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State Auditor

An Investigative Report on  
**The Health and Human Services Commission's  
and the Office of Inspector General's  
Procurement of Services and Commodities from 21CT, Inc.**

April 2, 2015

Members of the Legislative Audit Committee:

This report summarizes the State Auditor's Office's investigation of the Health and Human Services Commission's (Commission) and its Office of Inspector General's (OIG) procurement of fraud detection services from 21CT, Inc. (21CT) as of March 20, 2015. The State Auditor's Office will continue its investigation.

Operational defects at the Commission and the OIG, combined with issues in the State's Cooperative Contracts program, enabled the Commission and the OIG to pursue the procurement of fraud detection services from 21CT. The Commission and the OIG did not conduct the procurement in compliance with their own policies and procedures. Those policies and procedures are designed to help protect the State's interests.

The procurement was directed primarily by the OIG's former deputy inspector general for enforcement (hereafter referred to as the former deputy IG) and facilitated by the following:

- Executive management's override of Commission and OIG policies and procedures for procurements, as well as the absence of certain key controls within the Commission and the OIG that could have prevented the procurement from progressing.
- The Commission's and the OIG's failure to establish and maintain a working environment that emphasized ethics, integrity, and accountability.
- The Commission's and the OIG's misuse of the Cooperative Contracts program at the Department of Information Resources. The Commission and the OIG violated the intent of that program by inappropriately procuring fraud detection system development services that were not authorized through the Department of Information Resources' cooperative contract with 21CT (throughout this report, references to that cooperative contract specifically refer to the cooperative contract for information technology security hardware, software, and services). The Department of Information Resources had previously denied 21CT's application for a cooperative contract for application development and business intelligence.

The actions of individuals within the Commission and the OIG enabled them to avoid a competitive bidding process, secure approvals and funding for the procurement, and expedite the procurement with disregard for policies and procedures. The Commission and the OIG finalized the first purchase order for the procurement with 21CT on December 19, 2012. By January 30, 2013, the Commission and the OIG had paid 21CT \$5,997,096.

#### Fraud Detection Services

Key items that the Commission and the OIG initially sought to procure from 21CT for \$19.9 million included the following:

- Perpetual licenses to LYNXeon software.
- A data storage and application hosting solution for the data that LYNXeon software analyzes.
- A case management system to be developed by a subcontractor of 21CT.
- Fraud detection data analytics services.

The Commission and the OIG also sought to extend the procurement from 21CT for an additional \$90 million. However, the Commission's executive commissioner canceled that extension.

Sources: Statement of work for the procurement from 21CT dated July 2013; advance planning document update dated March 2014; and contract cancellation dated December 16, 2014.

Through the Department of Information Resources' cooperative contract with 21CT, the Commission and the OIG paid 21CT a total of \$19.9 million in state and federal Medicaid funds. The Commission and the OIG also submitted information to the federal Centers for Medicare and Medicaid Services (to obtain federal approval for funding the procurement) that was not supported by their records.

This investigation identified evidence showing that 21CT provided access to its LYNXeon software, conducted work to develop a data storage and application hosting solution for Medicaid and other data, and analyzed data for fraud detection. However, as of March 20, 2015, the Commission asserted that the Commission and the OIG were not using 21CT's fraud detection software due to unresolved legal issues. 21CT also facilitated the development of a case management system. Although 21CT provided the OIG with a version of a case management system prior to the cancellation of the project, the OIG asserted that case management system was not fully functioning according to its expectations. The Commission and the OIG asserted that they were working to resolve legal issues related to the use of 21CT's fraud detection services.

The structure of the Cooperative Contracts program enabled the Commission and the OIG to misuse that program. For example, the Cooperative Contracts program does not have controls to ensure that agencies purchase only the items that vendors are authorized to sell through that program, and that program does not have limits on the dollar amount of goods and services that agencies can purchase through cooperative contracts for commodities.

#### Information Regarding the OIG

Texas Government Code, Section 531.008, specifies that the OIG is a division within the Commission. Texas Government Code, Section 531.102(a-1) requires the governor to appoint the inspector general, and the inspector general reports to the governor.

The OIG had a budget of \$61,710,314 for fiscal year 2015. As of March 2014, its organizational chart indicated that the OIG had 775 full-time equivalent employees.

Sources: Texas Government Code, Chapter 531; the General Appropriations Act (83rd Legislature); and March 2014 OIG organizational chart.

#### The Former Deputy IG's Role in the Procurement

The former deputy IG was the primary decision maker for the procurement and worked to promote 21CT to the Department of Family and Protective Services and other potential customers. Specifically:

- **The former deputy IG was the primary decision maker for all aspects of the procurement from 21CT, but that individual did not have professional experience in procurement or required training.** Based on a review of the Commission's records, although the former deputy IG had attended training on ethics for contracting that the Commission had provided in 2012, that individual did not have professional experience leading a state procurement effort or the training that is statutorily required<sup>1</sup> to monitor and approve payments to a vendor. Neither the Commission nor the OIG could provide evidence of the former deputy IG having signed a conflict of interest statement attesting to his independence in matters related to 21CT. In addition, although the Commission assigned another staff member as a contract manager to oversee 21CT, that individual also did not have the statutorily required contract manager training. The former deputy IG directed that individual's work in matters related to 21CT. After the former deputy IG became the Commission's chief counsel, he continued to provide oversight of the 21CT project.

<sup>1</sup> All state agency contract management and purchasing personnel must be trained and certified to the extent required by state law. For example, specific training and certification requirements are established in Texas Government Code, Chapter 2262 (Statewide Contract Management); Texas Government Code, Section 2262.053 (Training for Contract Managers); Texas Government Code, Chapter 2155 (Purchasing; General Rules and Procedures), and Texas Government Code, Section 2155.078 (Training and Certification of State Agency Purchasing Personnel and Vendors).

- **The former deputy IG encouraged the Department of Family and Protective Services to hire 21CT.** After the former deputy IG became the Commission's interim chief counsel in February 2014, that individual:
  - Encouraged the Department of Family and Protective Services to use 21CT's services for a pilot project to develop a child protection analytic solution through the Department of Information Resources' existing cooperative contract with 21CT.
  - Informed the Department of Family and Protective Services that the pilot project would not be paid for with funds from the Department of Family and Protective Services' operating budget.
  - Directed the development of an interagency agreement between the Commission and the Department of Family and Protective Services that specified that the pilot project would be paid for by (1) directing another vendor<sup>2</sup> to pay 21CT for the majority of the cost and (2) using funds from the Commission for the remainder of the cost. Ultimately, however, the Department of Family and Protective Services paid 21CT \$452,000 (the payment amount initially agreed upon for a six-month pilot project) from its own funds.

It is important to note that the Department of Family and Protective Services' procurement from 21CT did not comply with the Commission's standard procedure to obtain three bids for services obtained through a deliverables-based information technology services cooperative contract. The pilot project was initially scheduled to continue for six months; however, the actual duration of the pilot project was less than four months because the Commission's executive commissioner canceled the agreement.

- **The former deputy IG worked to promote 21CT to other potential customers.** OIG records indicate that the former deputy IG worked to promote 21CT's services to other Texas state agencies, other states, and at national conferences. For example, at a conference in Baltimore, Maryland, the former inspector general and the former deputy IG made a presentation developed at the direction of the former deputy IG that identified 21CT's software (LYNXeon) as the best provider of fraud detection services and that was critical of other vendors' services. Other communication also indicated that the former deputy IG promoted 21CT's services to at least seven other states; in some cases, the former deputy IG included 21CT executive management on that communication.

#### **Executive Management's Override of Controls and the Absence of Key Controls**

This investigation identified the following instances in which executive management of the Commission and/or the OIG (1) overrode controls intended to protect the State's interests or (2) did not establish certain key controls.

#### Planning Issues

- **The OIG predetermined that 21CT would be the vendor, and neither the Commission nor the OIG conducted required planning activities to help ensure that the Commission, the OIG, and**

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<sup>2</sup> The Commission had a settlement agreement with another vendor that required that vendor to give the Commission service credits (in the form of future work at no cost). To pay 21CT for the majority of the cost of the work at the Department of Family and Protective services, the former deputy IG proposed that the vendor that owed the Commission service credits would pay 21CT directly.

**the State would benefit from the procurement.** The OIG's records indicate that the former deputy IG met directly with 21CT on at least 11 occasions between July 26, 2011, and December 19, 2012 (the date on which the Commission and the OIG finalized the first purchase order for the procurement from 21CT). As early as November 2012, 21CT was in communication with entities such as Medicaid managed care organizations and the Texas Medicaid and Healthcare Partnership (the Texas Medicaid claims administrator) to obtain Medicaid data.<sup>3</sup>

The Commission's records also indicate that a former Commission executive had an existing relationship with 21CT management, and that individual helped to foster a connection between 21CT and the Commission, the OIG, and the former deputy IG. In addition, the Commission's and the OIG's records indicate that there was no effort made by the Commission or the OIG to pursue the issuance of a formal request for proposals or conduct a competitive bidding process to obtain the fraud detection services they sought to obtain from 21CT.

Both the *State of Texas Procurement Manual* and the Commission's policies require a variety of planning activities to help ensure that procurements are in the State's best interests. For example, conducting a needs assessment and developing a cost estimate help to ensure that an agency can maximize the benefits from a procurement at a reasonable cost. Neither the Commission nor the OIG provided evidence that they used the services of the OIG's contracting function—which could have helped to ensure that planning activities occurred—or that it otherwise conducted those types of activities for the procurement from 21CT.

- **The Commission and the OIG relied heavily on vendor “proofs of concept” without fully determining its own needs regarding fraud detection services; in addition, that approach did not encompass the benefits provided by a competitive bidding process.** Relying on proofs of concept without conducting a formal needs assessment placed the Commission and the OIG in the position of relying on vendors to determine the OIG's needs, rather than independently determining the OIG's needs. It also enabled the Commission and the OIG to circumvent a competitive bidding process and the benefits that type of process would have provided. For the 21CT procurement, the Commission and the OIG asserted that they relied on proofs of concept that vendors performed. The only evidence the Commission and the OIG could provide for 21CT's proof of concept was information on and demonstrations of 21CT's existing software. In addition, those demonstrations did not use Medicaid data.
- **The Commission and the OIG did not create a stakeholder group to provide input to and guide the procurement of fraud detection services.** In the past, the Commission had created stakeholder groups for the development of major information technology projects. Stakeholder groups are important because they bring together key users from other agency planning and procurement functions and enable an agency to more adequately identify its needs and plan procurements. For example, a stakeholder group for the 21CT procurement could have included the Commission's chief information officer, chief financial officer, state Medicaid director, and the inspector general. Those individuals could have provided valuable expertise and input to the procurement. Specifically, the Commission's chief information officer could have provided insight and advice regarding the use of a cooperative contract to purchase the laptop computers that the OIG procured from 21CT.

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<sup>3</sup> 21CT had a business associate agreement with the Commission that enabled 21CT to obtain Medicaid data.

- **Information that the Commission and the OIG submitted to obtain federal approval for the procurement was not supported by their records.** The information that the Commission and the OIG submitted to the federal Centers for Medicare and Medicaid Services (CMS) stated that the OIG had conducted a competitive procurement. Specifically, the advance planning document submitted to CMS stated that “HHSC OIG reviewed several vendors via a competitive, best value procurement which provided the Statement of Work to vendors with offerings within specific standard industry classifications.” However, the Commission and the OIG did not have support for that statement. Approval from CMS was necessary in order for the Commission and the OIG to receive federal funds for the procurement of fraud detection services and, ultimately, CMS approved the use of Medicaid funds for the procurement. As discussed above, the Commission’s and the OIG’s records indicate that they did not pursue issuing a request for proposals or conducting a competitive bidding process to obtain the fraud detection services they sought to obtain from 21CT. In addition, because neither the Commission nor the OIG had conducted planning activities (such as developing an independent cost estimate or analyzing vendor cost estimates) for the procurement, the only form of support the Commission and the OIG had for the \$19.9 million cost specified in the advance planning document was vendor cost estimates.

In March 2014, the OIG prepared a document to request an additional \$77 million in federal funding to continue its fraud analytics project and to extend the capabilities of its case management system (combined with an additional \$13 million in state funds, the total cost of the extension would be \$90 million). The former deputy IG shared that document with 21CT. 21CT then revised that document before the Commission submitted it to CMS. The Commission’s executive commissioner subsequently canceled that extension.

#### Procurement Issues

- **The Commission and the OIG did not have adequate controls to ensure that they used cooperative contracts for commodities for their intended purpose.** Neither the Commission nor the OIG had controls to ensure that they purchased only items that vendors were authorized to sell through their cooperative contracts for commodities. The Commission and the OIG procured fraud detection services from 21CT through the Department of Information Resources’ cooperative contract with 21CT for “information technology security hardware, software, and services.” However, the fraud detection services that the Commission and the OIG procured were not in the category of “information technology security hardware, software, and services.” For example, the procurement included the purchase of laptop computers and a case management system from 21CT; however, those items were not authorized through the Department of Information Resources’ cooperative contract with 21CT. Instead, 21CT and the OIG agreed that 21CT would obtain those items from other vendors. It is possible that the Commission and the OIG could have purchased those items directly from other vendors that had contracts through the Cooperative Contracts program.
- **The Commission’s deputy executive commissioner for procurement failed to ensure that the procurement from 21CT complied with requirements.** The individual in that position should be a key control in ensuring that procurements comply with requirements. Instead, the deputy executive commissioner for procurement facilitated noncompliance with requirements that are intended to protect the State’s interests. Specifically, Commission staff asserted that the deputy executive commissioner for procurement directed them to procure fraud detection services from 21CT through

the Department of Information Resources' cooperative contract for commodities with 21CT. As a result, the Commission and the OIG did not seek competitive bids.

- **The Commission and the OIG did not have a process to require program staff working on procurements to disclose conflicts of interest related to purchases made through cooperative contracts.** As a result, neither the Commission nor the OIG required program staff working on the procurement of fraud detection services from 21CT to disclose potential conflicts of interest related to 21CT. The Commission's contracting manual requires purchasing personnel and personnel involved in evaluating potential vendors to disclose personal relationships with potential vendors for contracts that exceed \$1 million. However, that requirement did not apply to program staff. That requirement also did not apply to the procurement from 21CT because the Commission and the OIG conducted the procurement through a cooperative contract.
- **The Commission did not require its purchasers to obtain more than one bid when it purchased products and services through the Cooperative Contracts program.** Although the Commission asserted that, in some cases, it obtained multiple price quotes for purchases that it previously had made through the Cooperative Contracts program, it did not obtain multiple price quotes as part of its procurement from 21CT. In addition, the Commission could not provide documentation showing that it searched the Cooperative Contracts program's Web site for a list of vendors that offered the services that it sought to obtain.

#### Issues Regarding the Agreement with 21CT

The Commission and the OIG did not form an agreement with 21CT that adequately protected the State's interests and that ensured that the OIG received the goods and services it sought to procure. Based on records provided by the Commission, the initial agreement consisted of a purchase order, a pricing and payment schedule, and a statement of work, and those items did not contain sufficient details regarding the specific goods and services to be provided. The initial statement of work was attached to a purchase order that was dated December 2012, and a subsequent revision of that statement of work dated July 2013 also did not contain sufficient details.

Given the \$19.9 million price of the procurement, the Commission and the OIG would have benefited from establishing a formal contract with a schedule of deliverables and due dates, as well as a schedule of payments based on the satisfactory completion of each deliverable. Having a formal contract that contained those elements could have enabled the Commission and the OIG to hold the vendor accountable for complying with specific requirements for the goods and services it would provide. A formal contract also could have contained specific penalties for potential contractor noncompliance. In addition, because the Commission and the OIG procured items from 21CT that were not authorized through the Department of Information Resources' cooperative contract with 21CT, it is unclear whether all of the provisions of that cooperative contract apply and, therefore, whether all of those provisions would protect the interests of the Commission and the OIG.

#### Oversight Issues

- **The submission of invoices soon after the date of the first purchase order meant that the Commission and the OIG paid 21CT early in the project.** This investigation identified the following:

- The Commission and the OIG finalized the first purchase order for the procurement with 21CT on December 19, 2012.
- Two days later, on December 21, 2012, 21CT submitted an invoice for \$2,256,722 (11 percent of the \$19.9 million total payment amount).
- On January 3, 2013, 21CT submitted its second invoice for \$3,740,374 (19 percent of the \$19.9 million total payment amount).

The Commission and the OIG paid the two invoices discussed above by January 30, 2013. By August 28, 2014, the Commission and the OIG had paid 21CT the total \$19.9 million. However, as of March 20, 2015, the Commission asserted that the Commission and the OIG were not using 21CT's fraud detection software due to unresolved legal issues. In addition, although 21CT provided the OIG with a version of a case management system prior to the cancellation of the project, the OIG asserted that the case management system was not fully functioning according to its expectation.

- **The Commission and the OIG paid 21CT based on a payment plan, rather than on the actual goods and services that 21CT had provided.** Each invoice that 21CT submitted was based on a payment plan that the OIG had negotiated with 21CT at the time of the first purchase order. The payment plan specified that the OIG would pay 21CT in 11 installments that totaled \$19.9 million; by January 3, 2013, 21CT had invoiced the Commission and the OIG for \$5,997,096. In addition, the payment plan called for making payments to 21CT without regard to the goods and services that 21CT had actually provided.

The Commission paid 21CT \$405,000 for laptop computers when neither the Commission nor the OIG had received those computers from 21CT. The Commission and the OIG did not require 21CT to provide support for its invoices that specified the actual goods and services that 21CT had provided.

When the State Auditor's Office requested that 21CT provide support for its invoices, 21CT provided some support for its internal costs and certain payments it had made to third parties. 21CT also provided evidence of certain work it had conducted for the OIG and that 21CT held regular status meetings with the OIG. However, because the payment plan and the statement of work did not contain specific information on each deliverable that 21CT committed to provide, the invoices could not be linked directly to the statement of work.

Based on a review of the payment and pricing schedule that 21CT used to invoice the Commission, 21CT charged the OIG \$7.2 million for goods and services related to its LYNXeon software. The Department of Information Resources' cooperative contract with 21CT specified that the price for LYNXeon software started at \$167,000 but could be higher depending on the scope of services offered to an agency. Because the scope of services that the OIG intended to procure was not documented in sufficient detail, this investigation was unable to determine whether the \$7.2 million amount was consistent with the services 21CT provided to the OIG.

- **OIG staff approved payments to 21CT based on instruction from the former deputy IG.** The former deputy IG frequently directed staff to approve payments to 21CT through verbal instruction or emails. Based on the direction and approvals of the former deputy IG, the OIG's director of data analytics and fraud detection and the OIG's former business operations manager then used emails to

approve payments to 21CT. The Commission did not have a process that required executive management to certify that (1) the information related to the payments that they were approving was true and correct and (2) the Commission had received the related fraud detection services that it intended to procure.

- **The Commission and the OIG did not input information on the 21CT procurement into their contracting administration system until at least 8 months after they finalized the procurement from 21CT.** The Commission and the OIG did not use the Health and Human Services Contract Administration and Tracking System (HCATS) to properly monitor 21CT. The Commission and the OIG did not input information on the 21CT procurement into HCATS until at least 8 months after they finalized the procurement from 21CT, and that delayed their use of a feature of HCATS that establishes the items that should be monitored. HCATS information indicated that, after the Commission and the OIG entered information for the procurement from 21CT into HCATS, the Commission and the OIG recorded in HCATS that they received certain deliverables that 21CT was required to provide according to a July 2013 statement of work.

#### **The Working Environment within the Commission and the OIG**

The Commission and the OIG failed to establish and maintain a working environment that emphasized ethics, integrity, and accountability, which affected the procurement from 21CT and the attempt to extend that procurement. In addition to the information presented above, this investigation identified the following:

- After the former deputy IG became the Commission's chief counsel, that created a situation in which that individual officially reported to both (1) his spouse, the Commission's chief of staff, and (2) the Commission's executive commissioner. Reporting to a spouse represented a structural conflict of interest that undermined the effectiveness of the Commission's processes and was a violation of the Commission's employment policies.
- The former deputy IG used personal email accounts to send and receive information and documents directly related to the procurement from 21CT. In addition, that individual used his Commission email account to send emails to other Texas state agencies and other states with favorable reviews of 21CT's work. He also included 21CT executive management on some of those emails.
- The presentations that the former deputy IG made at Medicaid conferences were based in part on information that 21CT had provided.
- The deputy executive commissioner for procurement and contracting services asserted that he had concerns about extending the procurement with 21CT at an additional cost of \$90 million. However, that individual did not include those concerns in the written comments on the extension provided to the executive commissioner. Instead, those written comments specified only that, because the services were purchased through the Cooperative Contracts program, there were no impediments to proceeding with the extension.
- Management and staff in the Commission's Procurement and Contracting Services unit asserted that (1) they were statutorily required to use the Cooperative Contracts program and (2) they used that program properly for the procurement from 21CT. However, they did not provide evidence showing that they evaluated the appropriateness of using the Cooperative Contracts program for the procurement from 21CT.



- The former deputy IG facilitated 21CT’s use of Medicaid information for the pilot project at the Department of Family and Protective Services; however, it was unclear how the former deputy IG determined that the use of that information for the pilot project complied with data protection requirements.
- The Commission and the OIG had a policy that required supervisors to evaluate each of their assigned employees at the end of their probationary period of employment, at the end of the first year of employment, and annually thereafter. The former inspector general asserted that he identified performance issues in the former deputy IG’s work in the OIG. However, based on a review of the OIG’s records, the former inspector general did not document those issues in a performance evaluation. In addition, the OIG could not provide evidence that it had conducted any performance evaluations for the former deputy IG.

Multiple interviews conducted for this investigation, as well as records reviewed during this investigation, revealed examples in which staff were concerned about the working environment and potential retaliation by the former deputy IG if they did not carry out his instructions. Executive management at the Commission and the OIG are ultimately responsible for the working environment in which staff conduct their duties. Their failure to create and maintain an environment emphasizing ethics, integrity, and accountability did not serve the State’s interests. It is important to note that, when the former deputy IG became the Commission’s chief counsel, that individual also became the Commission’s ethics adviser.

#### **Misuse and Structure of the Cooperative Contracts Program**

The structure of the State’s Cooperative Contracts program at the Department of Information Resources enabled the Commission and the OIG to misuse that program to procure fraud detection services from 21CT. Specifically:

- The Cooperative Contracts program does not have controls to help ensure that agencies purchase the goods and services that are outlined in a cooperative contract that the Department of Information Resources has approved (see text box for more information on the types of cooperative contracts). For example, the OIG procured the development of a fraud detection system (a major information system) from 21CT through the Department of Information Resources’ cooperative contract with 21CT for commodities (specifically, a contract for information technology security goods and services). In addition, the Department of Information Resources had previously denied 21CT’s application for a deliverables-based information technology cooperative contract for application development and business intelligence.

#### **Types of Cooperative Contracts**

The Cooperative Contracts program encompasses the following types of contracts between vendors and the Department of Information Resources:

- **Information technology commodities contracts.** Those contracts are for commercial software, hardware, or technology services other than telecommunication services.
- **Deliverables-based information technology services contracts.** Those contracts are for deliverables-based, outsourced systems integration or application development projects.
- **Information technology staffing services contracts.** Those contracts are for temporary information technology staffing augmentation services based on a unit of time (such as hourly).

Source: Department of Information Resources.

- The Cooperative Contracts program does not have limits on the dollar amount of goods and services that agencies can purchase through cooperative contracts for commodities.

- The cooperative contracts contain terms that are not fully defined. For example, the Department of Information Resources' cooperative contract with 21CT specified that 21CT could provide the following in support of its LYNXeon product: servers; an analyst studio; maintenance, training, and support; a data adapter; and hardware. Those terms were not defined in more detail in the Department of Information Resources' cooperative contract with 21CT.
- The Department of Information Resources relies on vendors to inform it when agencies make purchases through cooperative contracts. Therefore, there is a risk that the Department of Information Resources may not become aware of all purchases made through cooperative contracts.
- Although the Department of Information Resources recommends that state agencies obtain three bids when purchasing through the Cooperative Contracts program, there is no rule or statutory requirement for state agencies to obtain three bids for purchases made through that program.
- Texas Government Code, Section 2054.021, requires the executive commissioner for the Commission to serve as an ex officio, non-voting member of the Department of Information Resources' governing board on a rotating basis for two-year periods. As permitted by that statute, the executive commissioner designated the Commission's deputy executive commissioner for information technology to serve on that governing board. As a result, the Commission's former and current deputy executive commissioners for information technology participated as ex officio members of the governing board from February 1, 2011, through January 30, 2013. The Commission's and the OIG's procurement from 21CT occurred during that same time period. While there was no indication or evidence that the Department of Information Resources was inappropriately influenced by the Commission's role on its governing board, that situation represents a potential conflict of interest.

#### **Recommendations**

To address issues at the Commission and the OIG, the Legislature should consider:

- Requiring the Commission's executive commissioner to formally approve in writing the payment of all invoices that exceed \$1 million.
- Requiring the Commission's deputy executive commissioner for procurement to formally certify that all payments associated with Commission and OIG procurements comply with all state requirements and Commission policies and procedures.
- Requiring the Commission to procure goods and services through a competitive bidding process, rather than a process based on vendors' proofs of concept.
- Requiring the Commission to establish and enforce proper segregation of duties for all aspects (planning, procurement, contract/agreement formation, and oversight) of its procurement and contracting.

To strengthen the Cooperative Contracts program, the Legislature should consider:

- Establishing a limit for the dollar amount of purchases that state entities can make through Cooperative Contracts program contracts for commodities.

- Requiring state entities to obtain three bids for purchases they make through the Cooperative Contracts program.
- Requiring state entities to submit a final scope of work to the Department of Information Resources prior to initiating a purchase order for a purchase through the Cooperative Contracts program.
- Requiring state entities to send all purchase orders for purchases they make through the Cooperative Contracts program to the Department of Information Resources.
- Requiring the Department of Information Resources to review the purchase orders it receives from state entities to ensure that they are purchasing only goods and services that are authorized under vendors' cooperative contracts with the Department of Information Resources.
- Requiring state entities to report the amount of payments they make to vendors through the Cooperative Contracts program, and requiring the Department of Information Resources to publish on its Web site how much each state entity has paid each vendor through each type of cooperative contract.
- Removing the Commission's executive commissioner as an ex officio member of the Department of Information Resources' governing board.
- Prohibiting or restricting state entities from purchasing services through Department of Information Resources cooperative contracts for commodities.

The Legislature should also consider requiring the Office of the Attorney General and the Office of the Comptroller of Public Accounts to review the certification language and level of agency management approval required for payment vouchers, both for internal agency accounting systems and the Uniform Statewide Accounting System.

This report summarizes the State Auditor's Office's investigation as of March 20, 2015. The information in this report was subject to certain quality control procedures to help ensure accuracy. This project was an investigation; therefore, the information in this report was not subjected to all the tests and confirmations that would be performed in an audit. The State Auditor's Office will continue its investigation.

We appreciate the cooperation of the Commission, the OIG, the Department of Family and Protective Services, and the Department of Information Resources with this investigation. If you have any questions, please contact Audrey O'Neill, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA  
State Auditor

cc: The Honorable Greg Abbott, Governor  
Dr. Kyle Janek, Executive Commissioner, Health and Human Services Commission



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