



Transforming How Texas
Government Serves Texans



An Audit Report on Cooperative Contract Program Late Fees

Texas Department of Information Resources
Report No. 20-106

August 12, 2020

Executive Summary

The Texas Department of Information Resources (DIR) could improve its processes to consistently assess and collect fees from Cooperative Contracts (COOP) Program vendors who submit late sales reports. According to data we reviewed from January 2018 to December 2019, DIR assessed \$42,800 in late fees but could have potentially assessed \$179,000 in late reporting fees. Consistently collecting late fees from vendors could encourage vendors to submit sales reports on-time and reduce the burden on contract managers to follow up with vendors who fail to submit a timely sales report. In addition, the COOP program could improve vendor training and communication to ensure vendors submit their reports on time and DIR conducts an internal user access review to the Vendor Sales Reporting (VSR) portal system. The COOP program staff are already implementing some of the recommendations in the report.

Summary of Issues	
Issue	Ranking
DIR should consistently assess and collect late fees from Cooperative Contracts Program vendors	Medium
DIR could improve vendor training and communication to ensure vendors submit their reports on time	Low
DIR should periodically review employee access to the VSR portal to ensure DIR users have appropriate access	Low
<p>Issue Ratings</p> <p>Low: Issues identified do not present significant risks.</p> <p>Medium: Issues identified present risks that if not addressed, could moderately impact DIR.</p> <p>High: Issues identified present risks that if not addressed, could substantially impact DIR.</p> <p>Priority: Issues identified present risks that if not addressed, could critically impact DIR.</p>	

Background

The COOP Program was established in 1992 as a cooperative purchasing program designed to maximize state purchasing power of information technology (IT) commodities. In 2005, the 79th Texas Legislature required state agencies to use DIR contracts to purchase IT commodities, and authorized DIR to collect up to a 2% administrative fee based on vendor sales to defray the cost of managing the program.

Vendors who participate in the program must submit a detailed monthly report to DIR showing the dollar volume of all sales under each contract. Administrative fees are calculated based on the total sales reported. If the vendor submits three reports or administrative fee payments late within any rolling 12-month period, DIR may collect late fees of \$100 per day for each day the report or payment is late, up to \$1,000 per month.

Objective, Scope, and Methodology

The objective of this audit was to determine whether late fees were being collected consistently and according to the contract provisions. The scope of this engagement was from January 2018 through December 2019. We analyzed data from the VSR Portal, Salesforce contract records, Centralized Accounting and Payroll/Personnel System (CAPPS) financials, and a report of approved and waived late fees. We also interviewed staff and reviewed contract documents, the contract management guide, and vendor orientation/training materials.

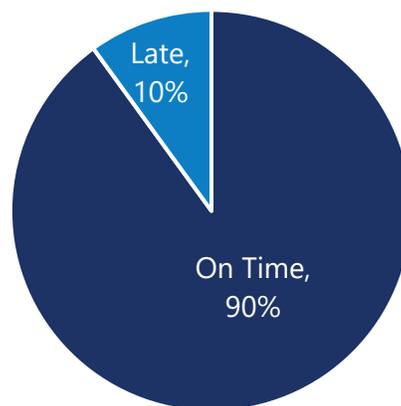
This engagement was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Detailed Results

The internal audit team reviewed information on vendor sales reports from January 2018 through December 2019. Late reports make up only 10% of reports submitted during the audit period.

Overall, vendors submitting zero-dollar sales reports were more likely to submit their reports late and made up the largest number of contracts with late fees. Of the 10% of late reports for the audit period, 62% reported zero sales. Of the 19,466 vendor sales reports submitted over the two years, 47% were zero-dollar sales reports.

All Submitted Reports 2018-19



One of the purposes of the COOP Program is to offer state agencies and other Texas governmental agencies a broad range of competitively procured contracts which provide IT products or services from which to choose. However, the number of contracts with no sales that are also submitting late vendor sales reports may add additional work for contract managers with no benefit to the state.

Late Reports 2018-19



DIR should consistently assess and collect late fees from Cooperative Contract Program vendors

Assessing Late Fees

Vendors who participate in the program must submit a detailed monthly report to DIR showing the dollar volume of all sales under each contract. Reports for the previous month's sales are due on the 15th day of each month or the next business day if the 15th day falls on a weekend or holiday. Administrative fees are calculated based on the total sales reported and are due to DIR on the 25th calendar day of the second month following the date of the reported sale. If the vendor submits three reports or administrative fee payments late within any rolling 12-month period, DIR may collect late fees of \$100 per day for each day the report or payment is late, up to \$1,000 per month.

February 1-17: Vendors are required to upload a report of their January sales before the 15th of the month.

February 18 - March 10: Contract Services performs data validation, Contract Managers approve or waive late fees, revenue report is produced

March 10 -31: Finance enters administrative and late fees into Capps and obtains approvals prior to posting.

March 25th: Vendor admin fee payment is due

Vendors begin receiving late report reminders the day after their report is due (typically the 16th). These notices continue to go out daily until the report has been received. In order for the VSR Portal to begin assessing late fees on a contract, contract managers need to activate the Sales Report Compliance Language (SRCL) checkbox in Salesforce. The COOP Contract manual requires contract managers to activate the SRCL during the annual review for renewal (see text box) and continue to monitor a rolling 12-month period thereafter. This is a manual process and left to the contract managers' discretion.

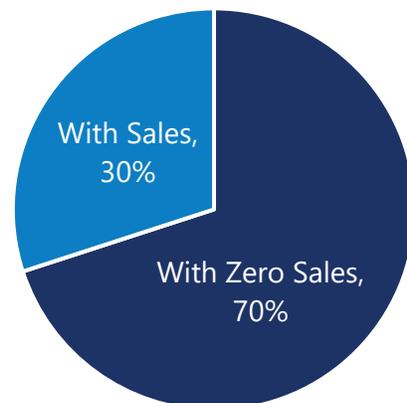
If late three times during the first twelve months or during any rolling twelve-month period thereafter, during annual review for renewal, inform the vendor the Late Fee will be activated.

Source: Section 5.50 Contracts Management Procedures, Revised 07/2019

Currently, contract managers do not receive any formal training but receive on-the-job training as needed to assist vendors with the reporting process or when the SRCL language should be activated. As a result, some vendors with contracts that should have been charged a late fee in the VSR Portal were not charged. Of the 236 contracts that had at least three late reports submitted within a 12-month rolling period within the audit scope, 48% did not have the SRCL activated in Salesforce.

According to the VSR Portal, \$42,800 in late fees were assessed during the scope of the audit. This number includes \$11,000 in late fees that were assessed by the VSR Portal but were not picked-up during the closing process because of the date the report was received (see Communication below). Of the late fees that were assessed, 70% were from zero-dollar reports.

Total Late Fees Assessed 2018-19



Collecting Late Fees

Once all sales reports are received for the reporting month, Contract Services produces a list of contracts with late fees and forwards to the appropriate contract managers for review. As part of their review, the contract manager can request the fees be waived. Contract managers do not have to provide a reason for late fee removal and management approval is not required. Also, the COOP Contract Management Procedures do not contain instructions or criteria on when it is appropriate to waive late fees.

According to data we reviewed, DIR assessed \$42,800 in late reporting fees within the scope but could have potentially collected \$176,900. Calculations for the amount of late payment fees that could have been assessed were not performed because it is more difficult to determine. A random sample of 30 contracts with assessed late fees was tested to determine how many of

those vendors paid the additional fee on time. Of the sample, six vendors (30%) paid their late fees on time, 12 vendors (60%) paid the fees late, and two vendors (10%) have not paid the late fee as of the time the sample was tested.

Recommendations:

1. Improve contract manager training to ensure an overall understanding of vendor sales reporting and late fee expectations outlined in the COOP Contract Management Procedures Manual.
2. Consistently activate the SRCL and consider automating the process for activating the SRCL when certain conditions are met.
3. Create a formal process and criteria for waiving late fees.

Management Responses and Implementation Dates

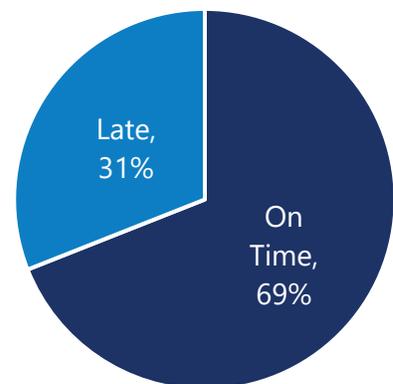
1. The Chief Procurement Office (CPO) is in the process of a Business Process Reengineering (BPR) project and will be addressing this recommendation as a part of the project. Estimated implementation date: January 2021
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DIR could improve vendor training and communication to ensure vendors submit their reports on time

Training

According to the COOP Contracts Management Procedure manual, new vendors receive in-person or conference call orientation sessions using a standard agenda. Online training is also available through a series of videos and handouts; however, these videos have not been updated since June 2017. There is not a simple handout or manual to provide to vendors to ensure they understand the sales reporting process. The department is currently working on releasing a draft of this type of manual.

**New Contracts:
First Report Submitted**



Without adequate training and guidance, vendors may be more likely to submit late reports. A random sample of new contracts was tested and found that 31% of the new contracts in the sample submitted their first report late.

Communication

Vendors submit monthly sales reports by uploading a spreadsheet template to the VSR Portal and the data is stored in the data warehouse. At the end of each calendar month, Contract Services staff perform data checks to ensure all data received was uploaded into the data warehouse properly. Once these validations have been completed, an email is sent to the vendor and contract manager providing the amount of the administrative and late fees, if applicable, with a reminder of when the administrative fee is due. The subject line of this email is vague and could be confusing to the vendor (ex. DIR Has Closed Reporting Period for 202006).

Vendors are required to submit a sales report every month for the duration of the contract regardless of any temporary status of "Amendment Pending" or "Suspended" assigned to their contract. The VSR Portal does not send automated reminders for late reports when a contract is in either of these statuses. Once the contract is placed back in "Active" status, if the vendor neglected to submit the required sales reports, they would be unable to upload the current report until a zero-dollar report has been uploaded for each missed period. These back reports are assessed late fees totaling \$1,000 per report in the VSR Portal. The vendor does not receive notification of the late fees during the time they spend in either "Amendment Pending" or "Suspended" status and the late fees are not being entered into the CAPPs financial system. However, if the vendor logs into the portal to review their report status, the \$1,000 late fee shows as due which could result in the vendor paying a late fee that was not assessed thus creating an unexplained credit in the CAPPs financial system. The audit revealed six contracts (11 reports) where this occurred and one instance where the vendor paid the \$1,000 late fee resulting in an unexplained overpayment in CAPPs.

All email correspondence coming into or going out of the VSR Portal is sent to the DIR Sales email box. Once the reporting process has been completed, these emails are moved to an employee's email file. As a result, if a vendor requests a copy of any of their portal or closing notifications, the only person that can access those records is the staff that administers the VSR Portal email.

Recommendations:

1. Continue developing the current vendor training by providing a training manual with instructions on how to upload sales reports to the VSR Portal and how to submit administrative fee payments.
2. Notify vendors with contracts in Suspended or Amendment Pending status if they failed to submit a sales report on time.
3. Change the subject line of the email notification to indicate final administrative fees and contract number.

4. Include all reports submitted during the month to capture any zero-dollar reports that may have been submitted for prior months.
5. Consider creating a centralized location where documentation can be kept and is accessible when needed.

Management Responses and Implementation Dates

1. CPO is in the process of developing a vendor manual. Estimated due date of January 2021
2. CPO is researching the technical changes that would need to be implemented to facilitate the late report notices for contracts that are in one of these statuses. Changes to IT applications may or may not be able to be implemented using the current technology. Estimated implementation date: March 2021.
3. CPO has developed a new "Admin Fee Payment Due" email and is being submitted to IT for a level of effort estimate to implement it. There are technical limits to the format that can be used. Our goal is to give it the look and feel of an invoice to catch the vendor's attention better. In addition to revising the admin fee email, CPO has added a new vendor contact field to Salesforce to capture the vendor's accounts payable contact email with the plan to add that contact to whom the admin fee due email is sent. Implementation: Field has been added, as contract managers interact with each contract the contact information is requested. A notice was sent out in the vendor newsletter July 2020 to direct vendors to a DIR contact to capture and enter the contacts. – Estimated Implementation: January 2021
4. CPO is researching the system processes that affect the report submission focusing on the reporting of past month reports and any late fees that may be associated with them. Estimated implementation: March 2021
5. CPO will address this finding as a part of the BRP project. Estimated implementation date: January 2021

DIR should periodically review employee access to the VSR Portal to ensure DIR users have appropriate access

A list of users with access to the VSR Portal was reviewed and revealed instances of internal DIR and administrative users who are no longer employed with DIR or have transferred to other roles within DIR and no longer require access.

Recommendations:

1. DIR should perform a periodic review of access to the VSR Portal and remove employees no longer employed by DIR and those whose roles have changed and no longer require access to perform their jobs.

Management Responses and Implementation Dates

1. CPO entered a ticket to update the current list and remove names that no longer need access to the VSR. – Completed, DIR ITS should address the periodic reviews of access as a part of their processes.