

Technology Sourcing Office  
Contracts and Vendor Management

# Cooperative Vendors Audit

## Internal Audit Report 14-101

August 2015



Texas Department of Information Resources  
Internal Audit

Internal Audit is DIR's independent, objective assurance and consulting activity designed to add value and improve the agency's operations. It helps the agency accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

**Internal Audit Staff**

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## Executive Summary

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This report presents the results of the audit on the Cooperative Vendors from the Cooperative Contracts Program of the Department of Information Resources (DIR) Technology Sourcing Office (TSO). This audit was included in the FY 2015 Internal Audit Annual Plan.

The objectives of the audit were to determine whether 1) cooperative contract sales reports are accurate, complete and received timely; and 2) administrative fees remitted for vendors' sales are accurately assessed and paid timely.

To accomplish these objectives Internal Audit 1) interviewed DIR staff, 2) selected samples of DIR vendors, sales reports, and administrative fee payments for review, analysis and reconciliation, 3) reviewed contracts, policies, procedures, and other relevant documentation, and 4) assessed the reliability of the contract data in the Contract Management System that is used to process and store contract and sales data.

Overall, the majority of the cooperative contract sales reports are complete and submitted timely by the DIR vendors, and administrative fees are accurately assessed. DIR, in recognition of the importance of its Cooperative Contracts Program and the satisfactory performance of its vendors, improved its contract management procedures and strengthened its controls over the completeness and accuracy of the contract sales and fee data; transactions are reconciled, well documented, and authorized. Controls over the Contract Management System provide reasonable assurance that the likelihood of unreliable contract data in the Salesforce system is minimal, and the use of required contract data is unlikely to lead to incorrect information.

However, DIR controls over the management and oversight of its cooperative vendors can be improved:

- DIR vendors need additional guidance to properly complete and submit their sales reports; vendors do not always report their monthly sales timely or report accurate and complete sales data.
- DIR vendors do not always remit accurate administrative fees or remit their administrative fees timely.

Recommendations to strengthen existing controls and improve accountability were provided to TSO management. TSO management concurred with the results of the audit and provided responses to implement the recommendations.

Internal Audit thanks the DIR staff from TSO for their time, cooperation, and assistance provided during this audit.

Detailed results of the audit and management's responses are documented in the report that follows.

## Background

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The Cooperative Contracts Program was established in 1992. The Program started with \$24 million in customer purchases of Information Technology (IT) commodities (goods and services). In 2005, the 79<sup>th</sup> Texas Legislature enacted House Bill 1516 (H.B. 1516) requiring state agencies to use the Department of Information Resources (DIR) contracts to purchase IT commodities. The General Appropriations Act (GAA) authorized DIR to collect up to a two (2.0) percent fee for each sale from a Program contract and established a performance target of \$260,000,000 in total contract savings and cost avoidance provided through DIR contracts. For Fiscal Year 2014, the Program reported over \$2 billion in customer purchases with a total cost savings of \$274,765,177.

Administrative fees collected from the Cooperative Contracts Program sales are deposited into the “DIR Clearing Fund” and are used to pay for direct and indirect costs associated with the administration of the Program. The Cooperative Contracts Program operates as a cost-recovery program recouping the amount necessary to fund direct and indirect costs. Therefore, it is imperative the Program maintain an accurate and complete account of vendor sales and administrative fees it collects and that the information is available to DIR management timely. Projections used to determine contract administrative fee rates for future fiscal years and other sound fiscal and programmatic decisions are made based on historical sales and administrative fee data.

In Fiscal Year 2014, the Texas State Auditor’s Office (SAO) conducted an audit of the Cooperative Contracts Program and recommended the Program regularly verify the completeness and accuracy of monthly sales reports and administrative fees paid by the Program vendors. As a result, the Cooperative Vendors Audit was included in the FY 2015 Internal Audit Annual Plan. The objectives of the audit were to determine whether 1) cooperative contract sales reports are accurate, complete and received timely; and 2) administrative fees remitted for vendors’ sales are accurately assessed and paid timely.

To accomplish these objectives Internal Audit interviewed staff from the Technology Sourcing Office, Chief Financial Office, Information Technology Services, and Office of General Counsel. The auditors selected samples of DIR vendors, sales reports, and administrative fee payments from the first quarter of FY 2015 (September 1, 2014 to November 30, 2014) for review, testing, analysis, and reconciliation. Internal Audit reviewed contracts, policies, procedures, and other relevant documentation. The auditors also assessed the reliability of the contract data in the Contract Management System by testing contract data from November 2014.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Generally Accepted Government Auditing Standards*. These standards require audits to be planned and performed to obtain sufficient and appropriate evidence to provide reasonable support for the results and conclusions included in this report. Internal Audit asserts the evidence obtained provides reasonable support for the results and conclusions included in this report.

## Detailed Results

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In summary, vendors submit required sales data in their monthly Vendors Sales Reports (VSRs) to DIR. However, vendors need additional guidance to consistently submit accurate and timely VSRs to DIR. Similarly, administrative fees remitted to DIR are not always accurate or submitted timely by the vendors.

The auditors assessed the reliability of the required contract data in the Contract Management System that is used to process and store contract and sales data and determined it contains adequate controls. These controls provide reasonable assurance that the likelihood of significant errors or incompleteness of required contract data is minimal and unlikely to lead to incorrect information.

Internal Audit identified a population of 431 vendors that reported sales for the first quarter of Fiscal Year (FY) 2015 and stratified the vendors into four groups based on the amount of their quarterly sales:

- Group 1: \$0 - \$30,000
- Group 2: \$30,001 – \$110,000
- Group 3: \$110,001 – \$452,000
- Group 4: \$452,001 – \$120,000,000

To obtain a diverse sample of vendors, eight vendors were selected from each group for additional testing and analysis, resulting in a total sample size of 32 vendors. Vendors selected offered Information Technology goods and services to a variety of DIR customers including state agencies, local government, institutions of higher education, and independent school districts.

Internal Audit identified a total of 164 VSRs required to be submitted to DIR by the 32 vendors selected for review. From the VSRs, the auditors then selected a sample of 30 DIR customers to reconcile their purchase documentation (vendor invoice and customer purchase order) with the corresponding sales documentation (sales report and administrative fee) submitted to DIR by the vendor.

In addition, Internal Audit conducted a reliability [1] assessment of the contract and sales data maintained in the Contract Management System to ensure the data was complete and accurate.

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<sup>[1]</sup> Data reliability – refers to the accuracy and completeness of computer-processed data, given the uses they are intended for. Computer-processed data may be data entered into a computer system or resulting from computer processing.

## Issue 1: Guidance Provided to Vendors on Sales Reports

DIR vendors need additional guidance to properly complete and submit their sales reports. From 32 vendors selected for testing and analysis, Internal Audit identified a total of 164 Vendor Sales Reports (VSRs) that were required to be submitted by the DIR vendors for the period under review. However, DIR only received 162 of 164 (98.8%) VSRs from these vendors. The remaining two reports were not submitted to DIR, as required. The two missing reports corresponded to the first and last month of their contract's term with DIR. Feedback from DIR management indicated vendors are not required to submit their VSRs for the first or last month of their contract's term with DIR. However, this statement was not supported by DIR policy or vendors' guidance. In addition, the auditors identified other vendors submitted their VSRs to DIR for the first and last months of their contract's term regardless of the sales figures included in the report. Internal was unable to determine the financial impact of the two missing sales reports.

The DIR contract standard terms and conditions state, "the vendors shall electronically provide DIR with a detailed monthly report in the format required by DIR showing the dollar volume of any and all sales under the Contract for the previous calendar month period." Without all VSRs, DIR does not have complete records of vendors' sales and cannot provide reasonable assurance that vendors are reporting all their sales, as required.

Testing performed on the completeness of sales and customer related data included in the VSRs determined that all required sales and customer data elements were provided by the vendors.

### **Recommendation:**

The DIR Technology Sourcing Office (TSO) should:

- A. Have complete records of vendors sales by ensuring vendors submit their VSRs for each month included in the contract term regardless of whether the vendor recognized a sale.

### ***Management Response:***

*The DIR TSO agrees with Internal Audit's recommendation.*

*TSO will modify contract documents to identify when a new vendor should begin reporting and when a final report should be submitted. Contract language will be revised beginning with new solicitations effective November 1, 2015. TSO will update Standard Operating Procedures. TSO will modify Vendor Orientation Agendas to ensure training for vendors is provided to address the reporting date requirements.*

*Estimated Completion Date: September 30, 2016*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*

- *TSO Enterprise Contract Management Manager*
- B. Develop and implement VSR reporting documentation consistent with agency policy and contract provisions that includes clear definitions and detailed guidance on reporting requirements, reporting compliance, reporting timeframes, and reporting expectations.

**Management Response:**

*The DIR TSO agrees with Internal Audit's recommendation.*

*TSO will modify contract documents to identify when a new vendor should begin reporting. Contract language will be revised beginning with new solicitations effective November 1, 2015. TSO will update Standard Operating Procedures. TSO will modify the VSR reporting documents to enhance guidance on reporting requirements, reporting compliance, reporting timeframes and expectations. TSO will modify Vendor Orientation Agendas to ensure training for vendors is provided to address the reporting requirements.*

*Estimated Completion Date: September 30, 2016*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*
  - *TSO Enterprise Contract Management Manager*
- C. Develop and implement a process to train, monitor, and enforce compliance with the VSR reporting documentation and contract provisions.

**Management Response:**

*The DIR TSO agrees with Internal Audit's recommendation.*

*TSO will develop a process and timeline to identify vendors not in compliance with the DIR contract reporting requirements. Contract language will be revised beginning with new solicitations effective November 1, 2015. TSO will coordinate with the Chief Financial Office (CFO) and Information Technology Services (ITS) divisions to enhance existing reports to create a reporting tool to identify non-compliant vendors. TSO will update Standard Operating Procedures. TSO will provide training to vendors on VSR reporting documentation and will modify Vendor Orientation Agendas to ensure training for vendors is provided to address the reporting date requirements.*

*Estimated Completion Date: September 30, 2016*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*

- *TSO Enterprise Contract Management Manager*

## Issue 2: Timeliness of Vendor Sales Reports

DIR vendors do not always report their monthly sales timely. Testing and analysis of 162 VSRs received for the first quarter of FY 2015 identified 12 (7.4%) VSRs were not submitted by the fifteenth (15<sup>th</sup>) day after the close of the previous calendar month period as required by the DIR contract standard terms and conditions. The 12 reports identified were submitted from 1-7 days late by the DIR vendors. Internal Audit followed-up with DIR management to determine whether the late reports were properly identified by the DIR review process and to determine whether a late fee penalty of \$100 per day was properly assessed, as described in the DIR contract standard terms and conditions. The auditors determined 11 of the 12 (91.7%) vendors that submitted VSRs late were quickly identified and contacted by the DIR staff for follow-up. In addition, the vendors were assessed the corresponding late fee penalty of a \$100 per day for non-compliance with reporting requirements (if applicable). The remaining vendor was not identified by DIR staff nor was the vendor assessed the corresponding late fee penalty. However, the DIR contract with this specific vendor was in survivability status.

In addition, penalties for non-compliance with reporting requirements are not always enforced. The contract language for non-compliance with reporting requirements is not typically enforced until a Contract Manager determines, through a review process, that a vendor has submitted three (3) or more late reports in a rolling twelve month period. However, the review process is not usually conducted until the DIR contract is up for renewal.

Although there are strong controls in place to identify missing or late sales reports and assess a late fee penalty for vendors with active contracts that do not comply with the DIR contract reporting requirements, there are no controls in place to identify missing or late sales reports or to assess late fee penalties for vendors with contracts in survivability status. The Contract Management System does not currently have the functionality needed to track missing or late sales reports from vendors with contracts that have ended or expired and that are in survivability status. Failure by vendors to submit all their VSRs timely negatively impacts the efficiency and effectiveness of the Cooperative Vendors Program, and prevents

### **Survivability Provision:**

All applicable software license agreements, warranties or service agreements that were entered into between the vendor and a customer under the terms and conditions of the contract shall survive the expiration or termination of the contract.

All purchase orders issued and accepted by the vendor or order fulfiller shall survive the expiration or termination of the contract.

Rights and obligations under the contract which by their nature should survive, including, but not limited to, any and all payment obligations invoiced prior to the termination or expiration hereof; obligations of confidentiality; and indemnification, will remain in effect after termination or expiration hereof.

*Source: DIR Technology Sourcing Office, Contract Standards Terms and Conditions*

DIR from reviewing, reconciling, updating, and projecting sales data for cost-recovery purposes in a timely manner.

**Recommendation:**

The DIR Technology Sourcing Office (TSO) should:

- A. Implement a review process that includes an escalation time frame to identify vendors that do not submit their VSRs when due to DIR.

**Management Response:**

*The DIR TSO agrees with Internal Audit's recommendation.*

*TSO will develop a process and timeline to escalate and document non-compliance with the contract late VSR reporting.*

*Estimated Completion Date: September 30, 2016*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*
  - *TSO Enterprise Contract Management Manager*
- B. Develop and implement a monitoring process, including a time frame, to identify vendors who have submitted at least three (3) late VSRs in a rolling twelve-month period, assess, and collect the corresponding late fee penalty timely.

**Management Response:**

*The DIR TSO agrees with Internal Audit's recommendation.*

*The TSO will develop a process and timeline to track vendors with repeated late payments, assess late fees, and monitor collection of assessed late fees.*

*Estimated Completion Date: August 31, 2016*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*
  - *TSO Enterprise Contract Management Manager*
- C. Develop and implement a monitoring process, including timeframes, to 1) identify and track contracts in survivability status, 2) identify missing or late sales reports from vendors with contracts in survivability status, 3) assess late fee penalties to vendors with contracts in survivability status that are not complying with the contract reporting requirements, and 4) collect the penalty assessed.

**Management Response:**

*The DIR TSO agrees with Internal Audit's recommendation.*

*TSO will develop a process to identify open purchase orders at the contract end date. TSO will develop a process to identify missing or late sales reports from vendors with contracts in survivability status. TSO will identify a process to monitor and assess late fee penalties to vendors with contracts in survivability status that are not complying with the contract reporting requirements, and collect the penalty assessed. TSO will modify contract documents to address what survivability report and compliance is required. Contract language will be revised beginning with new solicitations effective November 1, 2015. TSO will coordinate with the CFO and ITS divisions to enhance existing reports to create a reporting tool to identify non-compliant vendors. TSO will update Standard Operating Procedures. TSO will modify Vendor Orientation Agendas to ensure training for vendors is provided to address the reporting requirements while the contract is in survivability status.*

*Estimated Completion Date: October 15, 2016*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*
- *TSO Enterprise Contract Management Manager*

### Issue 3: Accuracy of Vendor Sales Reports

**Eligible Sale:**

A product or service identified in a monthly sales report that was sold to an eligible customer and is identified as a product or service included in an awarded contract.

**Eligible Product or Service:**

An awarded product or service that is identified within a contract to be within the scope of the solicitation requirements.

*Source: DIR Technology Sourcing Office*

DIR vendors do not always report accurate and complete sales data. Internal Audit selected 30 customers that purchased IT goods or services from DIR vendors during the first quarter of FY 2015. DIR customers included state agencies, local government, institutions of higher education, and independent school districts. The auditors contacted the DIR customers selected for testing and analysis and requested vendor invoices and customer purchase orders (POs) to reconcile to the sales data reported by the DIR vendors in their monthly VSRs. Of the 30 customers contacted, only 20 provided the requested documentation.

Review of the documentation obtained from the DIR customers identified a total of \$102,836 (3.3% of \$3,105,684) in eligible sales that were not reported to DIR by vendors. Unreported sales negatively impact the cost-recovery operations of the DIR. Furthermore, Internal Audit identified a vendor who frequently matched the “invoice date” and “the PO date” to the “sale date” reported in the VSR instead of reporting the true “invoice date” and true “PO date” as reflected on the vendor invoice and customer PO. Due to this discrepancy, the auditors could not reconcile the vendor invoices or customer POs to the sales data reported in the monthly VSRs from this specific vendor. In addition, the auditors noted inconsistencies between the “PO date” and the “order date” reported in the VSRs. The DIR Program staff indicated that in most cases the “order date” included in the VSRs should correspond to the “PO date” reflected in the customer PO. Internal Audit also learned that required date fields included in the VSR template such as the “order date” and the “sales date” do not have set definitions and are subject to interpretation by vendors. Therefore, while some vendors accurately report the “PO date” as the “order date”, other vendors report “order dates” that cannot be reconciled to the vendor’s invoice or the customer PO. The auditors did not receive clear guidance from the Program staff on the “order date” the vendors should use to report their sales to DIR. However, with no clear guidance of reporting requirements and clear definitions of relevant dates required to be included in the VSRs, the vendors are unable to consistently report their sales and remit accurate administrative fees to DIR. As a result, DIR is unable to maintain an accurate account of all sales under the agency contracts. In addition, administrative fee rates are calculated based on the “order date.”

**Eligible Customer:**

Any Texas state agency, unit of local government, institution of higher education and those state agencies purchasing from a DIR contract through an Interagency Agreement, any local government and the state agencies and political subdivisions of other states, and assistance organizations

*Source: Texas Government Code, Chapters 2054 and 2170.*

**Recommendation:**

The DIR Technology Sourcing Office (TSO) should:

- A. Develop and implement VSR reporting documentation consistent with agency policy and contract provisions that includes clear definitions and detailed guidance on reporting requirements, reporting compliance, reporting timeframes, and reporting expectations.

**Management Response:**

*The DIR TSO agrees with Internal Audit’s recommendation.*

*TSO will modify contract documents to identify when a new vendor should begin reporting. Contract language will be revised beginning with new solicitations effective November 1, 2015. TSO will update Standard Operating Procedures. TSO will modify the VSR reporting documents to enhance guidance on reporting requirements, reporting compliance, reporting timeframes and expectations. TSO will*

*modify Vendor Orientation Agendas to ensure training for vendors is provided to address the reporting requirements.*

*Estimated Completion Date: September 30, 2016*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*
- *TSO Enterprise Contract Management Manager*

- B. Develop and implement a process to train, monitor, and enforce compliance with the VSR reporting documentation and contract provisions.

***Management Response:***

*The DIR TSO agrees with Internal Audit's recommendation.*

*TSO will develop a process and timeline to identify vendors not in compliance with the DIR contract payment requirements. Contract language will be revised beginning with new solicitations effective November 1, 2015. TSO will coordinate with the CFO and ITS divisions to enhance existing reports to create a reporting tool to identify non-compliant vendors. TSO will update Standard Operating Procedures. TSO will provide training to vendors on VSR reporting documentation and will modify Vendor Orientation Agendas to ensure training for vendors is provided to address the reporting date requirements.*

*Estimated Completion Date: September 30, 2016*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*
- *TSO Enterprise Contract Management Manager*

- C. Develop and implement a risk-based oversight and monitoring system over all Program contracts to validate the accuracy of the sales data reported by DIR vendors in their monthly sales reports.

***Management Response:***

*The DIR TSO agrees with Internal Audit's recommendation.*

*TSO will seek guidance from Internal Audit and form a workgroup to develop risk-based methodology to validate the accuracy of the sales data reported by the DIR vendors in their monthly VSRs, and invite Internal Audit to participate as a non-voting member.*

*Estimated Completion Date: September 30, 2016*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*
- *TSO Enterprise Contract Management Manager*

## Issue 4: Timeliness of Administrative Fee Payments

DIR vendors do not always remit their administrative fees timely. From the VSRs selected for testing and analysis, Internal Audit identified a total of 138 administrative fee payments that were owed to DIR by vendors; 107 (77.5%) of the administrative fee payments were not remitted timely. The 107 payments were remitted 1-148 days late. The DIR contract standard terms and conditions state payments are due on the fifteenth (15th) calendar day after the close of the previous month period. In addition, the DIR contract allows for the assessment of a late fee of \$100 per day (up to \$1,000 per month), for vendors that submit three (3) late payments within any rolling twelve (12) month period. However, DIR is not currently enforcing late fee penalties for vendors that are not complying with the DIR contract payment requirements.

Currently, DIR does not have the processes in place to identify vendors that remit their payments late or to properly assess the late fee penalty. As a result, vendors do not have an incentive to pay their administrative fees timely. Without consistent and timely remittance of administrative fees from the Program vendors it is difficult to have accurate records for Program cost recovery purposes and agency operations.

**Recommendation:**

The DIR Technology Sourcing Office (TSO) should:

- A. Coordinate with the Chief Financial Office (CFO) to develop and implement a process, including a time frame, to identify vendors that are not in compliance with the DIR contract payment requirements and do not remit their administrative fee when due to DIR.

***Management Response:***

*The DIR TSO agrees with Internal Audit's recommendation.*

*TSO will develop a process and timeline to escalate and document non-compliance with the contract late VSR reporting. TSO will work to develop a process and timeline to identify vendors not in compliance with the DIR contract payment requirements. TSO will coordinate with the CFO and ITS divisions to enhance existing reports to create a reporting tool to identify non-compliant vendors.*

*Estimated Completion Date: December 31, 2016*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*
- *TSO Enterprise Contract Management Manager*
- *TSO Sourcing Analytics Analyst*
- *CFO CAPPs Lead*
- *Information Technology Services (ITS) Application Delivery Manager*

- B. Develop and implement a monitoring process, including a time frame, to 1) identify, vendors who have submitted at least three (3) late fee payments in a rolling twelve month period, 2) assess the corresponding late fee penalty, and 3) collect the penalty assessed.

***Management Response:***

*The DIR TSO agrees with Internal Audit's recommendation.*

*TSO will develop a process to track vendors with repeated late payments, assess late fees, and monitor collection of assessed late fees.*

*Estimated Completion Date: December 31, 2016*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*
- *TSO Enterprise Contract Management Manager*
- *TSO Sourcing Analytics Analyst*
- *ITS Application Delivery Manager*

## Issue 5: Accuracy of Administrative Fee Payments

DIR vendors do not always remit accurate administrative fees. While Internal Audit verified the administrative fee rates within the Contract Management System were correctly entered and supported by contract documentation, the auditors also identified 7 of 138 (5.8%) payments received from the DIR vendors were not remitted for the correct administrative fee owed. In one instance, Internal Audit could not reconcile the payments received due to two (2) overpayments made by the vendor. Further follow-up showed, DIR staff identified and confirmed the overpayments, and refunded the vendor in the amount of \$22,212.33 for the overpayments made. In another instance involving a separate vendor, the auditors identified five (5) payments that could not be reconciled resulting from two underpayments of \$76.06 and three overpayments of \$121.09.

According to Program staff, payment variances are primarily due to vendors remitting administrative fee payments for ineligible sales or calculating their administrative fee payment using the wrong fee rate. The reconciliation process of these payment variances is manual, labor intensive, and has to be repeated monthly.

The DIR contract standard terms and conditions require vendors to provide DIR with a detailed monthly report in the format required by DIR showing the dollar volume of any and all sales under the contract for the previous calendar month and that payment of the administrative fee shall be due on the fifteenth (15<sup>th</sup>) calendar day after the close of the previous month period.

**Ineligible Sale:**

A product or service identified in a monthly sales report that was sold to an ineligible customer or is not identified as a product or service included in an awarded contract, or is outside the scope of a contract.

*Source: DIR Technology Sourcing Office*

The Cooperative Contracts Program staff conducts extensive monitoring and forecasting for cost-recovery purposes from the administrative fee payments remitted by the DIR vendors on a monthly basis. Therefore, inaccurate fee payments and constant reconciliation of what vendors pay to what vendors owe can have a negative impact on the cost-recovery operations of the agency and create inefficiencies in the cost-recovery processes. In addition, the General Appropriations Act requires DIR to limit the administrative fees of the Cooperative Contracts Program to no more than two percent (2%) per receipt. An overpayment, if significant enough, could potentially result in the Program receiving more administrative fees than allowed by statute.

**Recommendation:**

The DIR Technology Sourcing Office (TSO) should:

- A. Coordinate with the CFO division to develop and implement a process, including timelines, to determine administrative fees owed by the vendors before payment is remitted to DIR in an effort to reduce payment variances and reconciliation efforts.

***Management Response:***

*The DIR TSO agrees with Internal Audit's recommendation.*

*TSO is working to develop a portal for vendors to report sales which should allow for quicker calculation of vendor sales and fees due. This will be Phase II of the portal design; the customer portion being Phase I. It is management's intent that Phase III will incorporate automating the process to identify eligible vs. non-eligible vendor sales. TSO will also ensure that contract terms, conditions, and policies are modified accordingly.*

*Estimated Completion Date: September 30, 2017*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*
  - *TSO Sourcing Analytics Analyst*
  - *ITS Application Delivery Manager*
- B. Develop and implement a process to calculate and notify the vendors of their administrative fee owed to DIR before payment is made, including a time frame, for vendors to remit their administrative fee after being notified by DIR; and revise the DIR contract standard terms and conditions and agency policy accordingly.

***Management Response:***

*The DIR TSO agrees with Internal Audit's recommendation.*

*TSO is working to develop a portal for vendors to report sales which should allow for quicker calculation of vendor sales and fees due. This will be Phase II of the portal design; the customer portion being Phase I. It is management's intent that Phase III will incorporate automating the process to identify eligible vs. non-eligible vendor sales. TSO will also ensure that contract terms, conditions, and policies are modified accordingly.*

*Estimated Completion Date: September 30, 2017*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*
  - *TSO Sourcing Analytics Analyst*
  - *CFO CAPPs Lead*
  - *ITS Application Delivery Manager*
- C. Develop and implement VSR reporting/ payment documentation consistent with agency policy and contract provisions that includes clear definitions and detailed guidance for administrative fee payment requirements, payment compliance, payment timeframes, and payment expectations.

***Management Response:***

*The DIR TSO agrees with Internal Audit's recommendation.*

*TSO will develop a process and timeline to identify vendors not in compliance with the DIR contract payment requirements. Contract language will be revised beginning with new solicitations effective November 1, 2015. TSO will update Standard Operating Procedures. TSO modify the VSR reporting/ payment documents to enhance guidance on payment requirements, payment compliance, payment*

*timeframes and expectations. TSO will modify Vendor Orientation Agendas to ensure training for vendors is provided to address the payment requirements.*

*Estimated Completion Date: September 30, 2016*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*
- *TSO Enterprise Contract Management Manager*

- D. Develop and implement a process to train, monitor, and enforce compliance with DIR administrative fee payment requirements, as documented in 5.C.

***Management Response:***

*The DIR TSO agrees with Internal Audit's recommendation.*

*TSO will develop a process and timeline to identify vendors not in compliance with the DIR contract payment requirements. Contract language will be revised beginning with new solicitations effective November 1, 2015. TSO will coordinate with the CFO and ITS divisions to enhance existing reports to create a reporting tool to identify non-compliant vendors. TSO will update Standard Operating Procedures. TSO will provide training to vendors on VSR administrative fee payment requirements and will modify Vendor Orientation Agendas to ensure training for vendors is provided to address the documented payment requirements.*

*Estimated Completion Date: September 30, 2016*

*Responsible DIR Management Staff:*

- *TSO Contracts and Vendor Management Manager*
- *TSO Enterprise Contract Management Manager*
- *TSO Sourcing Analytics Analyst*
- *ITS Application Delivery Manager*

## Issue 6: Information Systems Controls

The Contract Management System that collects, processes, stores, and reports on contract and sales data for the Cooperative Contracts Program is comprised of the Salesforce System, the SAP Business Objects Application, and the Data Warehouse. Monthly VSRs in the form of Excel spreadsheets are manually uploaded directly into the Data Warehouse by the Program staff.

To accomplish the audit objectives, Internal Audit reviewed existing documentation related to the accuracy and completeness of the contract data included in the Contract Management System, tested a sample of contract data from the Salesforce system for the month of November 2014, and reviewed selected system controls. In addition, the auditors traced selected data elements from the Salesforce System to and from the DIR website and contract documentation.

The results of the testing and analysis performed provided reasonable assurance that the likelihood of significant errors or incompleteness of the contract data included in the Salesforce system is minimal and the use of the data is unlikely to lead to incorrect information.

## Appendix A

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### Objective, Scope, and Methodology

The objectives of this audit were to determine whether:

- Cooperative contracts sales reports are accurate, complete, and received timely; and
- Administrative fees remitted for vendors' sales are accurately assessed and paid timely.

To accomplish these objectives Internal Audit interviewed staff from the Technology Sourcing Office, Chief Financial Office, Information Technology Services, and Office of General Counsel. The auditors selected samples of DIR vendors, sales reports, and administrative fee payments from the first quarter of FY 2015 (September 1, 2014 to November 30, 2014) for review, testing, analysis, and reconciliation. Internal Audit reviewed contracts, policies, procedures, and other relevant documentation. The auditors also assessed the reliability of the contract data in the Contract Management System by testing the contract data from November 2014.

## Appendix B

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### Internal Report Distribution

Department of Information Resources (DIR) Board

DIR Interim Executive Director

DIR Chief Financial Officer

DIR Chief Operations Officer

DIR Technology Sourcing Office Director

DIR Contracts and Vendor Management Manager

DIR Enterprise Contract Management Manager

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