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An Audit Report on

**Information and
Communications Technology
Cooperative Contracts at the
Commission on Environmental
Quality**

December 2013

Report No. 14-012



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Overall Conclusion

The Commission on Environmental Quality (Commission) has processes designed to help ensure that purchases for information-technology-related goods and services (computers, computer devices, software, telecommunication devices, staffing services, and maintenance services) comply with applicable state purchasing laws, rules, and the Department of Information Resources' Information and Communications Technology Cooperative Contracts Program (Program) requirements.

From September 2011 through February 2013, the Commission reported that it made \$28.1 million in total payments for information-technology-related purchases, and it made \$13.2 million (47 percent) of those payments through the Program.

Opportunities exist for the Commission to strengthen its contract management processes to help ensure that (1) Program purchases provide best value in terms of the price paid for a Program good or service, (2) Program purchases are free from real or apparent conflicts of interest, and (3) monitoring of Program contracts helps to ensure the quality of goods and services delivered. Specifically:

- **Best Value.** The Commission should strengthen its processes to ensure that goods and services purchased through the Program provide best value. Texas Government Code, Section 2157.003, defines best value as the lowest overall cost for a Program good or service. The Commission did not maintain consistent documentation to support noncompetitive purchases for Program staffing services and deliverables-based information services. In addition, while the Commission generally ensured that it paid for Program staffing services at rates that did not exceed the not-to-exceed rates established by the Department of Information Resources, it did not ensure that the rates paid for purchased Program goods and other services included either the Department of Information Resources' negotiated discount rate or a higher discount rate.

The Information and Communications Technology Cooperative Contracts Program

The Information and Communications Technology Cooperative Contracts Program (Program) is a streamlined cooperative purchasing program managed by the Department of Information Resources (Department) that offers contracts for information-technology-related products and services including hardware, software, staffing services, maintenance, and other services with a high customer demand. The other services may include managed services and technology training services that may be used by state and local governments, public education entities, and other public entities in Texas, as well as public entities outside the state.

State and other public entities may further negotiate better pricing for volume purchases and otherwise tailor their purchases through entity-specific statements of work and service level agreements, according to individual customer needs, budgets, and projects.

The Program is established under Texas Government Code, Section 2157.068.

- **Conflicts of Interest.** The Commission should strengthen existing processes to help ensure that Program purchases are free from real or apparent conflicts of interest. The Commission did not have consistent documentation to support that procurement staff disclosed potential conflicts of interest or confirmed that none existed.
- **Vendor Performance.** The Commission should improve its monitoring and reporting of the quality of the Program goods and services delivered. Specifically:
 - The Commission should establish agencywide monitoring processes for evaluating the quality of Program staffing services that contract workers provide. The Commission limited its monitoring to reviewing and approving contract workers' timesheets to verify the appropriateness of vendor payments.
 - The Commission should report to the Office of the Comptroller of Public Accounts (Comptroller's Office) information on the performance of Program vendors from which it purchases goods and services. Title 34, Texas Administrative Code, Section 20.108, requires state agencies to report a vendor's performance on any purchase of \$25,000 or more to the Comptroller's Office. However, the Commission did not comply with that requirement for the Program purchases tested.
 - The Commission should ensure that all of its contract specialists complete the training that Texas Government Code, Section 2262.053, requires.

The Commission has processes to identify and report new major information resource projects to the State's Quality Assurance Team in accordance with statute.

Auditors communicated other, less significant issues regarding the contract management process separately in writing to the Commission. Those issues were related to procurement and payment practices, compliance with certain administrative policies and procedures, and reporting practices for certain contracts and conflicts of interest.

Summary of Management's Response

The Commission agreed with the recommendations in this report.

Summary of Information Technology Review

Auditors performed a limited review of the general and application controls for the Commission's Budget, Accounting, and Monitoring System, which maintains budgeting, invoicing, and receiving information related to Program purchases.

Auditors determined that procurement data in the Budget, Accounting, and Monitoring System was not sufficiently reliable for the purposes of this audit because the Commission could not produce a complete and accurate set of historical data prior to September 2009 from that system due to issues related to the migration of historical data into that system when it was implemented in September 2009.

Auditors also performed a limited review of the general and application controls for the other information system and the database that the Commission used to manage the purchase of, payment for, and monitoring of Program purchases:

- The Purchasing and Contracts Enterprise System, which maintains contract and purchase order information.
- The Procurement Database, which is an agencywide database that includes procurement data from the Budget, Accounting, and Monitoring System, the Purchasing and Contracts Enterprise System, and other Commission-managed information systems that are not related to purchasing activities.

Auditors reviewed controls over user access, password security, and change management and determined that the system and database had adequately designed controls to ensure the reliability of data entered and processed. However, the Commission should strengthen certain user access controls to minimize the risk of alteration or deletion of data.

In addition, auditors assessed the reliability of accounting data based upon prior audit work performed for the Uniform Statewide Accounting System and determined that the data in that system was reliable for purposes of this audit.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to:

- Determine whether selected state entities (1) made purchases through the Program when required to do so; (2) properly procured the contracts, including negotiating prices and deliverables as appropriate; (3) obtained information technology commodity goods and services as statutorily defined through the Program; and (4) managed and monitored contractors to help ensure that they performed in accordance with the terms of the contracts.
- Determine whether state entities that purchase goods or services through the Program reported related major information resources projects to the Quality Assurance Team as required by law.

The scope of this audit covered the Commission's information technology procurements and major information resource projects with a payment during the period from September 1, 2011, through February 28, 2013.

The audit methodology consisted of collecting and reviewing procurement and contract documentation and major information resources project documentation; conducting interviews with Commission management and staff; reviewing statutes, rules, Office of the Comptroller of Public Accounts' procurement requirements, and Commission policies and procedures; identifying and collecting information from other reports; and performing selected tests and other procedures.

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Detailed Results

Chapter 1

The Commission Should Ensure That Its Purchases of Information Technology Goods and Services Provide the Best Value and Are Free of Real and Apparent Conflicts of Interest

The Commission on Environmental Quality's (Commission) procurement processes are designed to help ensure that it complies with requirements that help to provide assurance that the State obtains best value on Department of

Program Purchases

The Program offers contracts for which the Department of Information Resources is required to negotiate competitive discounts. State agencies can make the following types of information-technology-related purchases through the Program:

- **Goods and services.** Examples include computers, computer devices, hardware, software, telecommunication devices, and maintenance services.
- **Staffing services.** Examples include temporary staff and contract workers that provide information-technology-related services.
- **Deliverables-based information technology services.** These are project-based or outsourced-based services for which a vendor is paid for the satisfactory delivery of agreed-upon deliverables such as the development of new information systems, assessments, or analyses.

Source: The Department of Information Resources.

Best Value

Texas Government Code, Section 2157.003, states that "best value" means the lowest overall cost of an automated information system. In determining the lowest overall cost for a purchase or lease of an automated information system, the statute specifies that following factors should be considered:

- Purchase price.
- Compatibility to facilitate the exchange of existing data.
- Capacity for expanding and upgrading to more advanced levels of technology.
- Quantitative reliability factors.
- Level of training required to bring persons using the system to a stated level of proficiency.
- Technical support requirements for the maintenance of data across a network platform and the management of the network's hardware and software.
- Compliance with applicable Department of Information Resources' statewide standards validated by criteria adopted by the Department of Information Resources by rule.
- Applicable factors listed in Texas Government Code, Sections 2155.074 and 2155.075.

Information Resources' Information and Communications Technology Cooperative Contracts Program (Program) purchases. (See text box for more information on the types of purchases agencies can make through the Program.) Texas Government Code, Section 2157.003, defines best value as the lowest overall cost for a Program good or service. (See text box for more information on best value.) However, opportunities exist for the Commission to strengthen assurance that the State receives best value for its Program purchases.

In addition, the Commission should ensure that its procurement staff consistently complete documents that provide assurance that information-technology-related purchases are free from real and apparent conflicts of interests.

The Commission should ensure that it obtains best value on its Program purchases.

For 36 (90 percent) of 40 Program purchases tested, the Commission did not have documentation to support that the purchase provided best value. Those 36 purchases totaled \$4.2 million. Specifically:

- For all 30 purchase orders tested for Program goods and services, the Commission did not have documentation to show that it attempted to negotiate further discounts beyond the discounts offered by the Program contracts. The Commission accepted the initial vendor quote provided for those purchase orders, which totaled \$2.8 million. The Department of Information Resources' Program contracts with vendors allow agencies to negotiate

discount rates that exceed the discount rates in Program contracts.

- For 6 (60 percent) of the 10 contracts tested for Program deliverables-based information technology services, the Commission did not have documentation to show that it negotiated further with vendors for a better price. For those 6 contracts, which totaled \$1.4 million, the agreed-upon prices in the final contracts were the same as the prices in the vendors' original proposals. For the remaining four contracts tested, the Commission's final contract prices were less than the prices in the vendors' original proposals.
- For 1 (17 percent) of the 6 Program contracts for deliverables-based information technology services for which the Commission did not have documentation to show that it negotiated further with vendors for a better price, the Commission also did not have documentation showing that it solicited multiple vendors. That contract totaled \$150,000. The Commission received only one vendor response and awarded the contract to that vendor, which did not comply with its requirement that staff solicit multiple vendors for contracted services to ensure that the Commission obtains best value on its purchases.

The Commission should ensure that it reports noncompetitive procurements for Program staffing services to the Department of Information Resources as required.

Of 30 purchase orders tested for Program staffing services, the Commission did not report to the Department of Information Resources the best value justification for 26 (87 percent) purchase orders that it procured noncompetitively. Those 26 purchase orders totaled \$4.2 million. For each purchase order tested, the Commission did not use the Department of Information Resources' services to identify qualified vendors that could provide requested staffing services. Instead, the Commission selected vendors based on its experience working with certain vendors, which the Department of Information Resources allows. However, the Department of Information Resources requires an agency to provide it with a copy of the agency's best value justification for noncompetitive procurements to help the Department of Information Resources to ensure that noncompetitive procurements are fair and objective.

The Commission should ensure that its procurement staff consistently complete and sign conflict of interest statements and nepotism disclosure statements.

Six (30 percent) of 20 Commission purchasers tested did not complete and sign either conflict of interest statements or nepotism disclosure statements when required for procurements made in fiscal years 2010, 2011, 2012, and 2013. (These fiscal years were tested because payments made within the audit scope were associated with procurements from those fiscal years.)

Specifically:

- For two purchasers tested, the Commission did not have signed annual conflict of interest statements for fiscal year 2012, and for one purchaser tested, the Commission did not have a signed annual conflict of interest statement for fiscal year 2010. Two of those purchasers did not approve any purchase orders related to Program purchases from September 2011 through February 2012.

Nepotism Disclosure Requirement

Texas Government Code, Section 2262.004 (b), states that "Before a state agency may award a major contract for the purchase of goods or services to a business entity, each of the state agency's purchasing personnel working on the contract must disclose in writing to the administrative head of the state agency any relationship the purchasing personnel is aware about that the employee has with an employee, a partner, a major stockholder, a paid consultant with a contract with the business entity the value of which exceeds \$25,000, or other owner of the business entity..."

- For three of the applicable purchasers tested, the Commission did not have signed nepotism disclosure statements as required by Texas Government Code, Section 2262.004 (b) (see text box for more information). Those three purchasers were involved in the procurement of contracts for Program deliverables-based information technology services that had values of at least \$1 million.

Not ensuring that all procurement staff complete conflict of interest statements and nepotism disclosure statements increases the risk that the Commission's procurement decisions could be impaired or influenced by business, professional, or personal relationships.

The Commission should consistently verify that vendors apply Program discount rates to its purchases.

The Commission ensured that the prices it paid for 30 purchase orders tested for Program staffing services did not exceed the not-to-exceed prices in the Department of Information Resources' Program contracts. Those 30 purchase orders totaled \$4.4 million. However, the Commission did not consistently ensure that it received the applicable Program discount rate on Program purchases for goods and services. Of 30 purchase orders for Program goods and services tested, 24 (80 percent) did not have documentation to show that the Commission verified that the Program discount rate was applied to its purchases. Those 24 purchase orders totaled approximately \$2.1 million. Not ensuring that vendors apply the appropriate discount rate to Program purchases increases the risk that the Commission may not receive the best value for its purchases of Program goods and services.

The Commission should ensure that it maintains documentation showing that it objectively awards Program contracts for deliverables-based information technology services to qualified vendors.

The Commission did not have documentation showing the appropriateness of its award decisions for 8 (80 percent) of the 10 contracts tested for Program deliverables-based information technology services. Those 8 contracts totaled \$1.5 million. Specifically:

- For 4 (40 percent) of the 10 contracts tested, the Commission did not have a completed administrative checklist included in its procurement files as the Commission requires. Those 4 contracts totaled \$1.3 million. The

Commission uses the administrative checklist to help ensure that a vendor's proposal was qualified for acceptance.

- For 4 (40 percent) of the 10 contracts tested, the Commission did not have nondisclosure statements for members of the evaluation team. Those 4 contracts totaled \$1,240,000. Specifically:
 - ♦ For 2 contracts totaling \$203,000, the Commission did not maintain the names of the members of the evaluation team and, therefore, it could not provide the nondisclosure statements for those members.
 - ♦ For 2 contracts totaling \$1,037,000, the Commission could not provide certain nondisclosure statements. Specifically, it could not provide those statements for four members of the evaluation team for one contract and for one member of the evaluation team for the other contract.
- For 3 (30 percent) of the 10 contracts tested, the Commission did not have evaluation team scoring sheets. Those 3 contracts totaled \$210,096.

(Contracts for which auditors identified multiple issues are included in more than one of the categories discussed above.)

Not maintaining consistent documentation showing the objectivity of its award decisions increases the risk that the Commission could make award decisions to unqualified vendors or that those decisions could be influenced by conflicts of interests.

The Commission should ensure that it defines bid evaluation criteria in all solicitations for Program deliverables-based information technology services.

The Commission did not define the bid evaluation criteria that it would use to score vendor proposals in its solicitation for 1 (10 percent) of the 10 contracts tested for Program deliverables-based information technology services as required. That contract totaled \$2.6 million.

Texas Government Code, Section 2155.075, requires that, for purchases made through competitively sealed proposals, an agency must specify in its request for proposals the known factors other than price that the agency will consider in determining which proposal offers the best value for the State. Not defining the bid evaluation criteria for all solicitations increases the risk that the Commission may not objectively evaluate vendor proposals or that it could tailor evaluation criteria to a particular proposal.

Recommendations

The Commission should:

- Maintain documentation of the vendors it solicits, the prices vendors quote, and the prices it negotiates for Program purchases.
- Document and report to the Department of Information Resources its best value justification for noncompetitive purchases.
- Maintain documentation to support that each purchaser completes a conflict of interest statement on an annual basis and completes a nepotism disclosure statement when required.
- Verify that vendors apply the proper discounts to Program purchases.
- Verify that staff complete administrative checklists, non-disclosure statements, and evaluation team scoring sheets, and maintain that documentation in its procurement records for each award decision related to contracts for Program deliverables-based information technology services.
- Include in its solicitations for Program deliverables-based information technology services the evaluation criteria it will use to evaluate vendors' proposals.

Management's Response

Maintain documentation of the vendors it solicits, the prices vendors quote, and the prices it negotiates for Program purchases.

The Commission agrees with the recommendation. Our procedures and checklists will be amended to obtain and preserve documentation of all quotes and best value negotiations for each Program purchase. In August 2013 additional training was provided to educate purchasing staff of these requirements. A direct report to the Procurements & Contracts Manager will be monitoring contracts and purchase orders for compliance with these requirements.

Responsible Party: Manager, Procurements & Contracts Section

Target Date: March 31, 2014

Document and report to the Department of Information Resources its best value justification for noncompetitive purchases.

The Commission agrees with the recommendation and will ensure it reports noncompetitive procurements for Program staffing services to the Department of Information Resources (DIR). Our procedures and checklist will be

amended to provide notice to DIR, and a form created for DIR reporting. A direct report to the Procurements & Contracts Manager will be monitoring purchase orders and contracts for compliance with this requirement.

Responsible Party: *Manager, Procurements & Contracts Section*

Target Date: *March 31, 2014*

Maintain documentation to support that each purchaser completes a conflict of interest statement on an annual basis and completes a nepotism disclosure statement when required.

The Commission agrees with and has implemented the recommendation. All required conflict of interest forms for the FY14 Procurement Plan were obtained in August 2013.

Additional training was provided to purchasing staff in August to reinforce the requirements for nepotism forms. A direct report to the Procurements & Contracts Manager will be monitoring contracts for compliance with this requirement.

Responsible Party: *Manager, Procurements & Contracts Section*

Target Date: *Implemented*

Verify that vendors apply the proper discounts to Program purchases.

The Commission agrees with the recommendation. We note that in SAO's audit of the Department of Information Resources (DIR), Report No. 14-007 issued in October 2013, the Department agreed with the recommendation to require program vendors to specify MSRP at the time of negotiation and include in its contracts either the MSRP amount or a not-to-exceed price. We are modifying our procedures to ensure the vendor's list price and discount are on all quotes or bids for equipment and services, and we will verify the appropriate discounts have been received. A direct report to the Procurements & Contracts Manager will be monitoring contracts and purchase orders for compliance with this requirement.

Responsible Party: *Manager, Procurements & Contracts Section*

Target Date: *March 31, 2014*

Verify that staff complete administrative checklists, non-disclosure statements, and evaluation team scoring sheets, and maintain that documentation in its procurement records for each award decision related to contracts for Program deliverables-based information technology services.

The Commission agrees with and has implemented the recommendation. We conducted training in August 2013 using the agency's "Evaluation Criteria" user manual, last revised 9/19/2012, to reinforce these requirements and hold Procurements & Contracts staff accountable for this documentation. A direct report to the Procurements & Contracts Manager will be monitoring contracts for compliance with these requirements.

Responsible Party: *Manager, Procurements & Contracts Section*

Target Date: *Implemented*

Include in its solicitations for Program deliverables-based information technology services the evaluation criteria it will use to evaluate vendors' proposals.

The Commission agrees with the recommendation. The single instance of a deliverables-based information technology services (DBITS) contract without evaluation criteria was the first DBITS contract solicited by TCEQ. Our standard practice, and the practice followed in subsequent DBITS solicitations, requires evaluation criteria as part of the solicitation. Our DBITS User Manual will be updated to reflect standard practice.

Responsible Party: *Manager, Procurements & Contracts Section*

Target Date: *March 31, 2014*

The Commission Should Strengthen Its Payment for and Monitoring of Services It Purchases Through Program Contracts

The Commission generally ensured that it properly processed vendor payments and that it monitored the delivery of information-technology-related purchases. In addition, the Commission ensured that management properly supported and approved change orders and contract amendments. However, auditors identified opportunities for the Commission to improve certain payment processes and monitoring efforts.

In addition, the Commission did not report four contracts for major information resources to the Legislative Budget Board as required. Those contracts totaled \$3.8 million and were for Program deliverables-based information technology services.

The Commission should ensure that payments on Program purchases do not exceed authorized amounts.

Auditors identified payments that exceeded authorized payment amounts totaling \$289,932 for 4 (6 percent) of 70 Program purchases tested. Those 4 purchases totaled \$3,047,878, and the total amount authorized for those purchases was \$2,757,946. Specifically:

- For 1 (10 percent) of the 10 contracts for Program deliverables-based information technology services tested, the Commission made payments that exceeded the authorized amount by approximately \$243,727. The total amount authorized for that contract was \$1,534,211. The total amount paid was \$1,777,938.
- For 1 (3 percent) of the 30 purchase orders for Program staffing services tested, the Commission made total payments that exceeded the purchase order by \$26,835. The total amount authorized for that purchase was \$199,610. The total amount paid was \$226,445.
- For 2 (7 percent) of the 30 purchase orders for Program goods and services tested, the Commission made payments that exceeded the purchase order by \$19,370. The total amount authorized for those purchases was \$1,024,125. The total amount paid was \$1,043,495.

Paying vendors more than the authorized amount increases the risk that the Commission's purchases do not provide best value.

The Commission should evaluate the quality of the Program staffing services it purchases.

For all 30 purchase orders for Program staffing services tested, the Commission did not periodically evaluate the quality of services that

temporary staff and contract workers delivered. Those 30 purchase orders totaled \$4.4 million.

The Commission limited its monitoring of the Program staffing services to reviewing and approving the timesheets for temporary staff and contract workers to ensure the appropriateness of vendor payments. The Commission did not have an agencywide process to periodically evaluate the quality of the staffing services. Assessing the performance of vendors is essential to ensuring that services are satisfactory and for the Commission to be aware of and address any substandard vendor performance. Monitoring is particularly important for the Commission's Program staffing services purchases because the Commission routinely renews or extends purchase orders for Program staffing services each fiscal year.

The Commission should ensure that it reports vendor performance for applicable Program purchases to the Office of the Comptroller of Public Accounts as required.

The Commission did not report to the Office of the Comptroller of Public Accounts (Comptroller's Office) information on vendor performance for Program purchases of at least \$25,000 as required by Title 34, Texas Administrative Code, Section 20.108. Receiving that information allows the Comptroller's Office to collect performance information on vendors that the Department of Information Resources can use when it awards Program contracts. For all the Program purchases tested with values of at least \$25,000, the Commission did not report vendor performance. Those purchases included:

- Twenty purchase orders for Program staffing services that totaled \$2.8 million.
- Nine purchase orders for Program goods and services (excluding deliverables-based information technology and staffing services) that totaled \$2.7 million.
- Five contracts for Program deliverables-based information technology contracts that totaled \$461,176. Two (40 percent) of those 5 contracts had significant complaints against the vendor.

The Commission should ensure that it properly closes out contracts for Program deliverables-based information technology services prior to the final payment.

The Commission did not have documentation showing that it properly closed out 4 (80 percent) of the 5 completed Program contracts for deliverables-based information technology services tested. Those 4 contracts totaled \$367,976. The Commission requires its contract managers to verify and document that all requirements have been met before the final payment for a contract is processed. For the one contract tested that the Commission properly closed out, the Commission had a completed project close out report

Major Information System

Texas Government Code, Section 2054.008 requires that a state agency shall provide written notice to the Legislative Budget Board of a contract for a major information system. The notice must be on a form prescribed by the Legislative Budget Board and filed not later than the 10th day after the date the agency enters into the contract. A major information system is defined as:

- One or more computers that in the aggregate cost more than \$100,000.
- A service related to computers, including computer software, that costs more than \$100,000.
- A telecommunications apparatus or device that serves as a voice, data, or video communications network for transmitting, switching, routing, multiplexing, modulating, amplifying, or receiving signals on the network and costs more than \$100,000.

that verified that the vendor provided services, the Commission accepted the services, and the vendor satisfactorily completed the services. That contract totaled \$93,200.

The Commission should report all contracts for major information systems to the Legislative Budget Board as required.

The Commission did not report any of the four contracts tested for Program deliverables-based information technology services as a major information resources system to the Legislative Budget Board as required by Texas Government Code, Section 2054.008 (see text box for additional details). Those 4 contracts totaled \$3.8 million, and because each of them exceeded \$100,000, statute required the Commission to report each of them to the Legislative Budget Board.

Recommendations

The Commission should:

- Ensure that the total payments it makes to a vendor do not exceed the total payments authorized by the associated purchase order.
- Develop and document:
 - ♦ An agencywide, standardized process, including performance criteria, to evaluate periodically the quality of Program staffing services that contract workers provide.
 - ♦ A process to report periodically to the Comptroller's Office the performance of contractors that provide Program goods and services with values of at least \$25,000.
- Prepare and retain documentation to support that it performed close-out procedures for completed contracts for Program deliverables-based information technology services.
- Report new contracts for major information resources systems to the Legislative Budget Board as required.

Management's Response

Ensure that the total payments it makes to a vendor do not exceed the total payments authorized by the associated purchase order.

The Commission agrees with the recommendation. The DBITS contract with payments in excess of contract documentation was an older contract impacted by an incomplete data migration from a legacy system. The issue was corrected with a contract amendment on July 27th. All similar contracts were evaluated and payments authorized do not exceed contract documentation in any other instances.

The goods and services contracts related to estimates in two purchase orders that were not updated as actual costs were realized. Training will be provided in this area to address monitoring and updating purchase orders when actual costs exceed estimates.

IT Ticket No, 14997 was logged to address the issue related to the single overpaid staffing services purchase order. The ticket prevents routing of an encumbrance form or encumbrance form change request to financial staff via BAMS that has not been reviewed and returned from procurement's staff via PACE, The application modification is undergoing testing and will be released to production upon acceptance.

Responsible Party: *Manager, Financial Operations Section*

Target Date: *March 31, 2014*

Develop and document:

An agency-wide, standardized process, including performance criteria, to evaluate periodically the quality of Program staffing services that contract workers provide.

The Commission agrees with the recommendation. Auditors identified a formal practice of evaluating staff augmentation contractors by one of our program areas that could be adopted agency-wide. We will evaluate this practice and either adopt it or modify it for agency-wide use.

Responsible Party: *Manager, Procurements & Contracts Section*

Target Date: *March 31, 2014*

A process to report periodically to the Comptroller's Office the performance of contractors that provide Program goods and services with values of at least \$25,000.

The Commission agrees with the recommendation. IT Ticket No. 15390 has been entered to add a user notification of vendor performance and close-out tasks when final payment on a contract has been entered. The program area will receive the popup alert in the Budget Accounting & Monitoring System (BAMS), and the procurements staff will be notified to monitor for close-out documents and vendor performance evaluations. A direct report to the

Procurements & Contracts Manager will be monitoring contracts for compliance with these requirements.

Additionally, these issues were covered in training provided to Procurements & Contracts staff in August 2013 and to attendees of the Administrative Procedures Training in October 2013.

Responsible Party: Manager, Procurements & Contracts Section

Target Date: March 31, 2014

Prepare and retain documentation to support that it performed close-out procedures for completed contracts for Program deliverables-based information technology services.

The Commission agrees with the recommendation. IT Ticket No. 15390 has been entered to add a user notification of vendor performance and close-out tasks when final payment on a contract has been entered. The program area will receive the popup alert in the Budget Accounting & Monitoring System (BAMS), and the procurements staff will be notified to monitor for close-out documents and vendor performance evaluations. A direct report to the Procurements & Contracts Manager will be monitoring contracts for compliance with these requirements.

Additionally, these issues were covered in training provided to Procurements & Contracts staff in August 2013 and to attendees of the Administrative Procedures Training in October 2013.

Responsible Party: Manager, Procurements & Contracts Section

Target Date: March 31, 2014

Report new contracts for major information resources systems to the Legislative Budget Board as required.

The Commission agrees with and has implemented the recommendation. The Procurements & Contracts Section is responsible for entering the LBB data, and staff is trained on the proper procedure for classifying new contracts, Supervisors are accountable for reconciling internal reports with reports from the LBB website on at least a quarterly basis.

Responsible Party: Manager, Procurements & Contracts Section

Target Date: Implemented

The Commission Should Ensure That Its Procurement Staff Obtain Required Training and Certifications

Procurement Staff Training and Certification Requirements

Texas Government Code, Section 2155.078, requires that purchasing personnel attend training. The Comptroller's Office's Texas Procurement and Support Services (TPASS) administers that training and has established requirements for obtaining the Certified Texas Procurement Manager certification.

Texas Government Code, Section 2262.053, requires personnel with significant contract management duties to attend a three-level training program administered by TPASS. Personnel who complete that training can apply for the Certified Texas Contract Manager certification after they pass an examination. However, that certification is not required.

The Commission ensured that 19 (95 percent) of the 20 purchasers tested obtained procurement training required by Texas Government Code, Section 2155.078. However, only 10 (48 percent) of 21 contract specialists tested obtained contract manager training required by Texas Government Code, Section 2262.053. (See text box for more information on those training requirements.)

In addition, the Commission reported to auditors that it required all of its contract specialists and the purchasers in its Procurement and Contract section to obtain required training. However, the Commission did not have documented policies and procedures clarifying the training requirements for its purchasers and contract specialists. Not ensuring that its procurement staff obtain required training and certifications increases the risk that Commission Program purchases may not be made and monitored in accordance with state requirements.

Recommendations

The Commission should:

- Clarify the required training and certifications that purchasers and contract specialists should obtain.
- Establish a process for monitoring the training and certifications that purchasers and contract specialists obtain.

Management's Response

Clarify the required training and certifications that purchasers and contract specialists should obtain.

The Commission agrees with the recommendation. We have required all contract specialists within the Procurements & Contracts Section to acquire and maintain all required training and certifications. We have not required other staff classified as contract specialists to acquire this training, although many are Certified Texas Contract Managers or have taken some of the training. Senate Bill 1681, passed in the 83rd Legislature, Regular Session, requires the Comptroller to develop a training program for Contract Managers by May 1, 2014. Contract Managers are required to be certified by September 1, 2015. We currently provide internal training, but will take

actions to implement a formal training program consistent with the Comptroller's forthcoming guidance.

Responsible Party: *Director, Human Resources & Staff Services*

Target Date: *September 1, 2015*

Establish a process for monitoring the training and certifications that purchasers and contract specialists obtain.

The Commission agrees with the recommendation. We have a process to monitor compliance with core training requirements. Consistent with the Comptroller's forthcoming guidance, a formal training program will be implemented, and compliance with core training requirements will be monitored.

Responsible Party: *Director, Human Resources & Staff Services*

Target Date: *June 30, 2014*

The Commission Should Ensure That Its Contracts for Deliverables-based Information Technology Services Include Remedies and Sanctions for Breach of Contract and Substandard Performance

The Commission generally ensured that its contracts with Program vendors for deliverables-based information technology services were properly developed and approved. The Commission's legal counsel generally reviewed the deliverables-based information technology services contracts tested, and those contracts included all essential clauses recommended by the *State of Texas Contract Management Guide*. Those 10 contracts totaled \$4.2 million and are listed in Table 1.

Table 1

Deliverables-based Information Technology Services Contracts For Which Auditors Tested Essential Contract Clauses			
Vendor Name	Contract Start Date	Contract End Date	Initial Contract Value
CGI Technologies And Solutions Inc.	December 31, 2009	August 31, 2011	\$2,550,000
Ibridge Group Inc.	July 20, 2010	August 31, 2011	1,000,000
Catapult Systems Inc.	May 2, 2012	December 31, 2012	150,000
CGI Technologies And Solutions Inc.	August 1, 2012	August 31, 2013	150,000
Loblolly Consulting LLC	June 8, 2011	August 31, 2011	143,000
Visionary Integration Professionals LLC	March 30, 2010	August 31, 2011	93,200
Grant Thornton LLP	June 28, 2011	August 31, 2012	60,000
The Greentree Group	July 18, 2012	December 31, 2012	45,120
Enfold Systems Inc.	August 10, 2012	August 31, 2014	37,000
Grant Thornton LLP	November 23, 2010	August 31, 2011	14,976
Total			\$4,243,296

Source: The Commission.

However, the Commission did not include a schedule of remedies and sanctions for breach of contract or substandard performance in 3 (30 percent) of the 10 contracts tested for deliverables-based information technology services as required. Those 3 contracts totaled \$2.6 million. Texas Government Code, Section 2261.101, requires agencies to create and incorporate in each of their contracts for goods or services a remedies schedule, a graduated sanctions schedule, or both, for breach of the contract or substandard performance under the contract. Consistently including a schedule of remedies and sanctions in its contracts helps to ensure that the Commission has established corrective actions or financial penalties to protect the State's interests.

Recommendation

The Commission should include in its Program contracts for deliverables-based information technology services a schedule of remedies and sanctions that defines corrective actions or financial penalties that it may take against a vendor for not complying with the terms and conditions of the contract.

Management's Response

The Commission should include in its Program contracts for deliverables-based information technology services a schedule of remedies and sanctions that defines corrective actions or financial penalties that it may take against a vendor for not complying with the terms and conditions of the contract.

The Commission agrees with this and notes that the contracts reviewed by the State Auditor's Office were from 2010 and 2011, prior to fiscal year 2012 when the Commission added our own terms and conditions, including remedies and sanctions, to DIR-Deliverable Based Information Technology Services (DBITS) Contracts. Our current procedures for DBITS Contracts (dated 9/29/2011) require the participation of both the Office of Legal Services and Procurement & Contracts to develop the contract, which includes the vendor's proposal, the vendor's DBITS contract with DIR, and any items we agreed to during negotiations.

We developed the contracts in question in 2010 and 2011, and in accordance with DIR's requirement we used DIR's contract with the vendor. See Tex. Govt. Code § 2157.068(f) and 1 Tex. Admin. Code § 212.10, which provides in relevant part: "Each state agency, excluding institutions of higher education, must purchase any commodity items that are contained on the list of commodity items in accordance with a contract developed by the department, ..."

Responsible Party: Manager, Procurements & Contracts Section

Target Date: Implemented

The Commission Should Consistently Perform and Document a Needs Assessment for Program Purchases and Obtain Verification and Approval of Exemptions for Certain Purchases

The Commission generally ensured that it (1) made purchases for needed information-technology-related goods and services, staffing services, and deliverables-based information technology services and (2) made those purchases through the Program when required.

However, auditors identified inconsistencies in the Commission's documentation of its needs assessments for certain purchases. In addition, the Commission did not maintain consistent documentation to support that it obtained or met exemptions that allowed it to make information-technology-related purchases outside of the Program.

The Commission should consistently perform and document a needs assessment for Program purchases.

The Commission did not have consistent documentation showing that it performed a needs assessment, including the completion and approval of Commission-required waivers and request forms, for 29 (41 percent) of 70 Program purchases tested. Those 29 purchases totaled \$4.1million. Specifically:

- Auditors tested 30 purchases for Program staffing services that totaled \$4.4 million and identified the following issues for 25 (83 percent) of those purchases that totaled \$3,629,963 :
 - ♦ Twenty purchase orders totaling \$3.4 million for which the Commission did not have completed information technology staffing services request forms.
 - ♦ Twelve purchase orders totaling \$2.1 million for which the Commission did not have approved waivers showing that the Texas Industries for the Blind and Handicapped could not have provided the staffing services.
 - ♦ Six purchase orders totaling \$1,044,371 for which the Commission did not have completed temporary agency placement forms.
 - ♦ Two purchase orders totaling \$265,975 for which Commission did not have documentation of the assumptions and constraints associated with the purchases, including the skills and qualifications needed.

(Purchase orders for which auditors identified multiple issues are included in more than one of the categories discussed above.)

- Auditors tested 10 contracts for Program deliverables-based information technology services that totaled \$4.2 million and identified the following issues for 4 contracts that totaled \$485,120:
 - ♦ Two contracts totaling \$185,120 for which the Commission did not have documentation to support that it had performed a needs assessment.
 - ♦ Two contracts totaling \$300,000 for which the Commission had documentation that it performed a needs assessment but no evidence of management approval.

Not properly documenting and approving needs assessments increases the risk that the Commission could make unnecessary or inappropriate Program purchases.

The Commission did not always have documentation showing that it obtained or met Program exemption requirements that allow agencies to make certain information-technology-related purchases outside of the Program.

Auditors tested 30 purchase orders for information-technology-related purchases that the Commission made outside of the Program and identified 2 (7 percent) purchases for which the Commission did not have documentation showing that it ensured that the Department of Information Resources either approved or allowed the purchase. Those 2 purchase orders totaled approximately \$2.5 million.

The Department of Information Resources allows agencies to make information-technology-related purchases outside of the Program if the purchases meet certain blanket exemptions defined by the Department of Information Resources or if the agencies obtain prior approval from the Department of Information Resources after justifying the need to purchase outside of the Program. See Appendix 3 for more information on blanket exemptions.

Not ensuring that it meets criteria for information-technology-related purchases made outside of the Program increases the risk that the Commission's purchases may not comply with state and Program requirements.

Recommendations

The Commission should:

- Prepare a needs assessment, obtain management approval of the needs assessment, and retain needs assessments and approvals in its records for all Program purchases.

- Complete and retain in its records all waivers, request forms, and other required documents for all Program staffing services purchases.
- Maintain documentation showing that it obtained exemptions from the Department of Information Resources or met blanket exemption criteria for purchases it makes outside of the Program.

Management's Response

Prepare a needs assessment, obtain management approval of the needs assessment, and retain needs assessments and approvals in its records for all Program purchases.

The Commission agrees with the recommendation. We plan to add requirements to an existing field in BAMS and require the data entry of a purchase justification and needs assessment as a requirement. Training will be provided to agency staff explaining the information required in this field. BAMS user documentation will be updated to reflect the changes.

Responsible Party: Manager, Procurements & Contracts Section

Target Date: March 31, 2014

Complete and retain in its records all waivers, request forms, and other required documents for all Program staffing services purchases.

The Commission agrees with the recommendation. Training will be provided; checklists will be revised; and the Guide to Administrative Procedures (GAP) Chapter 2.M. will be updated. TIBH waivers will be required each fiscal year. The revised Contract Workforce form will replace the Temporary Agency Placement form. Procedures will be revised to clarify that the IT Staff Services Request form is not necessary when TCEQ solicits the services in lieu of DIR's soliciting for services. A direct report to the Procurements & Contracts Manager will be monitoring contracts for compliance with these requirements.

Responsible Party: Manager, Procurements & Contracts Section

Target Date: March 31, 2014

Maintain documentation showing that it obtained exemptions from the Department of Information Resources or met blanket exemption criteria for purchases it makes outside of the Program.

The Commission agrees with and has implemented the recommendation. We conducted training on these topics in August 2013 using the agency's GAP Chapter 2.M. to reinforce the requirement of obtaining and maintaining documentation of exemptions. A direct report to the Procurements &

Contracts Manager will be monitoring contracts for compliance with these requirements,

Responsible Party: Manager, Procurements & Contracts Section

Target Date: Implemented

The Commission Identified and Reported New Major Information Resources Projects to the State's Quality Assurance Team as Required

The Commission properly identified and reported 4 new major information resources projects that totaled \$9.2 million to the State's Quality Assurance Team. Texas Government Code, Section 2054.003, defines a major information resources project as any information resources technology project identified in an agency's biennial operating plan for which development costs exceed \$1 million and that:

Business Case and Statewide Impact Analysis

Texas Government Code, Section 2054.303, requires that, for each proposed major information resources project or major contract, an agency must prepare:

- A business case providing the initial justification for the project or contract, including the anticipated return on investment in terms of cost savings and efficiency for the project or contract; and
- A statewide impact analysis of the project's or contract's effect on the State's common information resources infrastructure, including the possibility of reusing code or other resources.

An agency must file the documents with the State's Quality Assurance Team when it files its legislative appropriations request.

- Requires one year or longer to reach operations status;
- Involves more than one state agency; or
- Substantially alters work methods of state agency personnel or the delivery of services to clients; and
- Any information resources technology project designated by the legislature in the General Appropriations Act as a major information resources project.

For each of its four major information resources projects, the Commission developed and submitted a business case and a statewide impact analysis to the Quality Assurance Team as required. (See text box for more information on reporting requirements.)

Management's Response

The Commission agrees with the finding.

The Commission Should Strengthen the Reliability and Security of Data in Certain Information Systems

Auditors reviewed two primary information technology systems and one database that the Commission uses to manage data related to its purchasing, payment, and monitoring of Program purchases processes:

- The Budget, Accounting, and Monitoring System, which is an application that maintains finance and budgeting information related to Program purchases. That system interfaces directly with the Uniform Statewide Accounting System.
- The Purchasing and Contracts Enterprise System, which is an application used to process and approve procurement transactions and maintains contract and purchase order information. That system interfaces with and uses data from the Budget, Accounting, and Monitoring System.
- The Procurement Database, which is an agencywide database that includes procurement data from the Budget, Accounting, and Monitoring System and the Purchasing and Contracts Enterprise System.

Auditors reviewed controls over user access, password security, and change management and determined that the Purchasing and Contracts Enterprise System and the Procurement Database contain adequately designed controls to ensure the data reliability of transactions entered and processed. However, the Commission should ensure that the Budget, Accounting, and Monitoring System has adequately designed controls to ensure the reliability of its data. Auditors also identified certain other weaknesses in the Purchasing and Contracts Enterprise System and the Procurement Database that are summarized below.

The Commission should ensure that purchasing data is accurate and complete.

Purchasing data in the Commission's Budget, Accounting, and Monitoring System was not sufficiently reliable for the purposes of this audit. The Commission was unable to produce a complete and accurate set of data for the purchase order amounts and total payments for its Program purchases from that system.

The Commission asserted that incomplete records and inaccuracies with the data were related to its migration of data from fiscal years 2005 through 2009 into the Budget, Accounting, and Monitoring System when it implemented that system in September 2009. The Commission's inability to ensure the accuracy and completeness of data prior to September 2009 prevented auditors from determining cumulative payments and encumbrances made on Program purchases.

The Commission should strengthen controls to validate the accuracy and completeness of data manually entered into the Budget, Accounting, and Monitoring System.

The Commission should strengthen automated validation controls for procurement transactions in its Budget, Accounting, and Monitoring System to verify purchase amounts, purchase authorizations, and procurement authority, as well as the verification of attached supporting documents.

Instead of having automated validation controls, the Commission relies on manual reviews to verify that transaction coding and data fields for purchases are accurate and complete. Auditors identified records that contained incomplete contract numbers. As a result, there is an increased risk that the Commission may not properly review transactions, that the Commission could report inconsistent payment information, or that data could be modified or deleted without proper authorization.

The Commission should correct certain access control and security weaknesses.

While the Commission has documented procedures for creating user accounts and ensuring the appropriateness of access rights, auditors identified weaknesses in access for one information system and the database reviewed. Specifically:

- Password controls. Auditors identified weaknesses in the Commission's password controls over its Procurement Database. To minimize risks associated with disclosure, auditors communicated the details of those weaknesses separately in writing to the Commission's management.
- User access. The Commission is unable to remove read-only access rights of former employees or employees who no longer need access to the Purchasing and Contracts Enterprise System. That increases the risk that procurement data could be viewed by unauthorized individuals. That risk is partially mitigated by the fact that the Purchasing and Contracts Enterprise System can be accessed only from the Commission's network, which is restricted by separate access controls. However, the risk remains that unauthorized individuals could view confidential vendor and purchasing information.
- Unauthorized accounts. Auditors identified two unauthorized user accounts to the Procurement Database; however, the Commission asserted that those user accounts were not used to inappropriately modify or delete any data in the Procurement Database.

The weaknesses auditors identified increases the risk of inadvertent or unauthorized alteration or deletion of data. In addition, Title 1, Texas Administrative Code, Section 202.25, requires state agencies to ensure that security safeguards for information systems are in place for access rights, the

confidentiality of data and systems, and the authenticity of access for each user.

Recommendation

The Commission should:

- Verify the accuracy and completeness of all historical procurement data for Program purchases that it migrated to the Budget, Accounting, and Monitoring System.
- Implement automated validation controls over transaction coding and data fields in the Budget, Accounting, and Monitoring System.
- Develop, document, and implement processes to help ensure that:
 - ♦ Information system password requirements comply with industry best practices.
 - ♦ User accounts for former employees or employees who no longer need access to the Purchasing and Contracting Enterprise System do not allow access to purchasing data.
 - ♦ It reviews user access to the Procurement Database periodically and immediately deletes any unauthorized user accounts.

Management's Response

Verify the accuracy and completeness of all historical procurement data for Program purchases that it migrated to the Budget, Accounting, and Monitoring System.

The Commission agrees with and has implemented the recommendation. The DBITS contract with payments in excess of contract documentation was an older contract impacted by an incomplete data migration from a legacy system. The issue was corrected with a contract amendment on July 27th. All similar contracts were evaluated and payments authorized do not exceed contract documentation in any other instances. Older contracts have been identified for closer monitoring until such time as the contracts pre-dating the BAMS application expire. These contracts decline in number each year as they expire and are not renewed.

***Responsible Parties: Manager, Procurements & Contracts Section
Manager, Financial Operations Section***

Target Date: Implemented

Implement automated validation controls over transaction coding and data fields in the Budget, Accounting, and Monitoring System.

The Commission agrees with the recommendation. We continue to work on enhancements to both BAMS and PACE to strengthen automated validation without sacrificing our ability to operate a decentralized procurement process. The issues identified were primarily the result of decisions associated with data migration in 2009/2010. One issue identified was incomplete contract numbers. IT Ticket No. 14550 was entered to address incomplete contract numbers. However, the agency will continue to rely on encumbrance auditors at the front-end of the process to verify transaction coding and data fields as well as financial auditors on the back-end to audit documentation for payment purposes.

Responsible Party: Manager, Procurements & Contracts Section

Target Date: March 31, 2014

Develop, document, and implement processes to help ensure that:

Information system password requirements comply with industry best practices.

The Commission agrees with and has implemented the recommendation, The Commission's Budget, Accounting and Monitoring System, Purchasing and Contracts Enterprise System, and its Procurement Database have been migrated to the Oracle 11g database environment and the password controls have been modified to meet industry best practices. Additionally, policies and procedures have been implemented to remove accounts for terminated employees and permissions are reviewed at least once a year for active employees. The Commission believes these actions will minimize the risk of inadvertent or unauthorized alteration or deletion of data and complies with Title 1, Texas Administrative Code, Section 202.25.

Responsible Party: Information Security Officer

Target Date: Implemented

User accounts for former employees or employees who no longer need access to the Purchasing and Contracting Enterprise System do not allow access to purchasing data.

The Commission agrees with and has implemented the recommendation. Procedures are in place to notify the PACE application administrator of terminated employees through the Magic ticket system. The administrator inactivates the roles of terminated employees within PACE, which removes all access to PACE data.

Responsible Party: Manager, Procurements & Contracts Section

Target Date: Implemented

It reviews user access to the Procurement Database periodically and immediately deletes any unauthorized user accounts.

The Commission agrees with the recommendation. The Commission's information owner for the Procurement Database is the Procurements & Contracts Manager in the Financial Administration Division. The information custodian is the Database Administration Team in the Information Resources Division. The Database Administration Team will produce a Procurement Database user access report semiannually and deliver it to the Procurements & Contracts Manager for review and their approval or disapproval of continued access for the users listed. The Database Administration Team will remove all users whose access has been disapproved.

Responsible Party: Manager, Procurements & Contracts Section

Target Date: March 31, 2014

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether selected state entities (1) made purchases through the Information and Communications Technology Cooperative Contracts Program (Program) when required to do so; (2) properly procured the contracts, including negotiating prices and deliverables as appropriate; (3) obtained information technology commodity goods and services as statutorily defined through the Program; and (4) managed and monitored contractors to help ensure that they performed in accordance with the terms of the contracts.
- Determine whether state entities that purchase goods or services through the Program reported related major information resources projects to the Quality Assurance Team as required by law.

Scope

The scope of this audit covered the Commission on Environmental Quality's (Commission) information technology procurements and major information resource projects with a payment during the period from September 1, 2011, through February 28, 2013.

Methodology

The audit methodology consisted of collecting and reviewing procurement and contract documentation and major information resources project documentation; conducting interviews with Commission management and staff; reviewing statutes, rules, Office of the Comptroller of Public Accounts' procurement requirements, and Commission policies and procedures; identifying and collecting information from other reports; and performing selected tests and other procedures.

Sampling

To test compliance with training requirements for staff who perform purchasing duties, auditors obtained from the Commission a list of all staff who performed those duties for information-technology-related purchases. Auditors identified staff who performed contract management functions for

contracts for Program deliverables-based information technology services and tested those staff for compliance with training and certification requirements.

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

- To test compliance with state purchasing and contract management requirements for Program purchases and other information-technology-related purchases that were not made through the Program, auditors used professional judgment to select 30 purchase orders for Program goods and services and 30 purchase orders for Program staffing services for which the Commission made a payment during the audit scope. For Program purchases related to deliverables-based information technology services, auditors selected all 10 contracts identified for which the Commission made a payment during the audit scope. For purchases that were not made through the Program, auditors used professional judgment to select 30 purchase orders for information-technology-related purchases.
- To test processing controls for payments made for Program purchases, auditors used professional judgment to select 114 payments the Commission made during the audit scope.
- To test compliance with reporting requirements for new major information resource projects, auditors used professional judgment to select 14 projects for which the Commission made a payment during the audit scope.

Data Reliability

Auditors assessed the reliability of data in the Commission's purchasing-related systems, including purchasing information in the Budget, Accounting, and Monitoring System. To assess data reliability, auditors:

- Interviewed the Commission's management and staff.
- Reviewed audits of information technology systems, as applicable.
- Reviewed the Commission's user manuals and policies and procedures related to processing and security controls.
- Reviewed user access to certain data.
- Reviewed system password configurations.
- Reviewed change management logs.
- Tested the accuracy of data elements significant to the audit scope.

Auditors determined that procurement data in the Budget, Accounting, and Monitoring System was not sufficiently reliable for the purposes of this audit because the Commission did not have the ability to produce a complete and accurate set of historical data from that system due to issues with the migration of data into that system when it was implemented on September 2009.

Auditors also performed a limited review of the general and application controls over the other information system and the database that the Commission used to manage the purchase of, payment for, and monitoring of Program purchases:

- The Purchasing and Contracts Enterprise System, which maintains contract and purchase order information.
- The Procurement Database, which is an agencywide database that includes procurement data from the Budget, Accounting, and Monitoring System, the Purchasing and Contracts Enterprise System, and other Commission-managed information systems that are not related to purchasing activities.

Auditors reviewed controls over user access, password security, and change management and determined that the system and database had adequately designed controls to ensure the reliability of data entered and processed.

Auditors' assessment of the reliability of vendor payment data from the Uniform Statewide Accounting System for the Commission relied upon prior audit work performed. Auditors determined that vendor payment data from the Uniform Statewide Accounting System was sufficiently reliable for the purposes of this audit.

Information collected and reviewed included the following:

- Vendor payment data from the Uniform Statewide Accounting System.
- Procurement and financial transactions from the Commission's Budget, Accounting, and Monitoring System.
- Quality Assurance Team annual reports.
- Commission and Department of Information Resources policies and procedures.
- Contracts and purchase orders between the Commission and vendors.
- The Commission's *Biennial Operating Plan* and *Information Technology Detail* reports.
- Office of the Comptroller of Public Accounts' list of certified procurement and contracting professionals.

- Office of the Secretary of State business registration records.
- Commission procurement and contract files, including purchase requests, planning documentation, bidder proposals, purchase orders, approvals, and other supporting documentation.
- Commission payment documentation, including vendor invoices, timesheets, approvals, and other supporting documentation.
- Commission user manuals for applicable information systems.
- Commission organizational charts.
- Prior State Auditor's Office reports.
- Commission internal audit reports.

Procedures and tests conducted included the following:

- Interviewed Commission management and staff.
- Reviewed procurements for proper approval.
- Tested whether the Commission's purchases represented actual purchases and whether the Commission adequately supported its purchases.
- Tested whether the Commission obtained exemptions from the Department of Information Resources for purchases it made outside of the Program.
- Tested whether the Commission obtained Program discounts or negotiated better discounts.
- Tested whether the Commission properly documented its best value decisions.
- Tested whether the Commission performed and documented a purchase request and needs assessment, when applicable.
- Tested whether the Commission's purchasers and contract specialists obtained required training and certifications.
- Reviewed conflict of interest statements and nondisclosure agreements, as applicable.
- Tested whether the Commission adequately supported change orders and contract amendments and whether change orders and contract amendments changed the scope of work.

- Tested whether the Commission properly documented bid evaluation criteria and evaluation scores.
- Tested whether the Commission properly documented contracts and included requirements in contracts to help ensure vendor accountability.
- Reviewed contracts, purchase orders, and payments for appropriate support and approval.
- Reviewed the Commission's purchasing and contract monitoring activities.
- Reviewed selected information technology access and security controls.
- Tested whether the Commission properly identified and reported to the State's Quality Assurance Team proposed major information resources projects in accordance with statutory requirements.

Criteria used included the following:

- Texas Government Code, Chapters 2054, 2155, 2157, 2251, 2252, 2166, 2261, and 2262.
- Title 1, Texas Administrative Code, Chapters 202, 212, 216, 217, and 391.
- *State of Texas Retention Schedule*, Section 5.3.077.
- *State of Texas Procurement Manual*.
- General Appropriations Act (82nd Legislature).
- Quality Assurance Team *Policy and Procedures Manual*.
- *State of Texas Contract Management Guide*, Office of the Comptroller of Public Accounts, Version 1.9 (December 2011).
- Department of Information Resources policies and procedures.
- Commission policies and procedures.

Project Information

Audit fieldwork was conducted from June 2013 through August 2013. 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:

- Willie J. Hicks, MBA, CGAP (Project Manager)
- Lauren Godfrey, CIA, CGAP (Assistant Project Manager)
- John Boyd, CIDA
- Jeffrey D. Criminger
- Kels Farmer, MBA, CISA
- Eric Ladejo, MPA
- Bansari Patel, CPA
- Anthony W. Rose, MPA, CPA, CGFM
- Shelby Rounsaville
- Charles Wilson, MPAff
- Dana Musgrave, MBA (Quality Control Reviewer)
- Cesar Saldivar, CGAP, CICA (Audit Manager)

Information on Program Purchases Made From September 1, 2011, Through February 28, 2013

Table 2 summarizes Information and Communications Technology Cooperative Contracts Program (Program) purchases and related payments the Commission on Environmental Quality (Commission) recorded from September 1, 2011, through February 28, 2013.

Table 2

Summary of Commission Program Purchases September 1, 2011, through February 28, 2013			
Type of Contract	Total Number of Program Purchase Orders or Contracts	Total Procurement Amount ^a	Total Payment Amount ^b
Equipment and Services	247	\$5,346,004.10	\$5,543,015.49
Staffing Services	30	4,399,114.97	2,282,517.75
Deliverables-based Information Technology Services	10	6,230,779.50	5,383,914.88
Purchases Made Outside of the Program	243	28,548,654.28	14,896,459.77
Totals	530	\$44,524,552.85	\$28,105,907.89
^a This was the total amount of the initial encumbrance in the Commission's Budget, Accounting, and Monitoring System as of July 22, 2013. ^b This was the total amount of payments from the Commission's Budget, Accounting, and Monitoring System related to the Program purchases identified by auditors. See Chapter 7 for concerns auditors identified regarding the reliability of payment data from the Budget, Accounting, and Monitoring System.			

Source: The Commission's Budget, Accounting, and Monitoring System.

Blanket Program Exemptions for Certain Information-technology-related Purchases

The Department of Information Resources established blanket exemptions for certain information-technology-related purchases that agencies are not required to make through the Information and Communications Technology Cooperative Contracts Program (Program). If an agency decides to purchase an information-technology-related good or service under a blanket exemption, it must make the purchase in accordance with the exact scope, terms, and requirements specified in the blanket exemptions. Table 3 lists the Department of Information Resources' blanket exemptions as of February 2013.

Table 3

Blanket Exemptions from the Program	
Exemption	Description
Emergency Procurement Exemption	State agencies are granted an exemption from the requirement to purchase information-technology-related goods and services through a Program contract if a situation arises in which compliance with Section 2157.068, Texas Government Code, and/or Title 1, Texas Administrative Code, Chapter 212, is impractical or contrary to the public interest, and an emergency procurement is warranted to prevent a hazard to life, health, safety, welfare, or property or to avoid undue additional cost to the State. The scope and duration of the purchases shall not exceed the duration of the emergency.
Critical Need Exemption	State agencies are granted an exemption from the requirement to purchase information-technology-related goods and services through a Program contract if an unforeseeable circumstance occurs that requires immediate attention, but does not qualify as an emergency procurement as defined in Title 1, Texas Administrative Code, Section 113.2(21). This exemption is for procurements not to exceed \$1,500 and that are necessary to restore operation or to correct severely impaired operations due to an equipment failure.
Texas Industries for the Blind and Handicapped Set-aside Exemption	State agencies are granted an exemption from the requirement to purchase information-technology-related goods and services through a Program contract if those items are offered in the Texas Industries for the Blind and Handicapped catalog as a product that is set aside from competitive bidding and offered through a Texas Procurement and Support Services term contract.
Outsourced Deliverables-based Projects	Information-technology-related services do not include deliverables-based, outsourced systems integration or application development projects greater than \$10 million. Therefore, state agencies are granted an exemption from the requirement to purchase through a Program contract when purchasing these types of services when greater than \$10 million.
Minimum Threshold Procurements	State agencies are granted an exemption from the requirement to purchase information-technology-related goods and services through a Program contract for procurements not to exceed \$250.

Blanket Exemptions from the Program	
Exemption	Description
Seat Management Lease Established Prior to September 1, 2005	An exemption for a seat management agreement established prior to September 1, 2005, is valid through the initial term of the agreement, but no extensions or renewals are allowed.
Technology Lease Established Prior to September 1, 2005	An exemption for a hardware or software lease established prior to September 1, 2005, is valid through the initial term of the agreement, but no extensions or renewals are allowed.
Computer/Office Accessories and Consumables Exemption through August 31, 2013	State agencies are granted an exemption for certain computer/office accessories and consumables.
Software Maintenance Exemption through August 31, 2013	State agencies are granted an exemption for certain software maintenance if the software maintenance is proprietary or is not available from one of the contracted vendors listed on the Department of Information Resources' software Web site.
Training Services Exemption through August 31, 2013	State agencies are granted an exemption for certain training services if the training is not available from one of the contracted vendors listed on the Department of Information Resources' training Web site.
Subscription Services Exemptions through August 31, 2013	State agencies are granted an exemption for certain database subscription service not offered under any current Program contract.
Job Posting Services Exemptions through August 31, 2013	State agencies are granted an exemption for certain Internet job posting not offered under any current Program contract.
Accessibility-Related Commodity Items and Services Exemption through August 31, 2013	State agencies are granted an exemption for assistive technology hardware, software, and related services as set forth below. This exemption is valid only when the product or service does not exist on a Program contract and is for the use and benefit of consumers or staff that are blind or visually impaired. This exemption will include licenses for assistive software if the publisher is not listed on a Program contract.
Telecommunications Services Exemptions through September 30, 2013	State agencies are granted an exemption for the procurement of telecommunications services that are not a part of Tex-AN or the Capitol Complex Telephone System.

Source: The Department of Information Resources.

Related State Auditor's Office Work

Related State Auditor's Office Work		
Number	Product Name	Release Date
14-007	An Audit Report on the Information and Communications Technology Cooperative Contracts Program at the Department of Information Resources	October 2013

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

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

Commission on Environmental Quality

Members of the Commission on Environmental Quality

Dr. Bryan W. Shaw, Chairman

Mr. Toby Baker

Mr. Zak Covar, Executive Director



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