectives and standards set forth in this Agreement. All areas of responsibility and all requirements listed in the Agreement will be subject to performance evaluation by HHSC. Performance reviews may be conducted at HHSC's discretion at any time and may relate to any responsibility and/or requirement. Any and all responsibilities and requirements not fulfilled may be subject to the remedies set forth in Article 11 of the Contract Terms and Conditions, attached hereto as Exhibit A.

**14. Contract Change Orders and Amendments**

All modifications to the Agreement must be accomplished through the formal amendment process set forth herein.

(a) HHSC or CONTRACTOR may propose changes in the Services, Deliverables, or other aspects of this Agreement.

(b) If HHSC proposes a change, it shall deliver a written notice to CONTRACTOR describing the proposed change. CONTRACTOR must prepare a response, at no additional cost to HHSC, within 30 calendar days, or within another time period that is mutually agreed upon by both Parties. The response must specify:

(1) The effect, if any, of the proposed change on the amounts payable by HHSC under this Agreement and the manner used to calculate such effect;

(2) The effect, if any, of the proposed changes on CONTRACTOR's performance of its obligations under this Agreement, including the effect on the Services or Deliverables;

(3) The anticipated time schedule for implementing the proposed changes; and

(4) Any other information requested by HHSC or reasonably necessary for HHSC to make an informed decision regarding the offer.

(c) If HHSC accepts CONTRACTOR's response, CONTRACTOR must indemnify and hold harmless HHSC from and against any losses, costs or expenses resulting from any inaccurate or incomplete information contained in the response.

(d) If CONTRACTOR desires to propose a change, it must deliver a change request to HHSC that includes the information described in Section 14(b) (2), above.

(e) If HHSC accepts CONTRACTOR's proposal or change request, the Parties will draft and execute an amendment to this Agreement. The amendment must be signed by HHSC's Executive Commissioner or his designee, and a duly authorized CONTRACTOR representative.

ENTERPRISE TELECOMMUNICATIONS AGREEMENT  
HHSC CONTRACT No. 529-07-0124

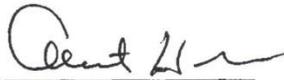
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**15. Authority to Execute**

The Parties have executed this Agreement in their capacities as stated below with authority to bind their organizations on the dates set forth by their signatures.

**HEALTH & HUMAN SERVICES COMMISSION**

**SBC GLOBAL SERVICES, INC. DOING  
BUSINESS AS AT&T GLOBAL SERVICES**



Albert Hawkins  
Executive Commissioner

8.29.08  
Date:



Name: [REDACTED]  
Title: **Contract Management**

8/28/08  
Date:

**EXHIBITS AND ATTACHMENTS**

Exhibit A: Contract Terms and Conditions

Exhibit B: Modifications to the Proposal

Exhibit C: Pricing Information

Attachment 1: RFP (incorporated by reference)

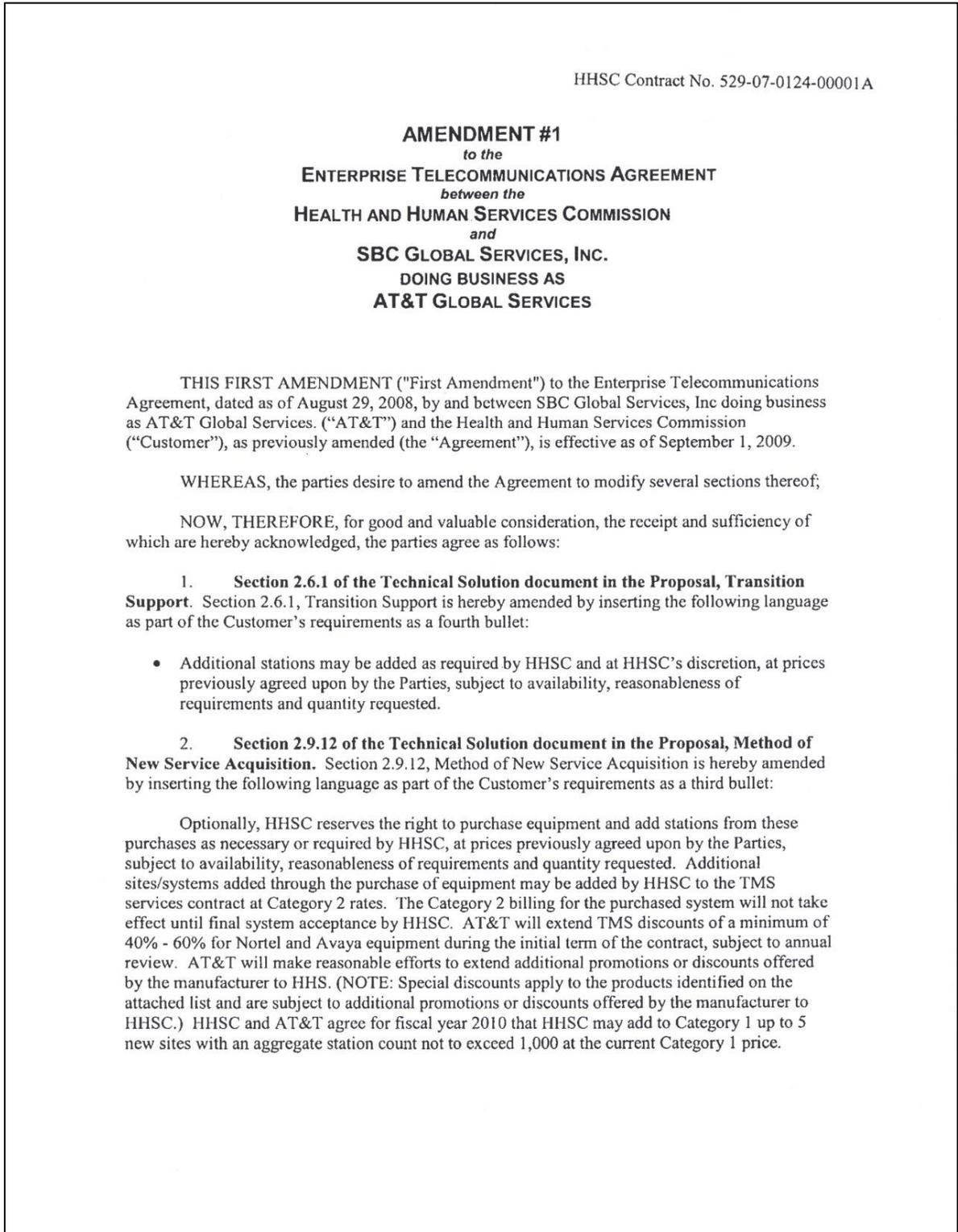
Attachment 2: Proposal

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Figure 2 shows Amendment 1 to the original TMS contract that was effective September 1, 2009.

Figure 2



3. **Section 1.1 of the HHSC Modification Document, Voice Environment.** Section 1.1 of the HHSC Modification Document, Voice environment, is hereby amended by replacing the Category, Site and Station information in that Section with the following:

Category 1	154 sites	12,792 Station
Category 2	74 sites	11,977 Stations
Category 3	242 sites	11,511 Stations
Cat 1 & 2 Analog	n/a	1,144 Stations
Cat 3 Analog	n/a	1,874 Stations

Total Sites = 470  
 Total Stations = 39,298

It is the intent of HHSC and AT&T to modify this Category, Site and Station information by upgrading/replacing the equipment at Category 3 Sites and migrating Category 3 Sites to Category 2.

The above referenced estimates of Site and Station quantities are for planning purposes only and are not meant to limit HHSC's ability to expand the sites and/or stations. AT&T recognizes that the business needs of HHSC agencies are very dynamic and subject to change.

Analog Station/port/device refers to Fax Machines, TTD devices, and the like and is not meant to represent Analog telephone sets.

4. **Section 1.4.3 of the Modification Document, Category 3 Systems.** Section 1.4.3 is hereby amended by replacing the existing "Revised Equipment Inventory" with the following:

Revised Equipment Inventory reflects approximately 13,385 Category 3 stations. It is expected that approximately 30% of these stations will be replaced with new equipment and be transitioned to Category 2 in FY10 with the balance to be replaced in FY11. AT&T acknowledges that it is able to meet this replacement schedule and that this is an estimate only subject to change based on available funds and scheduling.

5. **Section 2.7 of the Modification Document, Change Management.** Section 2.7, Change Management is hereby amended by replacing the Move, Add, Change (MAC) Metrics with the following:

MAC Metrics  
 Quarterly (3 months) MAC counts: 2,082  
 Annual MAC counts: 8,328

AT&T will provide 100 labor hours per State fiscal quarter to be used at HHSC's discretion; whether for MAC work or other projects. The hours are labor only, and do not cover any materials or equipment. The hours may be used at any Avaya or Nortel site that AT&T supports. The hours are for use in each quarter and may not be carried over into the next quarter. AT&T will update the MAC Credit table to include these hours and will keep track of them as part of its normal reporting requirements.

6. **Section 5. of the Modifications Document, Ticketing Using Remedy** is hereby amended by replacing the following language:

AT&T will work with HHSC to ebond the AT&T ticketing system with HHSC's Remedy system after the first year of the contract. Until ebonding is complete, HHSC will process requests to AT&T via Email, Fax, or Telephone. AT&T will provide request acknowledgement and ticket closure status via Email, Fax of Telephone.

7. **Section 14. Cost Proposal, Page 211 and Proposal Appendix D, HHSC Pricing Format (Attachment 4).** Section 14. Cost Proposal, Page 211 and Proposal Appendix D, HHSC Pricing Format (Attachment 4) is hereby amended by replacing the Category, Site and Station information table with the following:

Category 1	154 sites	12,792 Station
Category 2	74 sites	11,977 Stations
Category 3	242 sites	11,511 Stations
Cat 1 & 2 Analog	n/a	1,144 Stations
Cat 3 Analog	n/a	1,874 Stations

Total Sites = 470  
Total Stations = 39,298

Analog Station/port/device refers to Fax Stations, TTD devices, and the like and is not meant to represent Analog telephone sets.

8. **Modification Document, section titled Proposal Appendix D, HHSC Pricing Format (Attachment 4).** Modification Document, section titled Proposal Appendix D, HHSC Pricing Format (Attachment 4) is hereby amended by replacing the section in it's entirety with the following:

The following pricing is dependent upon HHSC and AT&T moving forward with upgrades to Category 3 sites and moving those Category 3 sites into Category 2. AT&T and HHSC will work together to develop a mutually agreeable project plan for the upgrades and migration.

Category 1 = \$39.00 per station per month

Category 2 = \$16.00 per station per month

Category 3 = T&M rates for technician dispatch are modified from what was quoted in the Proposal (\$142/hour with a 2 hour minimum). For any work performed remotely by the help desk, the T&M charge will be \$62.92 per remote ticket.

Analog Station Port = \$3.46 per analog station port per month

Billing for all Categories may be adjusted quarterly utilizing the State's fiscal calendar by mutual agreement based on updated station counts. Should station counts fall 10% below the estimated station counts as identified in Section 4 of this amendment, then HHSC and AT&T mutually agree to review the station counts and re-price as appropriate within a reasonable period of time.

9. **Modification Document, Section 7. SLA's, Service Level Agreements.**

Section 7, SLA's, Service Level Agreements is hereby amended by adding a paragraph to the Definitions as follows:

For those SLA Categories, which have fewer than 20 activities, HHSC and AT&T agree that those Categories will be allowed 1 missed SLA per category with no liquidated damages assessed. A second miss will then qualify for liquidated damages.

10. **Modification Document, Section 7. SLA's, Service Level Agreements.**

Section 7, SLA's, Service Level Agreements is hereby amended by replacing the MAC time intervals table with the below.

MAC	Acknowledgement Time	Service Delivery Time
1 to 5 stations per request	Same day	5 Days
6 to 10 stations per request	Next day	7 Days
11 or more stations per request	Next day	10 Days or as mutually agreed
Voice Mail Reset	Same Day	Next business day
Remote voicemail Reset ordered via phone call	immediate	4-business hour
New hardware/software installs	Same Day	Dependent upon scope, as mutually agreed
Facility move	Next day	45 calendar days

11. **Section 2.4 of the Technical Solution document, Modernization & Technology Upgrades of Voice Services Systems.**

Amend the third paragraph to replace the phrase "plus any one time costs" with "plus any mutually agreed upon one-time costs". AT&T's obligation to add stations depends on agreement as to one-time costs.

12. **Section 8.6.1 Communication Plan.** This section shall be amended by adding the following.

AT&T's ongoing communication plan will include a Contract Compliance report presented monthly to HHSC, no later than the 20<sup>th</sup> of each month that will serve as a checklist by which AT&T can certify that all contract deliverables for the preceding month have been met. Items on the report will include, but are not limited to:

- Monthly bill for Services
- Monthly SLA attainment
- Monthly detail for MAC and Repair activities and billing
- HUB compliance
- Completion of scheduled backups
- Completion of scheduled traffic studies
- Completion of scheduled preventative maintenance

13. **Enterprise Telecommunications Agreement.** Except as set forth herein, the Agreement is in full force and effect. If there is a conflict between this First Amendment and the Agreement, this First Amendment shall control. All capitalized terms used but not defined herein shall be defined as set forth in the Agreement.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their duly authorized representatives.

**HEALTH AND HUMAN SERVICES  
COMMISSION**

Signature: 

Printed Name: Thomas M. Suehs

Title: Executive Commissioner

Date: 4/12/11

**AT&T**

Signature: 

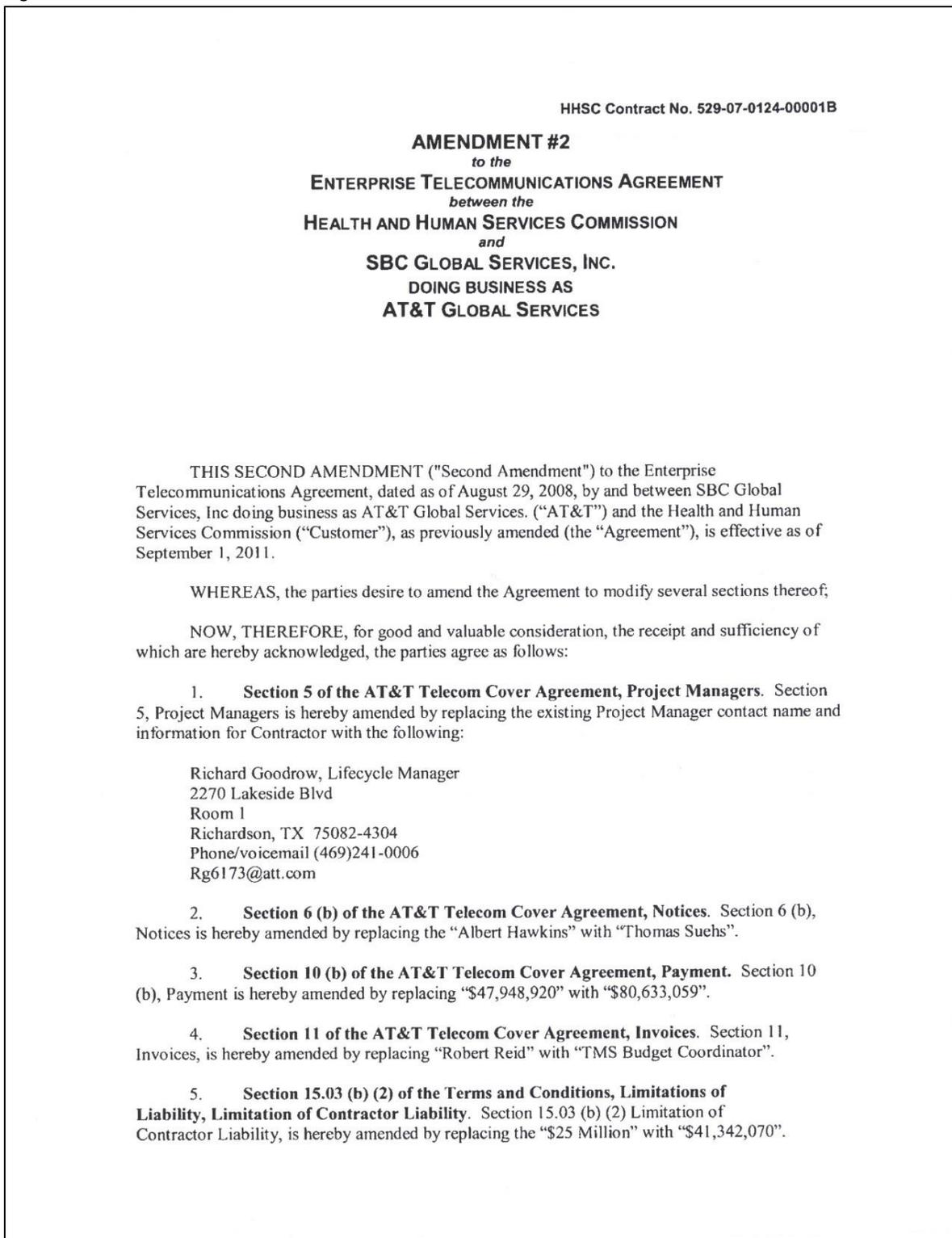
Printed Name: 

Title: Lead - Customer Contracts

Date: 3/24/10

Figure 3 shows Amendment 2 to the original TMS contract that was effective September 1, 2011.

Figure 3



6. **Enterprise Telecommunications Agreement.** Except as set forth herein, the Agreement is in full force and effect. If there is a conflict between this Second Amendment and the Agreement, this Second Amendment shall control. All capitalized terms used but not defined herein shall be defined as set forth in the Agreement.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their duly authorized representatives.

**HEALTH AND HUMAN SERVICES  
COMMISSION**

Signature: Thomas M. Suehs

**Thomas M. Suehs  
Executive Commissioner**

Date: 08/24/11

**AT&T**

Signature: [REDACTED]

Printed Name: [REDACTED]

Title: Sr. VP - Public Sector & Healthcare

Date: 8/24/2011

Figure 4 shows Amendment 3 to the TMS contract that was effective September 1, 2013

Figure 4

<p><b>AMENDMENT #3</b>  <i>to the</i>  <b>ENTERPRISE TELECOMMUNICATIONS AGREEMENT</b>  <i>between the</i>  <b>HEALTH AND HUMAN SERVICES COMMISSION</b>  <i>and</i>  <b>SBC GLOBAL SERVICES, INC.</b>          DOING BUSINESS AS  <b>AT&amp;T CORP.</b></p> <p>HHSC CONTRACT NUMBER 529-07-0124-00001C</p> <p>THIS THIRD AMENDMENT ("THIRD Amendment") to the Enterprise Telecommunications Agreement, dated as of August 29, 2008, by and between SBC Global Services, Inc. doing business as AT&amp;T Corp. ("AT&amp;T") and the Health and Human Services Commission ("Customer"), and as thereafter amended (the "Agreement"), is effective as of September 1, 2013.</p> <p>WHEREAS, the parties desire to amend the Agreement by extending the term thereof and modifying certain provisions pertaining to, among other things, pricing.</p> <p>NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties mutually agree as follows:</p> <p>1. <b>Extension of Term of the Agreement.</b></p> <p>a. HHSC hereby exercises its option to extend the term of the Agreement in accordance with the provisions of Section 4, "Term of the Agreement," of the Enterprise Telecommunications Agreement. HHSC hereby extends the term of the Agreement for two (2) successive one-year extension periods beginning on the expiration of the initial term of the Agreement. The expiration date of the Agreement as hereby amended is August 31, 2015.</p> <p>b. HHSC reserves the right at any time during the term of the Agreement to exercise its option to further extend the term of the Agreement one or more times for a period equal in the aggregate to the remaining extension periods described in Section 4, "Term of the Agreement," of the Enterprise Telecommunications Agreement.</p> <p>2. <b>Revisions to Pricing.</b></p> <p>a. Section 1.1 (Voice Environment) of Exhibit B to the Agreement, Modifications to the Proposal, is hereby amended by replacing the "Category," "Site" and "Station" information in that Section with the following:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>Category 1</td> <td>147 Sites</td> <td>12,597 Stations</td> </tr> <tr> <td>Category 2</td> <td>261 Sites</td> <td>23,046 Stations</td> </tr> <tr> <td>Category 3</td> <td>11 Sites</td> <td>124 Stations</td> </tr> <tr> <td>Category 4*</td> <td>0</td> <td>0</td> </tr> <tr> <td>Analog</td> <td></td> <td>3440</td> </tr> </table> <p style="text-align: center;">1</p> <p>MA Ref# 529-07-0124-00001 dtd:4-2/2010          NI Tracking #: GBS138858          EM: AS1439 dtd 8-5-13</p> <p style="text-align: center;">AT&amp;T Proprietary and Confidential</p>			Category 1	147 Sites	12,597 Stations	Category 2	261 Sites	23,046 Stations	Category 3	11 Sites	124 Stations	Category 4*	0	0	Analog		3440
Category 1	147 Sites	12,597 Stations															
Category 2	261 Sites	23,046 Stations															
Category 3	11 Sites	124 Stations															
Category 4*	0	0															
Analog		3440															

Total Sites = 419  
Total Stations = 39,083

\* Ability to transfer or migrate up to 39,000 stations from any category to category 4.

Section 14. Cost Proposal, Page 211 and Proposal Appendix D, HHSC Pricing Format (Attachment 4) is hereby amended by replacing the "Category," "Site" and "Station" information table with the following:

Category 1	147 Sites	12,597 Stations
Category 2	261 Sites	23,046 Stations
Category 3	11 Sites	124 Stations
Category 4*	0	0
Analog		3440

Total Sites = 419  
Total Stations = 39,083

\* Ability to transfer or migrate up to 39,000 stations from any category to category 4.

Analog Station/port/device refers to Fax Stations, TTD devices, and similar devices but is not meant to represent Analog telephone sets.

**Mobility Functionality and Support for Cloud Based Services.** Exhibit B, Modifications to the Proposal, section titled Proposal Appendix D, HHSC Pricing Format (Attachment 4), is hereby amended by adding the following additional Mobility Functionality, Server support and support and pricing category for a Cloud Based Services offer:

AT&T will provide Managed Telecommunications Services comparable to the Services available to CAT 1 and CAT 2 users. These CAT 4 Services will be Cloud Based and will include the following:

- PBX features
- Voice Mail Services
- Enablement of Teleworker and Mobility Services
- System to System calling

AT&T and HHSC will reasonably cooperate and use their best efforts to agree on a conversion timeline for movement of existing services under Category 1, Category 2 or Category 3 to a Category 4 station. HHSC will be responsible for network, local gateways and IP endpoints. HHSC will be subject to a one-time conversion fee to migrate to Category 4 Admin stations. The one-time conversion fee per station to implement an Admin user and will not exceed \$100.00. Projects over 500 stations will be negotiated on an Individual Case Basis, not to exceed \$100 per station.

- a. AT&T to deliver:
  - i. AT&T will complete individual site assessments, especially as it relates to network requirements to be delivered within 5 business days of request once

all necessary documentation is gathered, collected and presented to AT&T in order to meet this request.

- ii. AT&T will deliver a sample conversion work plan 30 days of execution of the extension.
- iii. AT&T will provide a pricing template to allow HHS to analyze the relative cost of using Category 4 vs. other categories of service for new sites and moves. To be delivered within 30 days of execution of extension.

- b. AT&T has included Contact Center capability for Category 4. Pricing to be mutually agreed upon on an individual case basis for term and quantity. Reference section 6, page 6 of this document.
- c. Migration to Category 4 will be at HHSC's sole discretion.
- d. Current TMS Service Level Agreement applies to Category 4.

5. Section 2.9.11 (Proposed New Assets and Features) of Exhibit B, Modifications to the Proposal, , Page 87 is hereby amended by including to the RFP Attachment 2 Equipment Inventory provided in the RFP 529-7-0124 and updated on 4/15/08, with the revised Attachment 2 Equipment Inventory attached hereto and updated as inclusive on 7/26/13.

Section 2.9.11. Proposed New Assets and Features, Page 87 - Attachment 2 Equipment Inventory Inclusive of current inventory and Support.

Device	Street	City	Zip	Purpose
CM A	701 W. 51st Bldg C	Austin	78751	Communications Manager
CM B	701 W. 51st Bldg C	Austin	78751	Communications Manager
eCAS	701 W. 51st Bldg C	Austin	78751	eCAS Call Accounting
MSS	701 W. 51st Bldg C	Austin	78751	Modular Messaging Storage Server 4.0
MAS 1	701 W. 51st Bldg C	Austin	78751	Modular Messaging Application Server
MAS 2	701 W. 51st Bldg C	Austin	78751	Modular Messaging Application Server
MAS 3	701 W. 51st Bldg C	Austin	78751	Modular Messaging Application Server
MM Supplemental	701 W. 51st Bldg C	Austin	78751	Modular Messaging Application Server - Tracing Server
MM WebLM	701 W. 51st Bldg C	Austin	78751	Modular Messaging Web Server
Witness Contact Store (replaced with ACR 11.2011)	701 W. 51st Bldg C	Austin	78751	Verint Call Recording
Witness QM (BDR Server was replaced 11.2011)	701 W. 51st Bldg C	Austin	78751	Verint Screen Capture

Witness Reporting (this is an Application on QM)	701 W. 51st Bldg C	Austin	78751	Verint Reporting
CMS	701 W. 51st Bldg C	Austin	78751	CMS Reporting for Contact Ctr Elite
Octel Voice Mail	701 W. 51st Bldg C	Austin	78751	Forms Mail Boxes
AIM Server (MSA)	701 W. 51st Bldg C	Austin	78751	Multi-Site Administration / IP Monitoring
AIM Server (MSA)	701 W. 51st Bldg C	Austin	78751	Multi-Site Administration Server
CMS HA	11711 IH35,	San Antonio	78233	CMS High Availability (San Antonio)
CM/ESS Server	11711 IH35,	San Antonio	78233	Enterprise Survivable Server
AES 1	701 W. 51st Bldg C	Austin	78751	Avaya Enablement Server 1
AES 2	701 W. 51st Bldg C	Austin	78751	Avaya Enablement Server 2
CM A	1100 W. 49 <sup>TH</sup> ST	Austin	78756	Communications Manager
CM B	1100 W. 49 <sup>TH</sup> ST	Austin	78756	Communications Manager
MSS	1100 W. 49 <sup>TH</sup> ST	Austin	78756	Modular Messaging Storage Server
MAS 1	1100 W. 49 <sup>TH</sup> ST	Austin	78756	Modular Messaging Application Server1
MAS 2	1100 W. 49 <sup>TH</sup> ST	Austin	78756	Modular Messaging Application Server2
MAS 3	1101 W. 49 <sup>TH</sup> ST	Austin	78756	Modular Messaging Application Server3
MM Supplemental	1102 W. 49 <sup>TH</sup> ST	Austin	78756	Modular Messaging Application Server4 - Trace Server
SAL - Moreton	1100 W. 49 <sup>TH</sup> ST	Austin	78758	Avaya SAL Gateway
SAL - Winters	701 W. 51st Bldg C	Austin	78751	Avaya SAL Gateway
Session Manager	701 W. 51st Bldg C	Austin	78751	SIP Server
System Manager	701 W. 51st Bldg C	Austin	78751	SIP System Management
Avaya Aura Conferencing	701 W. 51st Bldg C	Austin	78751	Conferencing
Session Manager	1102 W. 49 <sup>TH</sup> ST	Austin	78756	SIP Server
eRecorder	1106 Clayton Ln.,	Austin	78723	eRecorder - Clayton Lane
eRecorder	801 W Freeway,	Grand Prairie	75051	eRecorder - Grand Prairie
eRecorder	4501 W Bus Hwy 83,	McAllen	78501	eRecorder - McAllen
eRecorder	11711 IH35,	San Antonio	78233	eRecorder - San Antonio
MPP1	701 W. 51st Bldg C	Austin	78751	Voice Portal Media Processor 1
MPP2	701 W. 51st Bldg C	Austin	78751	Voice Portal Media Processor 2

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 NI Tracking #: GBS176155  
 EN: ASI439 dtd 7-5-13

VPMS - manages the MPP1/2	701 W. 51st Bldg C	Austin	78751	Voice Portal Management Server
App Production 1	701 W. 51st Bldg C	Austin	78751	Voice Portal Application Server 1
App Production 2	701 W. 51st Bldg C	Austin	78751	Voice Portal Application Server 2
TTS 1	701 W. 51st Bldg C	Austin	78751	Voice Portal Text To Speech 1
App Prod Dev	701 W. 51st Bldg C	Austin	78751	Voice Portal Application Server Development
TTS 2 (WIC)	702 W. 51st Bldg C	Austin	78751	Voice Portal Text To Speech 2
ASR VP Speech Reco (WIC)	703 W. 51st Bldg C	Austin	78751	Voice Portal Speech Recognition
WFO	701 W. 51st Bldg C	Austin	78751	Verint Workforce Optimization
Notification Server	701 W. 51st Bldg C	Austin	78751	Voice Portal Notification Server /Survey
CTI Server	701 W. 51st Bldg C	Austin	78751	Voice Portal CTI Server
IQ	701 W. 51st Bldg C	Austin	78751	IQ Reporting
IQ Data Storage	701 W. 51st Bldg C	Austin	78751	IQ Data Storage
Wallboard	701 W. 51st Bldg C	Austin	78751	Avaya Desktop Wallboard Server
eRecorder	701 W. 51st Bldg C	Austin	78751	eRecorder - Austin Consumer Rights
MM WebLM	1102 W. 49 <sup>TH</sup> STREET	Austin	78756	Modular Messaging Web Server
QM Data Storage	701 W. 51st Bldg C	Austin	78751	QM Data Storage
SAL-Morenton #2	1102 W. 49 <sup>TH</sup> STREET	Austin	78756	SAL Gateway #2
Presence	701 W. 51st Bldg C	Austin	78751	Avaya Aura ME Flare Experience Host
Handset	701 W. 51st Bldg C	Austin	78751	Avaya Aura Conferencing for Flare
CES	701 W. 51st Bldg C	Austin	78751	CES
eRecorder	701 W. 51st Bldg C	Austin	78751	eRecorder - IT Customer Help Desk

6. Exhibit B, Modifications to the Proposal, section titled Proposal Appendix D. HHSC Pricing Format (Attachment 4) is hereby amended by adding the following:

**Pricing and Term**

Description	Charges	Notes
CAT 1	\$35.00	
CAT 2	\$17.25	
Analog	\$3.46	
CAT 4 Admin User license 1-500	\$33.25	User admin phone license including MAC and T1 Help Desk Support. Admin user. One-Time Conversion Not to exceed \$100.00/user
CAT 4 Admin User license 1 to 999	\$31.25	One-Time Charges for migration to Category 4 Admin stations of projects over 500 stations will be negotiated on an Individual Case Basis, not to exceed \$100/user.
CAT 4 Admin User license 1 to 1999	\$30.41	
CAT 4 Admin User license 1 to 2000+	\$28.51	
Analog (CAT 4)	\$5.00	One-Time Conversion Not to exceed \$45.00/user
<b>Contact Center Option</b>		<b>Conversion fee not to exceed \$195.00 per agent</b>
Contact Center Agent	TBD	
Contact Center Agent Premium	TBD	Contact Center Agent w/Advanced eMail + WebChat integration for Contact Center Agents. (eGain Advanced EIM + WIM Agent
Quality Assurance (CC Recording)	TBD	Quality Assurance reporting add-on for Contact Center
Workforce Management (CC Scheduling)	TBD	Scheduling and Forecasting add-on for Contact Center
Outbound Dialer Port	TBD	Per Port Cost for Outbound Dialer
CVP Port - DTMF (IVR)	TBD	Per Port Cost

If HHSC determines at any time during the extension period that the new rates for Cat 1 and Cat 2 are no longer in the State's interest, HHSC will have the right to revert to the previous rates of \$39 for Cat1 and \$16 for Cat 2.

7. Section 10(b) (Payment) of the Enterprise Telecommunications Agreement is hereby amended by replacing "\$80,633,059.00" with "\$105,000,000.00."

8. Section 15.03 (b)(2) (Limitation of Contractor Liability) of Exhibit A, Contract Terms and Conditions, is hereby amended by replacing the "\$41,342,070.00" with "\$52,500,000.00.

9. Sections 1.1 and 2.9.11 (Voice Environment) of Exhibit B, Modifications to the Proposal: Threshold potential deviation +/- 20% over the 2-year term of the extension capping the variance at 10% during the first year.

10. AT&T will include the ability to equip/license Nortel systems with mobility features as described in the table below at no additional cost, up to 1000 stations of 33 Nortel sites:

Nortel Mobile Technology	Description
CS1000 Mobile X	The CS1000 Mobile Extension feature allows mobile phones to connect to the CS1000 system and appear like office extensions. One X Mobile Lite is available for iPhone. One X Communicator supporting Windows PC. Feature/functionality may be limited depending on the device.
BCM Find me/Follow Me	Simultaneous calling of up to 5 external destinations when a call is offered to your desk phone each with the original Calling Line ID.

HHSC will designate locations and times. These additions would be within the current systems trunking capacity.

11. Section 7 (Service Level Agreements) of Exhibit B, Modifications to the Proposal, is hereby amended to modify current service level agreements to include expedited changes of telephone name displays matching the service level agreements created for voicemail password resets in item 10 of Amendment 1. The "station re-assignment" includes the ability to make a display name change, mailbox password reset and mailbox reset all on a single expedited ticket matching the current service level agreement for password resets.

12. Section 2.7 (Change Management) of Exhibit B, Modifications to the Proposal, is hereby amended to allow HHSC to utilize 20% of the quarterly allotted MAC credits for Category 1 and Category 2 station level project activity (11 + stations), in lieu of the allotted 100 project hours provided per State fiscal quarter. However, if HHSC determines that the available MAC credits no longer represent the best value, HHSC may rescind this policy and revert to the "project hour's" model.

MAC credits used to retire billable technician labor hours for project activity (11 + stations) would include existing defined MAC credit components, with the exception of inside cable. MAC credits may also be used to retire billable technician labor hours for activity related to scheduled maintenance windows (Repair or MAC). By way of example, this could include such things as for on-site techs during scheduled power outages.

MAC credits used for billable technician labor, the project hours ratio is (1.5) MAC credits to (1) labor hour for inside contracted business hours, and (3) MAC credits to (1) labor hour after hours. Associated materials would not be included. In instances where the project calls for transportation of communications equipment from one location to another including the pick-up and delivery, windshield time will be counted as labor time.

13. Paragraph 2 of Item 2 on Amendment #1 referencing Section 2.9.12 of the Technical Solution document in the Proposal, Method of New Service Acquisition is replaced with the following:

Optionally, HHSC reserves the right to purchase equipment and add stations from these purchases as necessary or required by HHSC, at prices agreed upon by the Parties, subject to availability, reasonableness of requirements and quantity requested. Additional sites/systems added through the purchase of equipment may be added by HHSC to the TMS services contract at Category 2 rates. The Category 2 billing for the purchased system will not take effect until final system acceptance by HHSC. AT&T will extend TMS discounts of a minimum of 40% - 60% for Nortel and Avaya equipment during the term of the contract, subject to annual review. AT&T will make reasonable efforts to extend additional promotions or discounts offered by any manufacturer to HHS.

14. **Entire Agreement.** Except as set forth herein, the terms of the Agreement, including any and all amendments, remain in full force and effect. If there is a conflict between this THIRD Amendment and the Agreement, including prior amendments, this THIRD Amendment shall control. All capitalized terms used but not defined herein shall be defined as set forth in the Agreement.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their duly authorized representatives.

<b>HEALTH AND HUMAN SERVICES COMMISSION</b>	<b>SBC GLOBAL SERVICES, INC. DOING BUSINESS AS AT&amp;T CORP.</b>
Signature: <u><i>Kyle Sanchez</i></u>	Signature: <u>[REDACTED]</u>
Printed Name: <u>Kyle Sanchez</u>	Printed Name: <u>[REDACTED]</u>
Title: <u>HHSC Exec. Commissioner</u>	Title: <u>Lead Customer Contracts</u>
Date: <u>9.12.13</u>	Date: <u>8/7/2013</u>

## **State Agencies and Higher Education Institutions That Have Contracts with AT&T-related Companies and/or SBC Global Services, Inc.**

In addition to the Telecommunications Managed Services (TMS) contract audited at the Health and Human Services Commission (Commission), 13 state agencies and higher education institutions had 32 contracts with AT&T-related companies and/or SBC Global Services, Inc. for fiscal year 2015. Table 2 lists the 32 contracts, which total \$88,014,717. In addition to the TMS contract, the Commission has three other contracts with AT&T-related companies, which totaled \$51,404,323, or 58 percent of the total contracted amount for the 32 contracts listed in Table 2.

Table 2

State Agencies and Higher Education Institutions That Had Contracts with AT&T-related Companies and/or SBC Global Services, Inc. as of November 2014								
Agency or Higher Education Institution	Contract Number	Vendor	Subject	Award Date	Initial Completion Date	Anticipated Completion Date (Includes Amendments) as of October 2014	Initial Contract Amount	Contract Amount (Includes Amendments) as of October 2014
Commission on State Emergency Communications	Not Reported	AT&T Corp.	Services for Poison Centers	September 1, 2014	August 31, 2015	August 31, 2015	\$15,000	\$15,000
Department of Aging and Disability Services	52900-1-000091073	AT&T Corp.	Envision	March 28, 2011	August 28, 2014	August 31, 2015	\$584,354	\$767,734
Department of Assistive and Rehabilitative Services	538-11-7777-0000000000280	AT&T Corp.	Data Loss Prevention	August 24, 2011	March 29, 2014	August 31, 2015	\$132,807	\$165,418
Department of Aging and Disability Services	539-15-92271DIR-SDD-2004	AT&T Corp.	SmartNet Renewal	September 1, 2014	August 31, 2015	August 31, 2015	No Initial Amount Listed	\$128,704
Department of Family and Protective Services	530-12-7777-00075	AT&T Corp.	Local Area Network Preventative Maintenance - 3-year Warranty	April 17, 2008	May 2, 2015	May 2, 2015	\$16,254	\$16,254
Department of Family and Protective Services	530-11-7777-00138	AT&T Corp.	Data Loss Prevention	March 29, 2011	No Date Listed	August 31, 2015	\$1,029,754	\$1,338,681
Department of Family and Protective Services	530-15-7777-00027	AT&T Teleconference Services	Fiscal Year 2015 AT&T Phone Maintenance	September 1, 2014	August 31, 2015	August 31, 2015	\$408,062	\$408,062
Department of Information Resources	P12977	AT&T Corp.	Security Operations Center Services	September 1, 2011	August 31, 2016	August 31, 2016	\$25,283,010	\$25,283,010

**State Agencies and Higher Education Institutions That Had Contracts with  
AT&T-related Companies and/or SBC Global Services, Inc. as of November 2014**

Agency or Higher Education Institution	Contract Number	Vendor	Subject	Award Date	Initial Completion Date	Anticipated Completion Date (Includes Amendments) as of October 2014	Initial Contract Amount	Contract Amount (Includes Amendments) as of October 2014
Department of Information Resources	P12978	AT&T Corp.	Network Operations Center Services	September 1, 2011	August 31, 2016	August 31, 2016	\$1,461,357	\$1,461,357
Department of Information Resources	1378	AT&T Corp.	Information Technology Security	February 7, 2013	August 31, 2016	August 31, 2016	\$107,815	\$107,815
Department of Information Resources	2663	AT&T Corp.	Security Operation Center Services	September 1, 2014	August 31, 2015	August 31, 2015	\$1,000,000	\$1,000,000
Department of Information Resources	2682	AT&T Corp.	Maintenance Network Security Monitoring Analysis	September 1, 2014	August 31, 2015	August 31, 2015	\$418,323	\$418,323
Department of Information Resources	2702	AT&T Corp.	Network Security Monitoring Analysis and Alerting Services	September 1, 2014	August 31, 2015	August 31, 2015	\$300,000	\$300,000
Department of Information Resources	2703	AT&T Corp.	Security Services	September 1, 2014	August 31, 2015	August 31, 2015	\$249,816	\$249,816
Department of Information Resources	2717	AT&T Corp.	Security Operations Center Service Agreement	September 1, 2014	August 31, 2015	August 31, 2015	\$1,642,380	\$1,642,380
Department of Information Resources	2742	AT&T Corp.	Netscout Renewal	September 1, 2014	August 31, 2015	August 31, 2015	\$62,675	\$62,675
Department of Information Resources	2854	AT&T Corp.	Capitol Complex Telephone System Local Services	September 1, 2014	August 31, 2015	August 31, 2015	\$72,000	\$72,000
Department of Motor Vehicles	608-14-00778	AT&T Corp.	Networking Services	April 2, 2014	March 31, 2015	March 31, 2015	\$253,706	\$253,706
Department of Motor Vehicles	608-14-00778	AT&T Corp.	Networking Services	April 2, 2014	March 31, 2015	March 31, 2015	Not Reported	Not Reported
Department of Public Safety	405-14-40014	AT&T Corp.	Change Notice No. 1	September 1, 2014	August 31, 2015	August 31, 2015	\$285,564	\$285,564
Department of State Health Services	537-11-7777-01135	AT&T Corp.	Data Loss Prevention	March 29, 2011	March 29, 2014	August 31, 2015	\$637,477	\$1,038,430
Department of State Health Services	537-14-7777-00667	AT&T Corp.	Spacenet	November 26, 2013	October 31, 2015	October 31, 2015	\$0	\$314,273

**State Agencies and Higher Education Institutions That Had Contracts with  
AT&T-related Companies and/or SBC Global Services, Inc. as of November 2014**

Agency or Higher Education Institution	Contract Number	Vendor	Subject	Award Date	Initial Completion Date	Anticipated Completion Date (Includes Amendments) as of October 2014	Initial Contract Amount	Contract Amount (Includes Amendments) as of October 2014
Department of State Health Services	537-15-7777-00034	AT&T Corp.	Fiscal Year 2015 Renewal of 73 WIC T1 Lines	September 1, 2014	August 31, 2015	August 31, 2015	\$0	\$309,772
Health and Human Services Commission	529-11-7777-00411	AT&T Corp.	Data Loss Prevention	March 29, 2011	March 29, 2014	August 31, 2015	\$5,045,363	\$12,423,714
Health and Human Services Commission	529-14-7777-00410	AT&T Corp.	Call Centers	January 30, 2014	February 25, 2017	January 29, 2017	No Initial Amount Listed	\$32,660,003
Health and Human Services Commission	529-15-7777-00151	AT&T Corp.	Telecommunications Managed Services	September 1, 2014	August 31, 2015	August 31, 2015	\$0	\$6,320,606
Office of the Attorney General	305-5-0609	AT&T Mobility National Accounts LLC	Telecommunications Equipment and Services	September 1, 2014	August 31, 2015	August 31, 2015	\$358,000	\$358,000
Texas A&M Forest Service	DIR-SDD-1777	AT&T Mobility	Unspecified Services	April 11, 2012	April 12, 2015	April 12, 2015	\$194,006	\$194,006
Texas Southern University	SDD-1368	AT&T Corp.	Provide Internet Service for the Campus	April 20, 2012	May 31, 2015	May 31, 2015	\$229,950	\$229,950
The University of Texas Southwestern Medical Center	200727	AT&T, Inc.	Network Services	December 1, 2011	November 30, 2014	November 30, 2014	\$64,872	\$64,872
The University of Texas Southwestern Medical Center	201664	AT&T Corp.	Network Services	April 20, 2012	April 19, 2015	April 19, 2015	\$51,000	\$51,000
The University of Texas Southwestern Medical Center	202079	AT&T Corp.	Network Services	June 28, 2012	June 27, 2015	June 27, 2015	\$24,530	\$73,592
<b>Total of Contract Amounts as of November 2014</b>								<b>\$88,014,717</b>

Source: Information that the agencies self-reported to the Legislative Budget Board. Auditors did not independently verify that information.

## **Related State Auditor's Office Work**

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Related State Auditor's Office Work		
Number	Product Name	Release Date
14-035	An Audit Report on Selected Contracts at the Health and Human Services Commission	June 2014
14-555	State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2013	February 2014
14-013	An Audit Report on Information and Communications Technology Cooperative Contracts at the Health and Human Services Commission	December 2013

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The Honorable David Dewhurst, 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 Jim Pitts, House Appropriations Committee

The Honorable Harvey Hilderbran, House Ways and Means Committee

### **Office of the Governor**

The Honorable Rick Perry, Governor

### **Health and Human Services Commission**

Dr. Kyle Janek, Executive Commissioner



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