

eGovernment Division  
Chief Operations Office

# Texas.gov Process Audit

## Internal Audit Report 12-201

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## Executive Summary

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This report provides the details of the audit of the Texas.gov program in the eGovernment Services Division of the Texas Department of Information Resources (DIR). This audit was part of the Fiscal Year 2012 Internal Audit Plan approved by the DIR Board. The purpose of the audit was to examine processes related to the monitoring of the contract with the Texas.gov vendor (Texas NICUSA, LLC), examine improvements to contract provisions, review the verification of the State's share of revenue from the program and examine how Texas.gov fees are determined.

The scope of the audit included a review of the fiscal year 2012 Texas.gov program including the team's procedures for financial and operational monitoring; reviews of the contracts, the renewals, and the amendments for Texas.gov (for both the previous contract and the current contract); and walkthroughs of various processes including the operating steps for revenue verification and fee determination.

The objectives of the audit were to determine if the program is effectively monitoring vendor performance, managing contract disputes, and monitoring contract financial information. Additionally, we examined the contract provisions to determine if there were strong provisions in place to protect the State's financial interest in Texas.gov. We also determined if the accuracy of the State's share of revenue was being verified and how the program's fees are determined.

We conducted this 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 audit revealed that there were written well-structured procedures being used and other procedures in development. There is extensive and ongoing monitoring of the contract occurring, both on the operational side of the program and the financial side of the program. The operational monitoring is performed by the Texas.gov team while the financial monitoring is performed by the DIR Finance Division. The current contract with the vendor, the Master Agreement, has a number of provisions now in place to better protect the State's financial interest. An examination of the fees development process indicated that there are processes in place to review and approve the Texas.gov fees, including reviews by committees and written procedures for fee review and approval. Ultimately, the fees are approved by the DIR Board and they are tracked by the Texas.gov team.

To better understand the revenue percentages currently due to the State as part of the contractual agreements with the vendor, we examined Texas.gov contracts, contract amendments, and renewals, and worked with the DIR Budget Analyst and the Texas.gov

Contract Manager. We then created a Revenue Reference Table. (More detail can be found on the Revenue Reference Table in Attachment 2).

Although we noted a number of areas with good internal controls, we made recommendations as follows:

- The DIR and the vendor should address problems with the vendor-generated reports and look for ways to have the vendor implement better quality control of the reports before they are released to DIR.
- The Texas.gov team should consider purchasing data analysis software to use in their reviews of the vendor-generated contractual plans and reports.
- Texas.gov management should consider implementing an approval level of contract reports examined and worked by staff.
- The Texas.gov team should consider creating a Renewals and Amendments Reference Table to help track changes to the contracts.
- At least two people should be trained on the revenue verification process to ensure a legacy and to have a back-up to the primary reviewer. We also recommend that there a Preparer and Reviewer function be implemented as soon as possible, regarding the verification of the State's share and the monitoring of the Texas.gov financial reports. We recommend that the verification and report monitoring be set up as tasks in Salesforce to document and track that the Preparer and the Reviewer have completed their monthly tasks.
- The State's share verification procedures should be further reviewed and refined to provide the needed detail to guide a reviewer through the verification process.
- The DIR Finance Division should meet with the vendor and consider additional steps to monitor and provide oversight of Texas.gov revenues and expenses including receipts from local funds.
- A footnote or other notation should be added on the Workflow illustration in the Master Agreement to provide more transparency into the segment of funds not flowing through Uniform Statewide Accounting System (USAS). Also, we recommend adding a step, which describes the vendor's receipt of the local funds, to the Financial Processing Procedures in the Master Agreement, to provide more clarity on the local funds issue.
- The DIR, the Texas Comptroller of Public Accounts (Texas CPA), and the Texas.gov vendor should revisit the process for collecting and accounting for Texas.gov revenues and expenses including subscription fees.
- The Texas.gov team should complete, review, and approve the Standard Operating Procedure (SOP) on fee determination and approval.

## Introduction

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An internal audit of the Texas.gov program was included in the 2012 audit plan that was approved by the DIR Board of Directors. The State Auditor also performed an audit of Texas.gov in 2005, during which they found that the DIR should place greater emphasis on monitoring the Texas.gov (then, TexasOnline) contract, and establish specific contract provisions in future contracts to better protect the State's financial interest in the program. In addition, the Texas.gov program was included in the Sunset Review process in 2010.

Internal Audit wishes to thank the Texas.gov team, the Office of the General Counsel, the Enterprise Contract Management Section, and the Chief Financial Office for their time and cooperation during this audit.

## Objective, Scope, and Methodology of Work

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The objectives of this audit were to:

- Determine if the program is effectively monitoring vendor performance, managing contract disputes, and monitoring contract financial information.
- Determine if there are strong contract provisions in place to protect the State's financial interest in Texas.gov.
- Determine if the accuracy of the State's share of total revenue is being verified.
- Review the program's fee methodology to examine how fees are determined.

The scope of the audit covered a review of the current Texas.gov contract (called the Master Agreement) and financial and operating processes, policies, and procedures during fiscal year 2012. However, a review of the previous contract (called the Texas Electronic Framework Agreement or TEFA), renewals, and amendments dating back to 2000 was also performed in order to obtain a comprehensive perspective of the current program and contract provisions. We also reviewed the Master Work Order Agreement (Master Work Order or MWO) which is an attachment to Amendment 10 of the TEFA that describes the terms and conditions for certain Texas.gov projects. The audit also included an overview of the fee determination process that is managed by the Texas.gov team.

The audit methodology consisted of reviewing the Texas.gov policies and procedures; reviewing prior State Auditor's Office reports on Texas.gov; interviewing the management and staff of the Texas.gov team, the Enterprise Contract Management Section, the General Counsel Division, and the DIR Finance Division who are involved in contract management, financial monitoring, and fee determination and tracking; collecting and reviewing documents, testing samples of customer agreements and financial report calculations; conducting walk-throughs of processes;

observing the monitoring of performance criteria; analyzing and documenting processes and spreadsheets; and examining associated supporting documentation.

## Background

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Texas.gov is the electronic internet portal for the State of Texas. Governed by Texas Government Code Chapter 2054, Subchapters F and I, the portal serves both State and local governments and offers over 1,000 services online to citizens and businesses. Operated as a self-funded program, the portal generates revenue from fees charged to users and from development and hosting fees. The program was developed as a public-private partnership and the State and the private partner (vendor) share the revenues generated. As the public partner, DIR provides contract management, operational oversight and coordination. As the private partner, the vendor funds and provides the operation and management of all website activities. The State's share of the revenues generated is deposited into the state General Revenue fund. None of the revenue generated goes directly to DIR.

Examples of services that citizens and businesses may access online through Texas.gov include:

- Driver license renewals and vehicle registration renewals
- Vital records such as birth, death, and marriage certificates
- Utility bill payments
- Occupational license renewals such as doctors' licenses, plumbers' licenses, accountants' licenses
- State licenses and permits such as hunting and fishing licenses

DIR and the vendor are continuously working with customer agencies to develop new applications. Some of the more recent applications include those for vehicle inspection stations, concealed handgun licenses, and public information requests.

According to the Texas.gov website, the program was created through a public-private partnership in 2000. Texas.gov has more than 1,000 online services for more than 100 publicly funded customers. Since its beginning in 2000 to September 2012, Texas.gov had:

- Almost 210 million site visits
- Processed over 168 million financial transactions
- Collected over \$23 billion on behalf of participating entities
- Contributed over \$110 million to the Texas State Treasury.

Since the origin of the portal, there have been changes in the private partners (vendors) and in the contracts. In 2000, the original contract with the vendor was called the Texas Electronic Framework Agreement. It had two renewal agreements and a number of amendments. One of the more significant amendments, Amendment 10, generated what is called the Master Work Order. Some Master Work Order Projects are still ongoing and they operate under the contractual terms and business model of the TEFA. The current contract, called the Master Agreement, began in January 2010 and the initial term runs through August 31, 2016. Previously called TexasOnline, the portal was officially rebranded as "Texas.gov" in June 2010.

The Texas.gov team is a part of the eGovernment Division of DIR. The team consists of seven positions including an Assistant Director, a Portal Manager, a Business Relations Manager, and Business Analysts. The team works very closely with a Contract Manager assigned to the Texas.gov contracts. In addition to the Texas.gov team, there is a DIR Budget Analyst in the DIR Finance Division that, along with his other tasks, performs monitoring on the Texas.gov financial reports.

According to the DIR Finance Division, DIR was appropriated \$792,678 from the General Revenue (GR) to operate the Texas.gov program in fiscal year 2011. Following a reduction required by the legislature, the budget was set to \$753,044. During the year, an additional reduction was called for by the legislature and some funds were returned to GR, ultimately leaving a budget of \$733,227. Since fiscal year 2009, the legislature has been reducing the amount of GR each year allocated to the Texas.gov program. DIR's expenses to run the Texas.gov program in fiscal year 2011 were: \$434,544 for Salaries; \$194,413 for Indirect expenses; \$25,425 for Other direct expenses; and \$98,662 for Professional fees, for a total of \$753,044.

The Texas.gov program is currently conducting activities related to a governance improvement process, sometimes called a "refresh". This is a contractually required step, per the Master Agreement, Attachment H-1, Sec. 5.2.4.5.1. Per the contract, this process is completed every other year and involves holding a strategic planning meeting with the governance entities, the vendor, and other key DIR staff, and documenting revised procedures. The strategic planning meeting includes a discussion of the programs vision and goals, a review of the relevance of the governance entities, a review of the governance entity membership, and documenting any changes suggested in the strategic plan.

Another recent development related to governance has been the creation of the DIR Board Texas.gov Subcommittee (Subcommittee). This Subcommittee is comprised of three DIR Board members, and supported by key management for Texas.gov from within DIR. The Subcommittee meets monthly to engage the DIR Board members in Texas.gov actions and provide guidance to DIR management on strategic matters. Management from Texas NICUSA, LLC (the vendor) is frequently invited to attend to provide information to the Subcommittee.

## **Section 1: Contract Monitoring**

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### Monitoring Vendor Performance

We found that the Texas.gov team has implemented a number of things to monitor the vendor's performance. Starting with the structure of the contract, the Master Agreement, which includes a section (Attachment H-1, Section 4.3) called Governance Committees and Teams. The Texas.gov governance model is based on the formation of teams that work together to ensure the Texas.gov objectives are met. There are several teams that comprise the governance model. Each team works on their assigned subject area, and if an issue needs to be elevated, there is a structure to elevate the issues up to the next level of governance. There is a Policies and Procedures Manual in the contract that describes the structure, roles and responsibilities of the teams and team members. The policies and procedures are general in nature.

For the operating details of managing the program, the Texas.gov team uses the provisions in the Master Agreement and the team is developing a set of Standard Operating Procedures

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(SOPs). The SOPs guide them in their day to day management of the Texas.gov program, and in their monitoring of Master Agreement contract deliverables. The SOPs are well structured and informative. Some of the SOPs related to monitoring performance fall under the SOP category of “Report Receipt and Remediation” which includes contractual reports such as Help Desk Process Improvement, Application Service Levels, and Accessibility. Also included are SOPs for the required Management Plans –Receipt, Review, Feedback, and Approval.

As referenced in the Master Agreement, Exhibit D, Section 2.04, the team also monitors:

- 15 Management Plans (which are vendor’s operational plans on how they are running the program)
- Portal and Application Performance
- Portfolio Management
- 20 Contract reports (which include progress reports, performance reports, and financial reports)
- Security and Privacy reports
- Help Desk metrics
- Customer Satisfaction surveys

There are Service Level metrics in the contract, such as Maintenance Activities, New Services, Existing Services, and Portal Presence. They each have specific detailed remedies and all are based on service formulas. These metrics are reviewed by the Governance Team that is responsible for each area. Also, the contract allows for an annual review of the service levels, if such a review is needed.

Customer Satisfaction surveys, which are sent out quarterly, are monitored. If the results fall below a certain metric, the vendor must submit a corrective action plan. The results are also given to some of the Governance teams for discussion.

To monitor the vendor’s performance, the Texas.gov team uses several tools. One of the primary tools is Salesforce. Salesforce is used as a tool for the contract management system to track within DIR the Texas.gov activities, tasks and issues. The various contract activities within DIR divisions are posted for use among the different divisions involved in Texas.gov. Salesforce is where each Report and Plan is managed; especially the due dates.

The Texas.gov team has also developed tracking spreadsheets to monitor performance. These include the TXO SLA Monitoring Plan Workbook that has a summary of the requirements of each service level that is to be tracked under the contract; the TXO Outage Tracking Log that tracks the system incidents; a report created to validate reports that the vendor sends; and a TXO Scheduled Maintenance Tracking Log to keep up with maintenance requests that the vendor needs.

In addition, every 6 months, a Vendor Progress and Performance Meeting is conducted with DIR and the vendor to evaluate how well the TexasOnline 2.0 is progressing toward the TexasOnline 2.0 vision. According to the Master Agreement, the meeting is not to issue directives or make decisions, but to gather information to use in decision-making by the governance mechanisms.

Another process managed by the team is the Customer Agreements process. The team has created SOPs to guide them in processing both new and amended customer agreements (SOP

CM1300 and CM 1400). Customer Agreements are three way agreements between the vendor, DIR, and the customer (state agency, city or county) that contain the terms, conditions, and scope for projects or services to be implemented under TexasOnline. The agreements note the fees, the services provided, and other related information. Customer Agreements are noted in the contract under Exhibit R. The team tracks the agreements on Salesforce.

The original Texas.gov contract was the TEFA contract which was signed in 2000 when the portal was a pilot project and the internet was just beginning. There were 14 amendments to the TEFA contract and two renewal agreements. The Master Agreement came into effect in 2010 and there has been 1 amendment with a second one now in progress. With this many changes to the contracts, it has been difficult for someone other than the Texas.gov contract manager to keep up with what is current in the contracts and the changes that have occurred. We inquired as to whether there were reference tables or other tools available to better understand the contracts as they stand today and none had been developed at the time of our inquiry.

#### Managing Contract Disputes

Regarding the contract disputes, the Texas.gov team indicated that there have not been many disputes with the current vendor and that there have not been any that were considered serious. The teams have been working together to resolve issues at lower levels of actions. If the vendor has not met the criteria in an area, then the vendor is responsible for providing a corrective action plan, or based on what is in the contract, the vendor may receive a remedy letter which involves costs.

The Master Agreement describes the remedy requirements. If an issue goes to dispute resolution, there is a series of steps described in the Master Agreement including the duty to negotiate in good faith, claims for breach of the contract, and the negotiation of claims. Exhibit D in the Master Agreement is where the performance criteria are located, as well as the remedies. Exhibit B has more performance criteria related to Service Levels.

#### Monitoring Contract Financial Information

The DIR Finance Division has an assigned Budget Analyst who is responsible for monitoring the contract financial information. There are a number of contract financial reports that are submitted by the vendor for DIR's review and analysis. The Texas.gov team in conjunction with the DIR Finance Division created a standard operating procedure (SOP) to use in monitoring the financial information. The SOP, entitled Financial Report Review, provides step by step review instructions for the different financial reports. The reports are provided by the vendor as contract deliverables. Below is a list of the financial reports:

- Annual Budget (ID07)
- Monthly Financial Report (ID08)
- Monthly State Share Report (ID09)
- Monthly General Ledger Report (ID10)
- Fixed Assets Report (ID11)
- Labor Report (ID12)
- Annual External Auditors Report

Each report has a specified due date. When a report is received by DIR from the vendor, it is logged into the system for tracking purposes and to note whether the report has met the timeliness deliverable. Once a report arrives, the DIR Budget Analyst performs a series of reasonableness checks on the content of the reports. When questions arise from reviewing and analyzing the reports, the DIR Budget Analyst contacts the Vendor Controller for answers and explanations.

In addition, the Master Agreement has a section entitled the Financial Model. The Financial Model contains contract detail regarding a number of items including the financial plan scope and funding mechanisms, contractual principles, key assumptions, vendor's costs, and a description of the State's share of revenue. This document and the associated detail assist both the Contract Manager and the DIR Budget Analyst in monitoring the Texas.gov financial information.

As previously noted, Texas.gov has projects operating under two contracts (the Master Work Order and the Master Agreement). Each contract has a different business model; as a result, there are differences in the way revenues are calculated and in the way expenses are handled under each contract. Regarding expenses, the DIR Finance Division only sees the expenses for the Master Work Order (MWO) projects (such as CHIP, DPS Re-Write, etc.). For projects under the Master Agreement, the business model does not allow DIR visibility into the expenses. (Regarding revenues, a Revenue Reference Table in Attachment 2 shows the revenue percentages the State receives under the two contracts.)

For the MWO projects, DIR reviews the expenses, but does not actually "approve" them. The amount of such expenses is small; the May 31, 2012 MWO Monthly Financial Report indicates that by the end of Fiscal Year 2011 (August 31, 2011), there were only \$28,306 (in line item "Services In Development") and no such MWO expenses had been reported for 2012. One of the financial reports received from the vendor and reviewed by the DIR Budget Analyst is the ID 08 report. Within the ID08, there is a report called the Master Work Order (MWO) Monthly Financial Report that contains the details of the different MWO projects. The detail is presented separately on a project by project basis. For each project, the report contains a Statement of Operations including the operational costs, such as variable costs, team costs, depreciation, and bad debt expense. DIR's review includes a monitoring of the vendor's general ledger as the vendor presents it to DIR. DIR uses the general ledger as a source and compares the data to the actuals on the monthly reports and to the Texas.gov fiscal year annual budget. If discrepancies are found by the DIR Finance Division during their review of the expenses, the discrepancies are presented to the vendor for resolution or explanation. Through the continuous review of the financial reports, DIR is monitoring the vendor's general ledger expenses and matching them to the detail in the MWO Monthly Financial Reports and to the Texas.gov fiscal year annual budget, but only for the MWO projects.

### **Finding 1.1 - Vendors' Reports**

The quality of some of the vendor's contract reports needs improvement. Some of the reports submitted have numerous errors on them. When errors are caught, DIR staff contact the vendor to correct them. It may take several versions back and forth from the vendor before the reports are correct. This review and re-review of the reports is a time consuming effort for DIR staff, especially when looking for anomalies in performance criteria where remedies are involved. There are liquidated damages that can be accessed for late reports, but the contract did not appear to address liquidated damages for inaccurate reporting. The Progress and Performance Report (ID 06) and the Application Service Levels Report (ID 03) report are particularly problematic; it appears that the detail is not reviewed for accuracy by the vendor. The Texas.gov team noted that some reports regularly have inconsistent formatting, content, and names. Some of the problems could be easily addressed such as sorting the data in chronological order. The problems with the reports cause considerable re-work for DIR staff.

**Recommendation:** The DIR and the vendor should address the problems with the reports and look for ways to have the vendor implement better quality control of the reports before they are released to DIR.

**Management Response:**

DIR Texas.gov team (staff) concurs. Staff has been working with the vendor throughout the term of the contract to improve report quality and proposes the following actions to address:

Action	Responsible Party	Target Completion Date
Continue to work with TexasNICUSA to establish procedures that improve report quality.	Texas.gov Contract Manager	Ongoing
Include quality standards metrics in performance measures of the next Texas.gov RFO.	Texas.gov Contract Manager	August 31, 2015 or no later than 1 year before the end of the term of the Master Agreement.

**Finding 1.2 - Data Analysis**

On a continuous basis, the Texas.gov team must review 15 Management Plans and approximately 20 Contractual Reports from the vendor. The team often is looking for errors and omissions in the data. We found that most of the data is visually compared --- looking at one field of data and comparing it to another field -- to verify the accuracy of the data. This is time consuming work that is tedious and can lead to reviewer errors.

**Recommendation:** The Texas.gov team should consider purchasing data analysis software to use in their reviews of the contractual plans and reports. The use of data analysis software should allow the reviewers to function more effectively, quickly exposing errors, and improve the monitoring function. Automated analytics allows for a much quicker and cleaner comparison of the program's performance data. Although in the beginning it will take time to implement the software, this data analysis tool should, in the long term, take much of the difficult visual comparison work out of the process, and improve the timeliness, accuracy, and usefulness of the reviews.

**Management Response:**

Staff recommends further exploration of the recommendation to purchase a data analysis tool. As a related activity, staff has been reviewing service level agreements (SLAs) to determine opportunities for simplification and streamlining of monitoring and reporting. Staff proposes the following actions:

Action	Responsible Party	Target Completion Date
Research data analysis software providers and pricing models	Texas.gov Analyst	October 15, 2012
Develop business case with recommendations.	Texas.gov Analyst	November 15, 2012
Explore revising SLA's to simplify and streamline monitoring and reporting.	Texas.gov Contract Manager	Ongoing

If the business case determines the software costs exceed possible savings, a possible recommendation may be an enterprise solution for the agency. If DIR management determines to pursue this option, any timelines will be outside the control of Texas.gov.

**Finding 1.3 – Report Reviews**

After the contract reports are reviewed by staff, there is no additional review of the work performed on the reports. The Texas.gov management does not approve the reports. Only reports with problems may get escalated. For example, if a Program Analyst reviews a report and finds no issues with it, the Analyst logs the report into Salesforce. Then, the Analyst closes it out and indicates that the requirements are met. The Texas.gov Contract Manager gets involved if there is a problem. (The Texas.gov Contract Manager is the conduit with the vendor so she works with the vendor for resolution on the project problems.)

Recommendation: As a quality control and verification check, Texas.gov management should consider implementing an approval level of contract reports examined and worked by staff.

Management Response:

Beginning in FY12 Q4, management review of report analysis was implemented. SOPs need to be revised to reflect the enhanced process.

Action	Responsible Party	Target Completion Date
Establish quality assurance and management approval workflow cycle in Salesforce.	Assistant Director, eGovernment Services	October 15,2012
Amend existing SOP's	Assistant Director, eGovernment Services	October 15, 2012

**Finding 1.4 – Contract Revisions**

With the many changes to the contracts over the years, it has been difficult to keep up with what is current in the contracts and the changes that have occurred. We found several instances where definitions were revised in the contract amendments. For example, the definition of Net Revenue was revised in the TEFA First Renewal Agreement and the definition of Total Revenue was revised in the Master Agreement, Amendment 1. We inquired as to whether there were reference tables or other tools available to better understand the contracts as they stand today, and it appeared that there were none. Having a table with a quick reference would be very helpful, especially when trying to identify the current meaning of critical definitions and terms.

Recommendation: The Texas.gov team should consider creating a Renewals and Amendments Reference Table to help track changes to the contracts.

Management Response:

Staff concurs and has completed the following actions to address:

Action	Responsible Party	Target Completion Date
Create reference tables that track contract amendments and their purposes	Texas.gov Contract Manager	Completed on: July 6,2012

## Section 2: Contract Provisions

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In November 2005, a State Auditor's Report (SAO Report No. 06-011) entitled "The Department of Information Resources' Administration of the TexasOnline Contract" recommended establishing specific contract provisions in future contracts to better protect the State's financial interests in the project. We decided to look into the contract changes that have occurred in Texas.gov since this issue was raised. We reviewed the TEFA, which is the previous contract and its amendments and renewal agreements. We also reviewed the Master Agreement, which is the current contract and its amendment. The Master Agreement went into effect on January 1, 2010. We also met with the DIR General Counsel and with the Texas.gov Contract Manager for Texas.gov to discuss the improvements made over the last seven years. We learned that the Second Renewal Agreement to the TEFA put in place a number of provisions to address issues from the 2005 SAO audit. It should be noted that in both the previous and the current contract, as part of the public private partnership, that the vendor pays for all developmental costs for Texas.gov projects upfront, and shares the revenues from the projects with the State. It should also be noted that in June 2010, TexasOnline was officially rebranded as "Texas.gov".

Since 2005 when the SAO report was released, the DIR has worked over the years to establish specific provisions in the contracts and amendments as well as taken other steps to better protect the State's interests in Texas.gov. These steps have enhanced the execution of the contract, mitigated several risks, and provided for better protection for the State. Summaries of the provisions and steps can be found in Attachment 1.

## Section 3: Verification of the State's share

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The Texas.gov program has a standard operating procedure (SOP) entitled Financial Report Review. This procedure describes a list of Texas.gov financial reports which are required contract deliverables and explains how to review each of the reports. The verification process begins when the DIR Budget Analyst receives a vendor generated report (ID 09) and an email from the Vendor Controller stating that an amount for the month (for the State's share) has been transferred to the State Treasury. The email also has an attached spreadsheet which is the State Share Reconciliation Report. The spreadsheet has the daily deposits for one month. The DIR Budget Analyst re-calculates each day's deposit as well as the total share to ensure that the vendor is withholding at the agreed upon rate of 30%. Later, there is a true-up process that occurs on the State's share. However, understanding the 30% withholding procedure is key to understanding how the verification process is performed. In December 2008, DIR became concerned about the possibility of the vendor (at that time, the vendor was BearingPoint) filing for bankruptcy. As a result, DIR partnered with the Texas CPA to find a way to mitigate the bankruptcy risk. A process was devised called the "Withholding System", where the Texas CPA withholds a percentage of the Texas.gov receipts, intended to represent a rough estimate of the State's share of revenue, and places the amount in a separate account. Originally set at 27% in December 2008, the percentage withheld increased within a few months to 30%. The DIR was able to obtain BearingPoint's informal agreement to allow the withholding, as there was nothing in the contract that required BearingPoint to allow it. In 2009, BearingPoint filed for bankruptcy. There was also a re-procurement of TexasOnline (now Texas.gov) that resulted in a contract with the new vendor (Texas NICUSA, LLC) that was signed in July 2009. The State continues to withhold 30%, an estimate of the State's share of revenue, subject to true-up each month.

Therefore, at the end of the month, the DIR Budget Analyst receives the monthly State Share Reconciliation spreadsheet from the Vendor Controller. Using the spreadsheet, the DIR Budget Analyst performs a true-up reconciliation to tie the remaining balance due to the State, based on the State's share revenue percentages from the Master Agreement and the MWO projects. There are a number of steps and financial reports used to conduct the reconciliation. Once the amounts are verified, the DIR Budget Analyst submits an email with the State Share Reconciliation spreadsheet to the DIR Accounting section. The DIR Lead Accountant accesses the USAS and compares the totals on the spreadsheet to the cash amount in the USAS accounts to ensure that the State's revenue share has been received in USAS. On occasion, the amount withheld is greater than the amount owed to the State, and DIR will need to order a transfer of funds back to the vendor. Throughout this process, the DIR Budget Analyst discusses any discrepancies found with the Vendor Controller.

For the verification of the State's share, we selected a sample of six recent months (September 2011 through February 2012) and reviewed the documentation of the State's share related to those months. In addition, we observed the DIR Financial Analyst as he re-computed for us the State's share for those selected months. These re-computations were for the State's share percentages and resulting amounts generated under both the Master Agreement as well as the Master Work Order. The calculations, footings, and notes for all months sampled proved to be accurate. However, we found that the verifications were complex and not easily accomplished. They required a review of several reports and different line items by someone with strong accounting knowledge and a good understanding of historical issues related to the Texas.gov contracts and the contract amendments. Also, there was a lot of reliance on the one individual, the DIR Budget Analyst, who was conducting the verifications.

We found that the revenue amounts (20%, 50%, etc.), types of revenue (net revenue, total revenue, etc.), and the definitions for the revenue types, have changed or been revised throughout the history of Texas.gov. Trying to keep track of the changes was challenging. Therefore, to better understand the revenue percentages currently due to the State, we examined Texas.gov contracts, contract amendments, and renewals, and worked with the DIR Budget Analyst and the Texas.gov Contract Manager. We then created a Revenue Reference Table which is Attachment 2 of this report.

While examining the verification of the State's share, we learned about the handling of local funds from Texas.gov customer entities. State agencies and institutions of higher education using Texas.gov must comply with the Texas CPA Accounting Policy Statement (APS) 029. APS 029 is entitled "Electronic Processing of Revenues and Expenditures, including Texas.gov Portal Activity", and it has a definition of local funds which reads as follows:

"Local funds – Online processing of revenue and expenditures transacted outside the state Treasury should be accounted for, but not reported in the Uniform Statewide Accounting System (USAS). This includes institutions of higher education with authority to receive and maintain online processing fees outside the state Treasury."

As these funds are not reported in USAS, we inquired on how they are tracked and accounted for. We learned that revenues from local funds for online processing are paid directly to the vendor. The revenues from these customers are not part of the withholding process in place for the other Texas.gov revenues. The vendor invoices the local funds customers and the State's share is received when there is a monthly true up of revenues. In addition, DIR relies on the vendor's accurate reporting and submission of these receipts as part of the calculation of the

State's share. There is no separate report from the vendor on these items, but there is a line item for each local customer on one of the vendor's financial reports (the ID 08) submitted to DIR for review. These local funds are reviewed by independent financial auditors as part of the annual financial audit of Texas.gov. Currently, there are only three of these local funds customers – City of Houston, City of Dallas, and the City of Mesquite. It should be noted that the amount of revenues received so far from these customers is small. For the vendor's fiscal year 2011 (which ended August 31, 2011), the amount of local government transaction revenue reported by the vendor for these three customers was \$169,791; this amount represents the total received from these customers, not the amount of the State's share.

As we looked into the local funds process, we learned that the information on it was obscure. The language regarding this process is in the individual Customer Agreements and it states that these entities will be invoiced by the vendor. There was no specific reference in the Master Agreement about local funds not being reported in USAS. In the Financial Processing Procedures of the Master Agreement, we found a reference to APS 029 in Attachment H-1, Section 6.6.1.1. In the Financial Processing Procedures detail, the contract wording indicates that the flow of funds roadmap is in compliance with APS 029. Also, the Financial Processing Workflow flowchart (Section 6.6.1.6) did not denote the local funds issue, although the presentation was a Summary Workflow. We were also not able to find more detailed information about the process in the APS 029.

### **Finding 3.1 – Review of Verification**

We found that the verification of the State's share was being performed and the sample calculations we tested were accurate. However, we found a few control weaknesses related to the verification process, which are:

- A. The accuracy of the State's share is being verified monthly by the DIR Financial Analyst in the DIR Finance Section; however, he is the only person involved in conducting the monthly verification of the State's share of revenue.
- B. No one reviews or re-checks the DIR Financial Analyst's work on the verification of the State's share. There is no one assigned to confirm that the DIR Financial Analyst does the verification each month or that it was done correctly. As the verification process is complex and critical, no one person alone should have responsibility for it, and the need for a quality check is heightened.
- C. There has not been a second person trained as a back-up to conduct the verification process or to monitor the Texas.gov financial reports received by DIR.

**Recommendation:** We recommend that at least two people receive training on the verification process to ensure a legacy and to have a back-up to the primary reviewer. We also recommend that a Preparer and Reviewer function be implemented as soon as possible, regarding the verification of the State's share and the monitoring of the Texas.gov financial reports. The Preparer would be the person that does the verification and reviews the Texas.gov financial reports, and the Reviewer would be the second level reviewer that checks the work of the Preparer. To document and track that the Preparer and the Reviewer have completed their monthly tasks, the verification and report monitoring could be set up as tasks in Salesforce.

### **Management Response:**

The DIR Finance Division concurs with the audit recommendation. The DIR Finance Division will comply with the recommendation to have two trained resources for verification. DIR Finance will have the DIR Budget Analyst serve as the Preparer and the Director of Finance will

serve as the Reviewer. The DIR Finance Division also concurs with the recommendation to document and track the monthly verification tasks and reports in Salesforce.

Responsible Party: DIR Director of Finance

Target Completion Date: November 30, 2012

### **Finding 3.2 – Updating of Procedures**

During our test work on the revenue verifications, we found that the actual review and verification process for the Texas.gov financial reports was much more intricate than what was written in the SOP. For example, the Withholding System, regarding the funds withheld by the Texas CPA, was not noted in the procedures. When we identified this, the DIR Finance Division began some updating on the procedures and added more detail, which was an improvement.

Recommendation: We recommend that the verification procedures be further reviewed and refined to provide the needed detail to guide an untrained reviewer through the verification process.

#### **Management Response:**

The DIR Finance Division concurs with the audit recommendation to further review and refine the procedures for verification.

Responsible Party: DIR Finance Director

Target Completion Date: January 31, 2013

### **Finding 3.3 – Funds Outside of USAS**

There is a segment of Texas.gov funds, those received from local funds, which is not flowing through USAS. In addition, DIR relies on the vendor's accurate reporting and submission of these receipts as part of the calculation of the State's share. Although the amount from these local customers currently is a small amount, as Texas.gov expands, there may be more local customers and more funds being received through this decentralized route. Therefore, the reporting of these funds, and any other funds, outside the central receipt point (USAS) will continue to be a DIR concern.

Recommendation: We recommend that the DIR Finance Division meet with the vendor and consider additional steps to monitor and provide oversight of Texas.gov revenues and expenses including receipts from local funds.

#### **Management Response:**

The DIR Finance Division concurs with the audit recommendation to meet with the vendor to consider additional steps to monitor and provide oversight of Texas.gov revenues and expenses including receipts from local funds. Furthermore, the DIR Finance Division will also meet with the Texas.gov team to discuss the Financial Processing Workflow flowchart for processing local funds.

Responsible Party: DIR Finance Director

Target Completion Date: August 31, 2013

### **Finding 3.4 – Limited Information**

The information on the local funds process is limited and difficult to find. We were not able to find detailed information about the process in the Comptroller’s Office rule, APS 029. Also, there was no specific reference in the Master Agreement about local funds not being reported in USAS. In the Financial Processing Procedures of the Master Agreement, we found a reference to APS 029 in Attachment H-1, Section 6.6.1.1. Also, in the Financial Processing Procedures, the contract wording indicates that the flow of funds roadmap is in compliance with APS 029. The Financial Processing Workflow flowchart (Master Agreement, Section 6.6.1.6) did not denote the local funds issue, although the presentation was a Summary Workflow.

Recommendation: We recommend adding a footnote or other notation on the Workflow illustration which would provide more transparency into the funding process by showing that there is a segment of funds not flowing through USAS. Also, we recommend adding a step, which describes the vendor’s receipt of local funds, to the Financial Processing Procedures, Section 6.6.1.5., in order to provide more clarity on the local funds issue.

### **Management Response:**

Staff concurs and proposes the following actions to address:

Action	Responsible Party	Target Completion Date
Amend Policies and Procedures Manual to better explain local government’s exemption from USAS requirements and provide more detail regarding vendor’s receipt of local funds.	Texas.gov Contract Manager	December 1, 2012
In next Texas.gov RFO, for local government customers, require more specific reporting from vendor and/or local government customer.	Texas.gov Contract Manager	August 31, 2015 or no later than 1 year before the end of the term of the Master Agreement.

## **Section 4: Fee Determination**

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The Texas.gov portal generates revenue from fees charged to users and from development and hosting fees. There are several types of fees and there are different financial models (pricing models) in place. According to the Texas.gov team, the types of fees charged to constituents are noted below:

- Subscription Fees – This is a fixed amount charged to licensing entities to cover the cost of implementing the online application for license issuance and renewal. Licensing entities must pay these fees for both online and offline licenses. This fee is legislatively mandated to recover the costs of developing the application. These fees are included with the occupational license fee issuance and renewal amount, but are not visible to the customer when the customer is making payment.
- Convenience Fees – This is a fixed amount charged to constituents for each individual service or payment it is applied to. It is added to online payments for the convenience of

conducting online transactions versus other means, such as in-person. It covers direct and indirect costs including credit card costs. It is a rounded dollar amount, such as \$1.00. A significant portion of this cost goes to pay costs imposed by credit card companies and the clearinghouse bank.

- Administration Fee – This is a fixed amount charged to customers for conducting online transactions or for receiving services that are not transaction based. It covers direct and indirect costs, except credit card costs.
- Service Fee – This term is sometimes used when a customer agency prefers to use the generic term “service fee” over the name of another specific fee. For example, it may replace the terms “administrative fee” or “convenience fee”.

The DIR is responsible for setting all fees for services provided through the Texas.gov portal. The fees are presented to the DIR Board for approval. DIR works with the Texas.gov vendor to determine the fees in accordance with legislative mandates and to ensure that fees provide fair value to constituents, the vendor partner, and the State of Texas. Regarding the different types of fees charged, fee models are recommended by the vendor based on the project requirements, on how the vendor plans to recover the costs of their investments in the project, and on whether the customer will pay any fees for development.

One change that the Texas.gov team instituted was to develop and have a set of fee models approved by the DIR Board for continuous Texas.gov use. This substantially streamlined the fee setting process.

Fees may originate through two different routes:

1. DIR may receive a request to review the fees proposed in a new Customer Agreement or amendment. The vendor works with the customer to develop the proposed fees and submits the proposed fees to DIR for review. The DIR eGovernment Analyst reviews the proposed fees. If the proposed fees are governed by an approved financial model, the DIR eGovernment Analyst informs the DIR Contract Manager that the fees are correct or, if incorrect, the correct fee is conveyed. If the fees are not governed by an approved financial model, the DIR eGovernment Analyst informs the DIR Contract Manager that the fees require DIR Board approval. Or
2. When there is a request for a new service or application, the vendor works with the customer to prepare a Business Case. The Business Case with the proposed fees is presented to the Project Review Board (PRB). The PRB will review the proposed fees and verify with the vendor that the customer has reviewed the fees and agrees that they are acceptable. The PRB then votes to approve or disapprove the Business Case. Once approved by the PRB, the Business Case is routed to the vendor for signature.

Once the fees have gone through the new Customer Agreement process or the Business Case process and if the fees do not already fit into an existing pricing model, the fees must go through additional approvals in order for them to be applied. The proposed fees are presented to the Texas.gov Subcommittee for informal review and vetting. Next, the fees are presented to the DIR Board for review and approval/disapproval. After the DIR Board makes a decision on the fees, the vendor is notified of the Board’s decision. If the fees are approved, the fees may then be applied to the services. Also, the Texas.gov team’s fee tracking logs are updated to include the new customers, applications, and approved fees.

The Texas.gov team tracks the DIR Board-approved fees on a spreadsheet entitled the DIR Board Fee Approval Log. Aside from the different fees charged (subscription fees, convenience fees, etc.) there are also several Enterprise fee models such as TxPay and TxEvents. TxPay is

an enterprise payment framework that allows Texas.gov to develop configurable, online applications. TxEvents is an event management and registration system. These projects have their own unique fee structures. These fee structures are also approved by the DIR Board and tracked on the DIR Board Fee Approval Log.

We selected a sample of 7 customer agencies and reviewed how Texas.gov fees were allocated to each of them. We discussed each Customer Agreement with the DIR Portal Manager. The customer agencies were selected from recent projects and they provided a broad view of the type of agencies and fees that are applied. There were no issues with the process reviewed or the items sampled.

The Texas.gov team has a number of controls in place to ensure that fees are objectively determined and pre-approved. Customers and the vendor work together to establish the fees that are to be charged. Fee (pricing) models have been created and are used to determine the fees. Fees for new projects go through a DIR Business Case process. The Texas.gov team has developed Standard Operating Procedures for Business Case reviews and also for Fee Determination and Approval. Fee models are validated by DIR staff. Fee models are approved by the DIR Board before they are implemented. In addition, the Master Agreement contract has several provisions (Master Agreement, Exhibit C, Section 2.08, Financial Model) which describe how the fees will be determined.

- (f) Vendor plans no fee increases for existing applications and services provided under the Current Contract.
- (g) For all new services, the Vendor will work with DIR through the Business Case Process to determine a total transaction fee to be charged to the Customer or end user. The total transaction fee is comprised of the fees charged by credit card issuing companies and the acquirer for merchant processing services and a Texas Online 2.0 administration fee for administration of end user accounts and customer service.
- (i) The fees charged by credit card issuing companies and the acquirer are passed through at actual cost and are not marked up.
- (ii) The fees charged by credit card issuers and acquirers are governed by the issuers and acquirers. They are variable based on a number of outside factors, including but not limited to type of card used (reward card versus business or consumer card) and special incentive programs. Thus, the rates are subject to change at any time. Vendor reserves the right to pass on any changes to interchange rates or acquirer processing fees through the total transaction fee. Any fee changes will be closely coordinated with DIR.
- (iii) The TexasOnline 2.0 administration fee will be determined in coordination with DIR through the Business Case Process. Any changes to the administration fee will be closely coordinated with DIR.

#### **Finding 4.1 – Accounting for Subscription Fees**

Accounting for subscription fees has been problematic, partially due to some customer agencies not following a state fiscal rule. APS (Accounting Policy Statement) 029 is a Texas CPA rule that explains the procedures for electronic transactions. This rule has a section called “Processing Subscription Fees—Current Texas.gov Agencies” and Step 3 denotes that “for occupational licenses, the payment of subscription fees to the Texas.gov contractor is not automated and it must be initiated by the paying agency.” “The agency must remit payment to the Texas.gov contractor monthly from the TexasOnline appropriation. The Texas CPA creates a monthly report showing the subscription fee receipts for each agency and sends the report to DIR. DIR follows up with any agency that has not submitted payment...” Essentially, the funds

for subscription fees are put into a Texas CPA account and each customer agency has to move the amount over to the Texas.gov vendor's account. The movement of these funds by the customer agencies to the vendor is based on the honor system. The DIR Budget Analyst tracks the payments and updates them as the money is received. However, when DIR receives the reports on these funds from the Texas CPA, some customer agencies have combined the subscription fees with other fees, so it is not possible for DIR to distinguish how much of the money is from subscription fees. Currently, the only way an agency has to denote that the payment is a subscription fee is by writing a note in the line item description field. Also, because some customer agencies don't report the funds timely, DIR can not adequately distinguish the timeframe in which the fees were earned. In addition, because of the way APS 029 is written, DIR does not have any enforcement power to ensure that the funds are received timely by the vendor. The model for this subscription fee process was developed years ago, and with the problems associated with it, a better method should be considered.

**Recommendation:** We recommend that the DIR, the Texas CPA, and the Texas.gov vendor review and revisit this process to determine if a better method could be used to ensure quick and accurate collection of and accounting for Texas.gov revenues and expenditures including subscription fees.

**Management Response:**

The DIR Finance Division concurs with the recommendation that the DIR, CPA, and the Texas.gov vendor review and revisit this process to determine if a better method can be used to ensure quick and accurate collection of and accounting for Texas.gov revenues and expenditures including subscription fees.

Responsible Party: DIR Director of Finance

Target Completion Date: August 31, 2013

**Finding 4.2 – Approval of SOP**

During our audit, we found that the Texas.gov team has written a SOP on fee determination and approval (entitled SOP CS1000 Texas.gov Fee Determination and Approval). It is in draft form, but it is in place and being used. It has not been internally approved yet.

**Recommendation:** Fee determination and approval is an important process and we recommend that the Texas.gov team complete, review, and approve the SOP on fee determination and approval.

**Management Response:**

Staff concurs and proposes the following action to address:

Action	Responsible Party	Target Completion Date
Texas.gov will review and approve the document SOP CS1000 in accordance with documented SOP approval process	Assistant Director eGovernment Services	October 1, 2012

## **Attachment 1 – Summaries of contract provisions that have strengthened the State’s interest in Texas.gov**

Note: For the Texas.gov program, the current contract with the vendor is called the Master Agreement and the previous contract is the Texas Electronic Framework Agreement.

### ***State’s share of revenue received from Texas.gov portal***

Current contract: The Master Agreement, which became effective January 1, 2010, proposed a different funding model that increased the State’s share of revenue (known as the “State’s share”). The percentage of revenue the State received increased from 38 percent to 39 percent to 40 percent in the first years of the contract. From Fiscal Year 2012 through the end of the contract in 2016, the State receives 40 percent of total revenue from TexasOnline 2.0 program projects. (reference: Master Agreement, Exhibit C –Section 2.08 (b) and (c))

Previous contract: The Texas Electronic Framework Agreement (TEFA) stated that there would be a breakeven event that would trigger a financial change in the State’s share. Before breakeven, the State received 20 percent of the total transaction fee revenue. After breakeven, there was also a 50 percent split between the State and the vendor of net revenue from the Master Work Order (MWO) projects. The State will continue to receive these revenue shares until August 31, 2012 or August 31, 2014 (assuming the additional extension options for certain MWO projects beyond 2014 are not exercised by the State) at which time, the MWO projects transition to the financial model under the Master Agreement. (reference: TEFA, Amendment 10, Section 4 and TEFA, Second Renewal Agreement, Section 3, and Master Agreement, Exhibit C, Section 2.08 (d) )

### ***Monitoring of revenue***

Current contract: The Master Agreement has specific contract provisions which address the monitoring of financial reports and the verification of the State’s share. The DIR Finance Division reviews the vendor’s financial reports for mathematical accuracy and unusual variances. This monitoring includes a comprehensive re-calculation of figures on several monthly, quarterly, and annual reports provided by the vendor. Also, there are additional verifications related to the withholding of the State’s share and the monthly true-up of those revenues. (reference: DIR Financial Analysts and Master Agreement, Exhibit F, Section viii and Attachment H-1, 4.2.1.16.1 and 6.6.1.3 (DIR))

Previous contract: Although the DIR Finance Division reviewed the vendor’s financial reports for mathematical accuracy and unusual variances, the TEFA contract provisions only addressed the provision of financial reports to DIR. The contract did not address the monitoring of those reports and the verification of the State’s share. (reference: TEFA, DIR Financial Analysts, and DIR General Counsel)

### ***Financial processing procedures and flow of funds***

Current contract: The Master Agreement describes the collection of funds, the settlement of funds, the distribution of funds, including the distribution of the State’s share. Under the current contract, payment is made based on the Comptroller of Public Account’s (CPA) rule APS 029 which describes the procedures for online payments and additional fees accounted for through USAS. (reference: Master Agreement, Attachment H1 Policies and Procedures Manual, Section 6.6 and CPA APS 029)

Previous contract: Various sections of the previous agreement (TEFA) describe financial processing procedures such as funds settlement and the transfer of state funds to the Comptroller, but not as clearly as the current agreement (Master Agreement). Over the years,

the financial processing procedures and flow of funds have been further refined. A notable flow of funds process that involves the withholding of revenue was started under the previous contract. In December 2008, DIR took steps to arrange for the Texas CPA to withhold an amount (currently 30%) of revenue, prior to the vendor being paid. This withholding procedure continues today and there is a monthly true-up process that the DIR Finance Division performs to ensure that the State obtains the correct State share portion. The implementation of this new payment flow allows the State to retain most of the State's share upfront. It also eliminated the majority of the State's financial exposure related to loss of revenue should the vendor file for bankruptcy protection. (reference: TEFA, Exhibit A2, Section 6.5 and 6.6.2, and Exhibit B, Support and Maintenance, Specific Provisions Applicable to the Transfer of State Funds to the Comptroller and DIR Financial Analyst)

### ***Payment system***

Current contract: The vendor uses a payment system (Transaction Payment Engine) that is compliant with PCI 2.0. The Transaction Payment Engine is a web-based payment processing solution which is hosted at the vendor's Central Data Center in Virginia, with a backup facility in Texas. (reference: Master Agreement, Attachment K-1 – Payment System)

Previous contract: The payment engine used by the vendor was ePay. The ePay system was not in compliance with the then forthcoming PCI 2.0. Also, it was owned by the previous vendor and could have resulted in additional licensing costs to the new vendor. (TEFA, Renewal 2, Section 26, and DIR General Counsel)

### ***Access to the Payment Engine***

Current contract: The current contract includes a provision indicating that the State has access to the vendor's payment engine and other software at the contract's Expiration Date or if the contract is terminated by DIR due to an uncured material breach by the vendor. In all other instances in which DIR terminates the Master Agreement, DIR will receive a license to use the vendor's proprietary software and deliverables, and a transfer of title to the hardware, subject to payment of a negotiated fee. (reference: Master Agreement, Exhibit B, Section 11.09 (a) and (b))

Previous contract: In June 2005, the SAO report indicated that the State did not have access to the TexasOnline contractor's payment engine if the contract was terminated. (The payment engine is critical as it allows payments to be processed electronically.) By September 2005, the DIR had added a contract provision to provide the State with access to the payment engine if the contract was terminated, subject to mutually agreed upon terms and conditions, including fees. (reference: SAO report 06-011, November 2005, Attachment page 3, and TEFA, Second Renewal Agreement, Section 26)

### ***Sanctions for contractor non-compliance***

Current contract: With the Second Renewal Agreement to the TEFA and also under the current contract (Master Agreement), the State has expanded the scope and detail of the sanctions to hold the contractor accountable for failing to meet contract provisions. There are graduated sanctions which include required corrective action plans, performance remedies, liquidated damages, and contract termination, for both system performance and non-system performance issues. (reference: Master Agreement, Exhibit B, Article 11, Remedies and Disputes and Exhibit D, Performance Criteria)

Previous contract: In June 2005, under the original contract, the SAO found that the contract lacked penalties for contractor noncompliance with contract provisions that were not related to

system performance. Contract termination was the only penalty available to the State to address non-compliance by the contractor for non-system performance issues. (reference: SAO report 06-011, page 4)

### ***Source Code***

Current contract: The source code, which enables Texas.gov to operate, is escrowed with Escrow Associates under a source code escrow agreement between Escrow Associates and NICUSA. Under Rider C of the escrow agreement, DIR, as beneficiary is entitled to receive the source code and other components held in escrow for use and support of the software.

(reference: Escrow Associates Agreement, Recitals, and Rider C)

Previous contract: The source code was escrowed in the previous contract, as well. Access to the TexasOnline source code continues to be a critical financial protection for the State. (TEFA, Article III (b) and TEFA, Second Renewal, Section 5)

### ***Financial Reports***

Current contract: The number of financial reports and the contents of the reports submitted to the State by the vendor have increased as a result of the current contract. The vendor must submit financial reports related to the Master Work Order projects remaining under the TEFA in addition to reports related to the Master Agreement. These reports include an Annual Budget, a Master Work Order projects budget, and various Monthly Financial Reports. Also, the vendor has incorporated a number of additional reporting features to the Monthly Financial Reporting package to facilitate management review and analysis of the financial position and results of operations for TexasOnline 2.0. (reference: Master Agreement, Exhibit F – Section 2.04)

Previous contract: A number of monthly financial reports were required to be submitted by the vendor. (reference: The Texas Electronic Framework Agreement, 1st Renewal, Section 5, (b))

### ***Annual Audit of the Vendor***

Current contract: An annual audit of the vendor finances associated with the management and operation of the TexasOnline program is required. The audit is to be performed by an independent certified public accountant selected by the State. (reference: Master Agreement, Exhibit F, Section 2.05 (b) and Texas Government Code 2054.2721)

Previous contract: The requirement for an annual financial statement opinion audit and a management report was required in the previous contract, under the Second Renewal agreement in 2005. The annual financial audit of the vendor's operation of the TexasOnline program continues to be an important protection for the State. (reference: TEFA, Second Renewal, Section 10)

## Attachment 2 – Texas.gov Revenue Reference Table

### Texas.gov Revenue Reference Table

As of July 12, 2012

Revenue from the Texas.gov program is generated under two different agreements:

- the Second Renewal Agreement of the Texas Electronic Framework Agreement (TEFA) between BearingPoint, Inc. and DIR. (This contract is now being managed by Texas NICUSA.) Projects that fall under this older agreement are now called Master Work Order or MWO projects.
- the TexasOnline 2.0 Master Agreement between Texas NICUSA and DIR. (Note: Texas.gov was formerly known as TexasOnline.com)

For the Period of	State Revenue Share	References
Sept. 1, 2006 - present	From the Master Work Order projects under the Master Work Order Agreement, the State receives percentages of both Total Revenues and Net Revenues. The State receives 20% of Total Revenues (less credit card processing fees) derived from MWO projects under the Master Work Order Agreement, and, following Breakeven for the Master Work Order (using the formula for Breakeven analysis set forth in Attachment D to the First Renewal Agreement), the State receives 50% of Net Revenue from MWO projects under the Master Work Order Agreement.	TEFA, Amendment 10, Section 4 and TEFA, Second Renewal Agreement, Section 3
Sept. 1, 2011 - Aug. 31, 2016 (end of the contract.)	Under the Financial Model, the State's share is 40% of Total Revenue from projects generated under the Master Agreement.	TexasOnline 2.0, Master Agreement, Exhibit C, Section 2.08, (b) (Financial Model)

#### Master Work Order Definitions:

‘Net Revenue’ Definition from the TEFA, First Renewal Agreement (effective date: February 9, 2002):

“Net Revenue” means, for the purposes of this Agreement, the amount remaining after applying the formula for Break Even Analysis on Attachment D of the Agreement as described in Section 9(m). Net Revenue shall be split 50%/50% between KPMG Consulting and DIR.

(Note: At the time of this renewal on Feb. 9, 2002, the contractor was KPMG Consulting. On Oct. 2, 2002, KPMG Consulting’s name changed to BearingPoint. Now the MWO projects have been transitioned to Texas NICUSA.)

“Total Revenue” Definition from the TEFA, Second Renewal Agreement (effective date: September 1, 2005):

“Total Revenues” means Gross Revenues earned and collected for services provided to State Agencies plus revenues earned and collected from Local Governments by TexasOnline project.

“Master Work Order Agreement” Definition from the TEFA, Amendment 10, Section 2 (effective date January 1, 2008):

“Master Work Order Agreement” or “Master Work Order” means the document attached as Attachment A to Amendment No. 10 to the Framework Agreement describing the particulars of the MWO Projects and setting forth the obligations of both parties in connection therewith. Where, in response to an approved Opportunity Proposal, an additional MWO Project is added, the Master Work Order shall be amended to include the particulars relating to such MWO Project.

TexasOnline 2.0 Master Agreement Definition:

“Total Revenue” Definition from the Master Agreement, Amendment 1, Paragraph 4 (effective date: February 17, 2011):

“Total Revenue – The total amounts received from Transaction Revenue and Service Revenue (less credit card and ACH fees, and other specific “pass through” costs as approved by DIR) and does not include statutory fees charged by State Agencies and Local Government to the users of TexasOnline 2.0 or other government revenues collected in connection with the transactions. For purposes of the preceding sentence, a “pass-through” cost means a cost that is charged to the Vendor for goods and services by a third party, but is then charged or “passed through” directly to the Customer of Citizen without markup.”

Notes:

There are currently seven Master Work Order projects under the Master Work Order Agreement. Per the Master Agreement, Exhibit C, Section 2.08 (d), Master Work Order Projects will continue to operate under the financial model detailed in the Texas Electronic Framework Agreement, as amended, until August 31, 2012 or August 31, 2014 (assuming the additional extension options for certain MWO projects beyond 2014 are not exercised by the State), as applicable, at which time the Master Work Order Projects will transition to the Financial Model of the Master Agreement.