A Legislative Summary Document Regarding

Department of Information Resources

State Auditor's Office
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State Auditor

State Auditor's Observations

The Department of Information Resources (DIR) should strengthen its efforts to protect the State's financial interest in TexasOnline, the e-government Web portal for the State of Texas. Implementing a formal contract monitoring process would enable DIR to ensure that the TexasOnline contractor makes necessary adjustments to its financial reports, provides accurate and useful financial and performance information, and complies with the terms of the contract.

The Quality Assurance Team reports that DIR completed the TEX-AN 2000 project at a cost of $5,802,939 and the TEX-AN III project at a cost $15,956,000.

**Prepared for the 78th Legislature
by the State Auditor's Office**

Department of Information Resources

Key Findings from Previous Audits and Reviews

A Review of Implementation of Sunset Advisory Commission Management Actions at 13 State Agencies

(Report No. 02-067, August 2002)

The Department of Information Resources partially implemented one of its three management actions. The two remaining management actions were fully implemented.

An Audit Report on the Accuracy of the Fiscal Year 2001 Balance Sheets for the State's Telecommunications Systems

(Report No. 02-045, May 2002)

The General Services Commission (GSC) provided inaccurate balance sheets for the State's telecommunications systems to the Department of Information Resources (DIR) when these systems were transferred from GSC to DIR on September 1, 2001. The total net combined equity of the Texas Agency Network (TEX-AN) and the Capitol Complex Telephone System (CCTS) was understated by at least $5.3 million on GSC's fiscal year 2001 internal balance

Status of Audit Recommendations as of November 30, 2002 (unaudited)	
DIR has reported the following:	
Implemented	3
Partially implemented	1
Total recommendations	4

sheets for these two systems. GSC was abolished effective September 1, 2001, and the newly created Texas Building and Procurement Commission (TBPC) subsequently assumed most of its responsibilities.

Although nothing came to our attention indicating that funds were missing from the State's telecommunications programs, the significant accounting errors we identified demonstrate that it is critical for both TBPC and DIR to take corrective action to address these issues. While TEX-AN and CCTS were transferred to DIR when TBPC was created, it is important for TBPC to correct its accounting problems because it has a number of other cost recovery programs. Likewise, by making the recommended accounting adjustments, DIR will have an accurate starting point from which to manage TEX-AN and CCTS.

This $5.3 million understatement we identified is the sum of two sets of errors. These errors unnecessarily complicated the transfer of the management of TEX-AN and CCTS to DIR. Therefore, DIR's ability to make timely management decisions regarding TEX-AN and CCTS was limited because of uncertainty about the accuracy of the financial data GSC provided.

The errors in the TEX-AN balance sheet also impaired GSC's ability to manage this program as a cost recovery program. The adjusted TEX-AN balance sheet shows that GSC financed TEX-AN's reported loss of $9.5 million in fiscal year 2001 largely by spending cash left over from fiscal year 2000. After sustaining the $9.5 million loss, TEX-AN still had a net equity (the amount by which assets exceed liabilities) of $2.1 million at the end of fiscal year 2001.

Project delays, poor vendor performance, and GSC management decisions associated with an upgrade to TEX-AN telecommunications systems were major contributing factors in TEX-AN's fiscal year 2001 $9.5 million loss. DIR is aware of these vendor performance issues and its responsibility for ensuring that these telecommunications systems and vendor contracts are appropriately managed. These system upgrade problems resulted in additional expenditures of $12 million and reduced revenues by $3.9 million in fiscal year 2001. Additional causes for this loss included:

- The lack of effective cost accounting systems, which made ongoing monitoring of costs difficult.

- Failure to identify services the State no longer uses and have vendors disconnect these services, despite the fact that staff positions to perform these tasks existed but were not filled.

- Lack of adequate systems to ensure that TEX-AN customers reimbursed GSC for all charges GSC paid to vendors.

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An Audit of the Department of Information Resources' TexasOnline Contract

(Report No. 02-031, March 2002)

The Department of Information Resources (DIR) should strengthen its efforts to protect the State's financial interest in TexasOnline, the e-government Web portal for the State of Texas. Implementing a formal contract monitoring process would enable DIR to ensure that the TexasOnline contractor makes necessary adjustments to its financial reports, provides accurate and useful financial and performance information, and complies with the terms of the contract. The TexasOnline contractor provided fiscal year 2000 and 2001 financial reports to DIR that contained inaccuracies and were not as useful as they could have been. This increases the risk that the contractor could overcharge the TexasOnline project. It also could unnecessarily delay the point when the contractor recovers its investment. On September 1, 2001, the State began receiving 10 percent of TexasOnline gross revenue.

Status of Audit Recommendations as of November 30, 2002 (unaudited)	
DIR has reported the following:	
Implemented	11
Partially implemented	1
Factors delay implementation	1
Total recommendations	**13**

Some key facts and findings are as follows:

- Expenditures on the contractor's financial reports were overstated by at least $202,935 and possibly by as much as $436,000. Revenue was overstated by $98,636. Before adjustments, TexasOnline's state-related expenditures and revenue since inception total $11,136,978 and $1,538,360, respectively.

- DIR must implement a formal contract monitoring process to ensure that the TexasOnline contractor complies with the contract and the contract renewal agreement. On February 9, 2002, DIR executed a contract renewal agreement that addressed the contract weaknesses we identified during our audit.

- TexasOnline software (valued at $1.1 million) may not be transferable to the State upon termination of the TexasOnline contract without additional cost. The contract renewal agreement gives the TexasOnline contractor an extension until August 31, 2002, to amend the TexasOnline software licenses.

- Tests of the TexasOnline revenue process at the Real Estate Commission indicated that revenues are processed accurately and that transactions are completed successfully for that agency.

A Review of State Entities' Quality Assurance Procedures

(Report No. 02-319, February 2002)

There are several ways to improve project management of application development projects at state entities. This includes certain changes the Department of Information Resources (DIR) can make to its guidance and services. These changes include the following:

Status of Audit Recommendations as of November 30, 2002 (unaudited)	
DIR has reported the following:	
Partially implemented	1
Factors delay implementation	4
Total recommendations	**5**

- Make it easier for entities that are not developing applications to comply with the Information Resource Management Act.

- Exempt low-cost, low-risk projects from implementing quality assurance (QA) procedures.

- Clarify which processes are the most critical elements of QA procedures.

- Create ready-made QA procedures for small, lower-risk projects.

- Determine why entities are not using DIR's services and resources.

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An Audit Report on 19 Agencies' Compliance With Historically Underutilized Business Requirements

(Report No. 01-035, August 2001)

For fiscal year 2000, the Department of Information Resources (DIR) did not fully comply with historically underutilized business (HUB) requirements in Texas Administrative Code (TAC), Chapter 111, and Texas Government Code, Chapter 2161. However, we determined that the Department made a "good-faith effort" to comply with HUB requirements.

Results of Entity Compliance With Historically Underutilized Business (HUB) Requirements – Fiscal Year 2000				
Compliance Requirement				Did the Entity Make a "Good-Faith Effort"? [b]
Planning	Outreach [a]	Reporting	Subcontracting	
No agency HUB rules (Texas Government Code, Section 2161.003)	No material noncompliance	Under-reported number of bids submitted and number of contracts awarded (TAC, Section 111.16) No monthly reports (TAC, Section 111.16)	No material noncompliance	Yes

[a] Most of the agencies had not developed and implemented a mentor protégé program during fiscal year 2000. Of the HUB requirements, the mentor protégé program requirement had the latest effective date (June 2000). The agencies indicated there was not enough time to design and implement the program in the last quarter of the fiscal year.

[b] The State Auditor's Office, in consultation with the General Services Commission, determined that an entity did not make a "good-faith effort" if it had noncompliance in at least three of the four basic HUB areas: planning, outreach, reporting, and subcontracting. (The General Services Commission was abolished effective September 1, 2001, and the newly created Texas Building and Procurement Commission subsequently assumed most of its responsibilities.)

Status of Corrective Action: In December 2002, DIR reported that it had implemented all three of the recommendations we made in this report. This information has not been audited.

Quality Assurance Team Reviews   Conducted by the Legislative Budget Board and State Auditor's Office

Completed Projects   *Quality Assurance Team Annual Report – January 2003*

The Department of Information Resources (DIR) completed the TEX-AN 2000 project at a cost of $5,802,939 on June 14, 2002. The initial budget was $27,000,000, and the initial completion date was August 31, 2000.

DIR completed the TEX-AN III project at a cost of $15,956,000 on June 14, 2002. The initial budget was $14,350,000, and the initial completion date was April 30, 2002.

DIR completed the Texas Orthoimagery Project at a cost of $11,264,728 on August 31, 2001. The initial budget was $4,858,296, and the initial completion date was December 31, 1997.

Completed Projects   *Quality Assurance Team Annual Report – January 2002*

DIR completed the Texas E-Government Framework project at a total cost of $386,923.

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DIR canceled the E-Procurement (TxG2B) Project at a total cost of $0. The E-Procurement Project started at the General Services Commission and transferred to the Department of Information Resources where it was considered a cancelled project at that time of the QAT 2001 Report. In the past year, the project was reinstated at DIR and included in their Biennial Operating Plan at the request of the QAT. The project currently does not meet the requirements for Quality Assurance Team monitoring but remains under review for monitoring. Once the vendor selection is made and a project plan developed the QAT anticipates the project exceeding threshold at $1 million dollars and qualifying for QAT oversight.

Telemanagement System — The Department of Information Resources began working on the project in September 2001, after the project was transferred from the General Services Commission. (The General Services Commission was later abolished and the newly created Texas Building and Procurement Commission assumed most of its responsibilities.) The project objective is to implement a telemanagement system to provide enhanced process control as well as asset, resource, and financial management. Current expenditures for this project are $738,698.

Project	Function	Initial Budget	Current Budget	Budget Change	Initial End Date	Current End Date	Time Change
Telemanagement	Enhance management processes	$2,568,919	$3,633,725	$1,064,806	09/01/98	10/31/02 [a]	50 months
[a] Confirmation of project completion is pending.							

Information System Vulnerability Assessments

The Department of Information Resources had a contractor perform an information system vulnerability assessment on their automated systems between January 2000 and November 2002. Detailed results of this work are confidential under Texas Government Code, Section 2054.077(c). The SAO's Legislative Summary Document titled "Information System Vulnerability Assessments" provides general information about the results of information system vulnerability assessments.

Travel Expenditures

Travel Expenditures by Appropriation Year (unaudited)			
	2000	**2001**	**2002**
In-State Travel	$ 26,005	$ 37,306	$ 75,910
Out-of-State Travel	39,267	38,091	32,472
Foreign Travel	(1,090)	0	0
Other Travel Costs	(385)	0	73
Total Travel Expenditures	**$ 63,796**	**$ 75,397**	**$ 108,454**
Limit on Travel Expenditures (Cap)	114,850	114,850	53,411 [a]
Expenditures in Excess of Cap	**$ 0**	**$ 0**	**$ 0**
[a] Caps apply to total travel in appropriation years 2000 and 2001, but caps apply only to out-of-state travel and foreign travel in appropriation year 2002. Caps, calculated by the Comptroller of Public Accounts, have been adjusted for any increases requested by the DIR and approved by the Legislative Budget Board in accordance with the General Appropriations Act.			

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Source: Uniform Statewide Accounting System (USAS) as of November 30, 2002. Amounts are subject to change as agencies continue to record additional expenditures or adjustments.