Chief Operations Office

TEX-AN Vendor Management and Performance

Internal Audit Report 18-101

July 2018

Department of Information Resources

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Executive Summary

This report summarizes the scope, results, and recommendations from the work performed in conducting the TEX-AN Vendor Management and Performance audit. This performance audit was included in the approved Fiscal Year 2018 Internal Audit Annual Plan.

This audit project was included in the Fiscal Year 2018 Internal Audit Annual Plan. The **audit objective** was to assess whether the TEX-AN vendors were (a) being properly managed and (b) performing in accordance with established service level agreements. The **audit scope** included operations and contract management activities from September 1, 2017 through June 30, 2018. See details about the **scope and methodology** for this audit in Appendix A.

Overall, TEX-AN vendors were managed as required based on the controls in place at DIR, and responsibilities were shared among the operations team, contract management, and finance divisions. Although DIR's control environment includes standing meetings with TEX-AN vendor representatives, including monthly operations meetings as well as quarterly performance meetings, ongoing vendor performance issues were noted, and, in some instances, formal plans describing remediation efforts were not formalized and completed timely. Vendor compliance with contracted service level agreements (SLAs) could not always be validated since performance results were self-reported, and DIR has no visibility into TEX-AN vendors' information systems and source data.

Based on the results of audit work performed, more comprehensive policies and procedures should be developed to provide assurance on the integrity and reliability of self-reported performance data. Issues were reported in three main categories: vendor performance, vendor management, and DIR process improvements, as summarized below.

Vendor Performance

- Telecom services were provided to DIR customers under vendor direct billed contracts when DIR billed contracts should have been executed.
- Customer facing TEX-AN vendor websites had invalid email addresses, outdated customer service information, superseded contract document references, and were not updated to ensure existing and potential DIR customers have access to current information.
- One TEX-AN vendor stopped submitting the required marketing plans as required by contract.
- In some cases, telecom services and pricing could not be found in contract documents.
- TEX-AN vendors took longer than required to deactivate telecom services resulting in customers being invoiced until the vendors updated completion dates for the deactivations requested.

Vendor Management

- One of the six TEX-AN vendors continued to overbill for federal universal service fund (FUSF) fees after disputes were communicated to the vendor. DIR management is negotiating credits from the vendor and plans to update terms and conditions to prevent TEX-AN vendors from using the previous method for charging these types of fees.
- DIR continues to work with the TEX-AN vendors on billing disputes past the contracted dispute resolution window and that were not resolved/ credited by the vendors.
- Disputes in pending resolution status with dates from 2014, had no evidence showing that 1) the billing dispute issues had been escalated to include Chief Procurement Office (CPO) leadership for timely closing, resolution, or enforcement, and 2) reconciliations were performed to identify which credits were applied to the open disputes.
- DIR staff had neither the tools or procedures to validate contracted service level agreement (SLA) performance data reported by the TEX-AN vendors.
- Late fees related to slow issuance of credits associated with billing disputes by the vendors had not been assessed or enforced by DIR.

DIR Process Improvements

- Existing policies and procedures for the TEX-AN Program were not documented in the standard DIR template format, were not comprehensive, up-to-date, and had not been formally reviewed and approved.
- The TEX-AN Program did not have a governance body in place with customer partner involvement to address systemic issues related to vendor performance and vendor management.
- The responsibilities of some DIR employees performing functions for the DIR Telecom Program were not properly separated and were incompatible for internal controls purposes.
- The Risk Assessment tool used to evaluate potential TEX-AN vendors did not consider risk factors at the enterprise level (DIR-E).

Background

Communications Technology Services (CTS) is a core program authorized by Texas Government Code (TGC) Chapter 2170, supporting statewide voice, video, and data services through the state's communications system, the Texas Agency Network (TEX-AN). There are three sections of the Texas Government Code that define the eligibility requirements that must be met for the use of Communications Technology Services. TGC §2170.004 defines which entities are eligible to use the state's telecommunications system. TGC §2170.051 stipulates that state agencies and government offices are required to use these services to the fullest extent possible, and state agencies cannot acquire telecommunications services from other sources without a waiver from the DIR executive director.

Under Texas statute (TGC §2170.004), DIR is authorized to offer TEX-AN services to a broad range of government and other entities that voluntarily take advantage of TEX-AN's reduced pricing. These voluntary customers include institutions of higher education, public schools and assistance organizations, as well as city and county governments. The increased customer base enhances DIR's ability to seek lower pricing on services and lower cost recovery fees, saving money not only for state agencies, but for all Texas government entities utilizing TEX-AN services.

To meet the diverse and evolving communications needs of its customers, DIR has established the next generation of TEX-AN services allowing DIR customers to meet their business goals by providing:

- competitive pricing
- increased choice of vendors offering high-quality advanced communications services
- enhanced business continuity capability through customer agreements
- converged services for greater flexibility to meet current and future business needs
- incentives for adopting newer technologies

TEX-AN Service Offerings

TYPE OF SERVICE	EQUIPMENT OWNER	DIR ROLE	VENDOR HELP DESK ROLE	VENDOR ROLE
TEX-AN Voice and Data Services	Customer	• Service Delivery • Customer Care and Support • Vendor Performance Monitoring • Vendor Management	Issue Management (Customers and DIR can report issues)	Network services, as ordered

Within the DIR role, in addition to managing the contract relationship with vendors, there are three major functions: service delivery, change management, and incident management (defined in the glossary).

This audit project was included in the Fiscal Year 2018 Internal Audit Annual Plan. The **audit objective** was to assess whether the TEX-AN vendors were (a) being properly managed and (b) performing in accordance with established service level agreements. The **audit scope** included operations and contract management activities from September 1, 2017 through June 30, 2018. The **audit methodology** included conducting interviews, attending operations and quarterly vendor performance meetings, obtaining and evaluating timely provisioning and deactivations related to customer orders, and reviewing reports and invoices submitted by TEX-AN vendors to address the audit objective. Additional details are documented in **Appendix A** of this report.

We conducted this performance audit in conformance with the International Standards for the Professional Practice of Internal Auditing and 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 issues and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our issues and conclusions based on our audit objectives.

Detailed Results

Overall, the TEX-AN vendors were managed as required based on the controls in place at DIR, and responsibilities were shared among the operations team, contract management, and finance divisions. Although DIR's control environment includes standing meetings with TEX-AN vendor representatives, including both monthly operations meetings and quarterly performance meetings, ongoing vendor performance issues were noted, and, in some instances, formal plans describing remediation efforts were not formalized and completed timely. Vendor compliance with contracted service level agreements (SLAs) could not always be validated since performance results are self-reported, and DIR has no visibility into TEX-AN vendors' information systems and source data.

Based on the results of the audit work performed, more comprehensive policies and procedures could be developed to provide assurance on the integrity and reliability of self-reported performance data. Several key recommendations were made to improve processes that will help strengthen internal controls to better address recurring vendor performance issues. There are strong dependencies on telecommunications providers, and alternative vendors are generally not available for services provided to DIR customers. Based on the results of the audit work performed, more comprehensive procedures could be developed to support vendor management efforts and improve vendor performance.

Some of the high and priority recommendations included:

- Implement a methodology to periodically monitor TEX-AN vendor sales to ensure the telecom 1) sales are properly accounted for, 2) services are provided under the correct TEX-AN contract, and 3) vendors are held accountable through remediation, when needed.
- Develop and implement a Dispute Tracking System to automate the dispute tracking process and that allows the DIR staff to 1) apply credits to specific disputes, and 2) identify recurring issues (e.g. incorrect rates, incorrect timing of initial or final billing) for corrective action and reporting purposes. In addition, dispute management procedures should clearly define escalation terms and time frames to move up the management chain unresolved disputes, and apply contractual remedies, as needed.
- Develop and implement procedures to validate SLA performance targets reported by the TEX-AN vendors and request supporting data or access to source data from the TEX-AN vendors to validate the performance targets reported.
- Establish a governance group with customer partner involvement to 1) collect customer feedback and input periodically, and 2) escalate recurring performance issues for prompt resolution.
- Coordinate with the Chief Financial Office (CFO) to segregate the duties assigned to the Telecom Billing Manager to ensure this individual does not request and approve vendors' payments and establish a second level review process to avoid situations where individuals perform routine billing tasks, such as reconciliations, also approve the transactions.
- Separate and assign responsibilities for user and system administration functions for the Telecom Billing System. Identify someone other than the System Administrator to assist with telecom billing activities such as: entering order data, importing billing data, updating item codes and rate details, and generating and troubleshooting discrepancies found in the billing process. Coordinate with Information Technology Services (ITS) to cross-trained another DIR employee to perform the tasks currently performed by the Telecom Billing System Administrator.
- Coordinate with the Chief Procurement Office (CPO) to revise the risk assessment matrices for the TEX-AN contracts to ensure they address risk at both the DIR-A and DIR-E levels and ensure that risk matrices are calculated using enterprise risk, rather than DIR specific risk.

DIR management concurred with the results and recommendations reported by Internal Audit and provided action plans, estimated completion dates, and assigned responsibility to management staff for implementing the recommendations.

Risk ratings are described below.

Issue Rating	Description of Rating
Low	The audit identified strengths that support the agency's ability to administer the activity audited or the issue identified does not present a significant risk or effects that would negatively affect the agency's ability to effectively administer the activity audited.
Moderate	The issue identified presents risks or effects that if not addressed could moderately affect the agency's ability to effectively administer the activity audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	The issue identified presents risks or effects that if not addressed could substantially affect the agency's ability to effectively administer the activity audited. Prompt action is essential to address the noted concern(s) and reduce risks to the agency.
Priority	Issues identified presents risks or effects that if not addressed could critically affect the agency's ability to effectively administer the activity audited. Immediate action is required to address the noted concern(s) and reduce risks to the agency.

Reported results were divided into 3 main categories as described in the sections below: vendor performance, vendor management, and other process improvement issues.

- Vendor performance topics explicitly align to the operational tasks required to provide a service to a customer from initial order, through installation and service, billing and cancellations.
- Vendor management refers to the practices in place to manage vendor performance as required by TEX-AN contracts and mandated under Texas Government Code § 2170, Telecommunications Services.
- Other process improvements were recommendations directed to DIR management about internal processes and organizational issues.

Section 1: Vendor Performance Issues

Vendor performance topics explicitly align to the operational tasks required to provide a service to a customer from initial order, through installation and service, billing and cancellations.

Issue 1: Not Providing Telecom Services Under the Correct Contract

Condition	Telecom services were provided to DIR customers using the direct sales contracts instead of using the TEX-AN contracts that require services to be billed to customers by DIR. Go-Direct (direct sale) contracts are executed between the vendor and the customer and customers receive bills and customer support directly from the vendor. Under the DIR-billed TEX-AN contracts, DIR is notified about the services, and the vendor adds a cost recovery fee to the services provided. DIR manages these services provided to its customers. When errors were noted either by the DIR customers and the audit team, the vendors had not been held accountable to ensure they remediated the errors timely by 1) updating the contracts and services, 2) recalculating service fees, and 3) calculating the lost cost recovery fees (CRFs).
Criteria	Texas Government Code (TGC) § 2170.051 notes that DIR shall manage the operation of a system of telecom services for all state agencies. The TEX-AN contracts define services that may be billed directly to DIR customers.
Cause	DIR has limited visibility into the systems of record used by the TEX-AN vendors to report vendor performance. The process to provision TEX-AN services and market to DIR customers is managed on a case by case basis. Currently, unless DIR customers contact DIR staff directly, DIR may not be aware of how services were provisioned or what information the vendors provided to the DIR customers.
Effect	Without proper monitoring and timely remediation efforts, vendors may provide telecom services under the wrong TEX-AN contract.

Audit Recommendations	DIR management from the Chief Procurement Office (CPO) should: A. Implement a methodology to periodically monitor TEX-AN vendor sales to ensure the telecom 1) sales are properly accounted for, 2) services are provisioned under the correct TEX-AN contract, and 3) vendors are held accountable through remediation, when needed. B. Ensure vendors promptly correct errors already noted, including updating the corresponding contracts, migrating services from the direct sales contracts, re-calculating/ updating the service fees, and calculating/ paying the Cost Recovery Fees (CRFs) due to DIR, if any.
Management Response	
Statement of Agreement	DIR management from the CPO agreed with Internal Audit's recommendations.
Action Plans	A. DIR management will establish a procedure for periodically monitoring TEX-AN sales for compliance and appropriate actions to be taken for corrective measures. B. DIR management will establish a procedure for corrective measures that must be taken for any TEX-AN sales non-compliance.
Planned Implementation Date	December 31, 2018
Responsible Leadership	CPO, Director, Enterprise Contracts

Issue 2: Vendors Not Updating Their Customer Facing Website Links

Condition	Customer facing TEX-AN vendor websites had invalid email addresses, outdated customer service information, and superseded contract document references. The websites were not updated to ensure existing and potential DIR customers have access to current information.

Criteria	DIR contracts with the TEX-AN vendors require the vendors to timely update contract terms, offerings, and other contract-related information in their respective websites.
Cause	The timely update of these websites does not appear to be part of the vendors' periodic review and monitoring processes.
Effect	DIR existing and potential customers have access to inaccurate and outdated information related to telecom services and may be unable to reach a customer service representative to solution existing or additional services needed.
Audit Recommendations	DIR management from the Chief Procurement Office (CPO) should: A. Ensure TEX-AN vendor websites are periodically reviewed for timely updates to pricing, contract details, DIR and vendor contacts, and any other links to the DIR website or other locations associated with TEX-AN contracts. B. Retain evidence of the review of TEX-AN vendor websites with each contract file as part of monitoring documentation.
Management Response	
Statement of Agreement	DIR management from the CPO agreed with Internal Audit's recommendations.
Action Plans	A. DIR management currently reviews vendor websites during the renewal process to validate vendor website content accuracy. DIR management will, as part of its review of the vendors annual management plan review, include steps to address vendor websites are periodically reviewed during the term of the contract for timely updates. B. DIR management will retain evidence by documenting the vendor website compliance reviews for each contract file.
Planned Implementation Date	December 31, 2018
Responsible Leadership	CPO, Director, Enterprise Contracts

Issue 3: One TEX-AN Vendor Did Not Submit Required Marketing Plans

Condition	One of the TEX-AN vendors was acquired by another TEX-AN vendor in October 2017, and the acquired vendor stopped submitting marketing plans after September 2017. The acquired vendor was still operating as a separate legal entity, and no approval was obtained from DIR to discontinue submitting the required marketing plans. A Marketing Plan is a contract deliverable that describes the vendor's resources and activities to promote the Communications Technology Services (CTS) Program and to increase the number of DIR customers.
Criteria	Per contract requirements, the purpose of the Marketing Plan is to define the TEX-AN vendor's overall marketing and sales strategy for the TEX-AN contract. The vendors are required to submit monthly marketing plans to include at least three marketing activities per month. Article 11 of the contract, Remedies and Disputes, states that administrative remedies may be imposed by DIR on a case by case basis. These remedies may include additional, more detailed marketing and/or performance reports to be submitted by the vendor. Section 11.02(b)(1) indicates that within 10 calendar days (or another date approved by DIR) of vendor's receipt of written notice of deficiency, the vendor shall provide DIR a written response that: (a) explains the reasons for the deficiency, vendor's plan to address the deficiency, and the date and time by which the deficiency will be cured; and (b) if the vendor disagrees with DIR's findings, its reasons for disagreeing with DIR's findings.
Cause	The vendor did not submit required marketing plans due to miscommunication between DIR and a vendor representative. The acquired company retained its legal status as a separate entity; therefore, no changes should have occurred without a contract update or amendment.
Effect	Without submitting the required marketing plans, the acquired vendor is out of compliance with the terms of their contract with DIR.
Audit Recommendations	DIR management from the Chief Operations Office (COO) should:

	A. Coordinate with the Chief Procurement Office (CPO) to request and obtain the missing contract deliverables from the vendor. B. Require TEX-AN vendors to continue submitting all contract deliverables until changes are approved and memorialized through a contract amendment or a contract change request.
Management Response	
Statement of Agreement	DIR management from the COO agreed with Internal Audit's recommendations.
Action Plans	A. DIR management coordinated with the Chief Procurement Office to request and obtain the missing contract deliverables from the vendor. B. Require TEX-AN vendors to continue submitting all contract deliverables until changes are approved and memorialized through a contract amendment or a contract change request.
Planned Implementation Date	A. March 1, 2018 (Implemented) B. March 1, 2018 (Implemented)
Responsible Leadership	COO, Director of CTS Operations

Issue 4: Billing Item Details Not Traceable to Contract Documents

Condition	System services and pricing details were not always traceable to existing contract documents. Internal Audit selected a sample of 30 billed items from the Telecom Billing System between September 2017 to February 2018, to identify whether customers were being accurately billed for telecom services. Of the 30 billed items selected, 11 billed items included pricing that could not be traced back to the applicable pricing exhibits included in the TEX-AN contracts. Management provided audit evidence for "Individual Case Basis" (ICB) orders and other fees passed from local exchange carriers to the TEX-AN vendor and

	ultimately to a customer bill that do not become part of contract pricing exhibits.
Criteria	Exhibit C of the TEX-AN contracts include all current Telecom services allowed under the contract, including the specific rates/ percentages for each service authorized. Internal Audit noted that ICBs are allowed by contract.
Cause	According to the DIR Contract Procurement Office (CPO) management, valid business reasons for why pricing would not directly align with the existing contract include: • Construction costs. • Early termination penalties of 50% of monthly recurring charge (MRC) for months not completed. • Some customer requests include all services bundled in one invoice. • Customers continue to buy telecom services from old contracted prices and are "grandfathered" the previous prices until the previous pricing agreement expires. ICB is used when pricing cannot be added to contract pricing exhibits due to a non-standard/ unknown piece of the service, for example, a local loop charge from a local exchange carrier (LEC) that the vendor must pay for in order to deliver a service.
Effect	DIR is not able to confirm the accuracy of pricing if the amount charged cannot be traced back to contract documents, resulting in less effective management of the TEX-AN Program.
Audit Recommendations	DIR management from the Chief Operations Office (COO) should: A. Ensure the Telecom Billing System includes a unique value for each telecom service and price listed on the TEX-AN vendors' contracts to ensure they are aligned and can be reconciled. B. Perform trend analysis on ICB orders to review billed items to ensure rates are reasonable and aligned with contract requirements.
Management Response	
Statement of Agreement	DIR management from the COO agreed with Internal Audit's recommendations.

Action Plans	DIR management from the Chief Operations Office (COO) will: A. Ensure the Telecom Billing System includes a unique value for each telecom service and price listed on the TEX-AN vendors' contracts to ensure they are aligned and can be reconciled. B. Perform an annual trend analysis of ICB rates to ensure rates are reasonable. The analysis will include a review of rates to ensure rates are within an acceptable range and where possible, DIR will compare the rates to the TEX-AN annual benchmarked rate(s).
Planned Implementation Date	A. September 1, 2019 B. February 28, 2019
Responsible Leadership	COO, Director of CTS Operations

Issue 5: Deactivation Orders Not Processed Timely

Condition	TEX-AN vendors took longer than required to deactivate telecom services resulting in customers being invoiced until the vendors reported completion dates for the deactivations requested.
Criteria	DIR customers must not pay for services not requested. Per the Contractual Order Processing Plans (TEX-AN Contract Exhibit Fs), vendors are required to provide communications for order confirmations. Remedies can be assessed when vendors do not perform as required by their contracts.
Cause	For end date validation purposes, DIR staff compares the vendor reported completion date (actual date of completion) from the system of record for work orders to the current billing end date, rather than to the contractual periods to complete a deactivation. Currently, there are no contractual remedies for untimely disconnections of service.
Effect	When TEX-AN vendors do not confirm the receipt of deactivation orders and/or do not complete these services timely, DIR customer charges continue for services no longer needed. This

	also requires additional resource time to investigate and follow up on missing notifications.
Audit Recommendations	DIR management from the Chief Operations Office (COO) should: A. Update the process that detects orders not timely processed by the vendors to include steps to track open items over the allowed contractual time frames. Consider setting automatic email alerts to remind vendors when they have not appropriately responded. Hold the vendors accountable for non-compliance. B. Coordinate with the Chief Procurement Office (CPO) to amend existing contracts to add clauses related to remedies for untimely disconnection of services. C. Coordinate with the Chief Financial Office (CFO) staff to validate deactivations by comparing the end date of deactivations by contract to the completion date, as reported by the vendor in the Telecom Billing System. Create billing disputes for each variance noted. D. For all end of service deactivations, set the billing end date to the amount of days allowed by the TEX-AN order processing or service delivery plans in the existing worksheets.
Management Response	
Statement of Agreement	DIR management from the COO agreed with Internal Audit's recommendations.
Action Plans	A. DIR management will update the process that detects orders not timely processed by the vendors to include steps to track open items over the allowed contractual time frames. Management will consider setting automatic email alerts to remind vendors when they have not appropriately responded. The Remedy Ordering system in place today cannot send automatic alerts to vendors, however DIR will look to see if a modification can be made to the system to allow this in the future. B. Management will coordinate with the CPO to add accountability measures for non-compliance in the next TEX-AN contracts.

	C. Management will coordinate with the CFO to track actual completion date against the Vendors' management plans and create billing disputes for each variance noted in the next TEX-AN contracts. D. Management will explore the possibility of setting the billing end date to the amount of days allowed in the vendors' management plans for deactivations that do not meet the allowable dates and did not meet these dates at the sole responsibility of the vendor. Some customers may request dates outside of the allowable dates or may ask to have the disconnect delayed. This will be done in the next TEX-AN contracts.
Planned Implementation Date	A. February 28, 2019 B. May 1, 2021 C. May 1, 2019 D. May 1, 2019
Responsible Leadership	COO, Director of CTS Operations

Issue 6: Vendor Notifications of Work Orders Not Processed Timely

Condition	Internal Audit selected a sample of TEX-AN work orders for activation, service changes, and deactivation requests from DIR customers. Vendors were late on at least one required notification date for 18 of 30 (or 60%) of the work orders selected for review. DIR did not have a process in place to request, evaluate, and address the root cause of the delays noted. In addition, updated performance schedules were not tracked when notifications had not been processed timely or were missed.
Criteria	All TEX-AN contracts have service delivery requirements as noted in the Service Delivery Management Plans. A notification to DIR staff is required four times during the order process. The specific requirements for expectations surrounding timeliness are defined in each TEX-AN contract and include:

	• Work Order Acknowledgement (WOA) – The vendor must respond to the initial order from DIR to confirm receipt. • Order Confirmation (OC) – The vendor acknowledges that the order contains all the required fields and accurately reflect pricing. • Firm Order Confirmation (FOC) – Written acknowledgement from the vendor that it has accepted an Order from DIR. • Service Order Completion Notice (SOCN) – Written notice from the vendor that contains data elements notifying DIR and/or the DIR customer that the service for a given work order has been fully installed and is ready for acceptance.
Cause	According to management from the Chief Operations Office (COO), the TEX-AN vendors are more concerned about meeting the overall due date intervals between the order issuance and order completion for the customer and less about providing prompt notifications to DIR staff.
Effect	Without prompt notifications from the TEX-AN vendors, DIR is unable to track the progress of service requests, effectively manage vendor performance issues, and update the billing records timely.
Audit Recommendations	DIR management from the Chief Operations Office (COO) should: A. Ensure TEX-AN vendors process all required notifications to DIR staff timely. Track and report on the timeliness of required notifications, individual case basis service requests/ projects. B. Update the notification tracking process to request, evaluate, and address the root cause for notification delays. C. Coordinate with the Chief Procurement Office (CPO) to update the TEX-AN contract to include clauses regarding remedies for vendors' non-compliance with required notifications to DIR.
Management Response	
Statement of Agreement	DIR management from the COO agreed with Internal Audit's recommendations.
Action Plans	DIR management will:

	A. Consider developing a process to track and report on the timeliness of required notifications, individual case basis service requests/ projects. This is a manual process today and will require automation. B. Update the notification tracking process to request, evaluate, and address the root cause for notification delays. C. Coordinate with the Chief Procurement Office (CPO) to include clauses regarding remedies for vendors' non-compliance with required notifications to DIR in the next TEX-AN contracts.
Planned Implementation Date	A. February 28, 2019 B. February 28, 2019 C. May 1, 2021
Responsible Leadership	COO, Director of Customer Service Operations

Section 2: Vendor Management Issues

Vendor management refers to the practices in place to manage vendor performance as required by TEX-AN contracts and mandated under Texas Government Code § 2170, Telecommunications Services.

Issue 7: Missing Letters of Agency for Orders from Pricing Consultants

Condition	DIR's Solutions Team executed orders for telecom services from pricing consultants on behalf of DIR customers without a Letter of Agency (LOAs). Internal Audit noted three work orders that were executed without LOAs showing evidence of authorization to the pricing consultant to place orders of behalf of the DIR customer.
Criteria	DIR's TEX-AN Program mission is to ensure efficient operation of the telecommunications system at a minimum cost to the state. Per Texas Government Code (TGC) § 2170.004, DIR is authorized to offer TEX-AN services to a broad range of government and other entities that voluntarily take advantage of TEX-AN reduced pricing. However, this does not provide for others to contract on behalf of customers. A separate legal

	agreement on file is needed to support the third-party authorization to execute agreements on behalf of DIR customers.
Cause	No policies and procedures have been developed and implemented to ensure the collection of LOAs is consistently performed for telecom services ordered from pricing consultants.
Effect	Without LOAs, TEX-AN vendors are executing orders to unauthorized customers for telecom services at a lower cost. This places DIR at risk of non-compliance with TGC 2170.
Audit Recommendations	DIR management from the Chief Operations Office (COO) should: A. If third party pricing consultants initiate orders on behalf of DIR telecom customers, ensure a Letter of Agency is retained in customer records. B. Develop and implement policies and procedures to ensure the collection of Letter of Agency is consistently performed for telecom services ordered from pricing consultants.
Management Response	
Statement of Agreement	DIR management from the COO agreed with Internal Audit's recommendations.
Action Plans	A. DIR management will ensure LOAs are obtained before accepting orders from a consultant and these LOAs will be kept in a centralized folder accessible by the Solutions staff. B. DIR management will develop polies and procedures for the collection and retention of LOAs. C. LOA process will ensure the LOAs specifically state the consultant is able to order on the customer's behalf.
Planned Implementation Date	A. August 31, 2018 B. August 31, 2018 C. August 31, 2018
Responsible Leadership	COO, Director of Customer Service Operations

Issue 8: One Vendor Over-Charging for Federal Universal Service Fund Fees

Condition	Currently, the Federal Communications Commission (FCC) allows vendors to select an option for charging Federal Universal Service Fund (FUSF) fees based on 1) actual service consumption or 2) using a safe harbor method that applies pre-established percentages to all calls on telecom bills. One of the six TEX-AN vendors used the safe harbor method resulting in pending billing disputes for overcharges to DIR.
Criteria	The FCC requires telecom companies to pay a percentage of interstate revenue. This figure can be calculated by 1) direct use (i.e. 10 calls were made, 3 of which were interstate calls, results in 3 calls having FUSF fees) or 2) safe harbor (i.e. 10 calls were made, the FUSF fee is automatically applied as a percentage of each call.)
Cause	Because a large majority of the state's calls are intrastate, the use of the safe harbor method for computing FUSF fees leads to higher bills for similar services provided.
Effect	Without a defined contract provision related to acceptable methods for applying fees, vendor calculations result in overcharges to the state for telecom services.
Audit Recommendations	DIR management from the Chief Operations Office (COO) should: A. Coordinate with the Chief Procurement Office (CPO) to amend the TEX-AN contract to include language that requires FUSF fees be based on actual use. B. Require the TEX-AN vendors to start charging FUSF fees based on actual use. C. Evaluate other telecom fees or taxes charged to the DIR customers to ensure fees or taxes charged are in the best interest of the DIR customers. Coordinate with the CPO to amend the TEX-AN contract, as needed.

Management Response	
Statement of Agreement	DIR management from the COO agreed with Internal Audit's recommendations.
Action Plans	DIR management from the Chief Operations Office (COO) will: A. Coordinate with the Chief Procurement Office (CPO) to amend the TEX-AN contract to include language that requires FUSF fees be based on actual use. B. Require the TEX-AN vendors to start charging FUSF fees based on actual use. C. Evaluate other telecom fees or taxes charged to the DIR customers to ensure fees or taxes charged are in the best interest of the DIR customers. Coordinate with the CPO to amend the TEX-AN contract, as needed.
Planned Implementation Date	A. May 1, 2021 B. September 1, 2018 C. February 28, 2019
Responsible Leadership	COO, Director of CTS Operations

Issue 9: Vendor Disputes Not Effectively Managed

Condition	DIR continues to work with the TEX-AN vendors on billing disputes past the contracted dispute resolution window and that are not resolved/ credited by the vendors. Billing disputes are tracked in monthly MS Excel spreadsheets (dispute files) by the DIR staff and shared with the TEX-AN vendors for agreement and resolution. Vendors change their response from agreement to "need more information" from one month to the next. Based on the review performed, disputes in pending resolution status with dates from 2014, had no evidence showing that 1) the billing dispute issues had been escalated to the Contract Procurement Office (CPO) for timely closing, resolution, or enforcement, and 2) reconciliations

	were performed to identify which credits were applied to the open disputes.
Criteria	Per the TEX-AN contract, vendors should investigate, report on, and use reasonable business efforts to resolve disputes within 60 calendar days disputes that involve less than or equal to $15,000 and within 90 calendar days disputes that involve amounts greater than $15,000. The time frame starts with the submission of the dispute by DIR staff and ends with the satisfactory resolution of the dispute.
Cause	Each TEX-AN vendor has its own billing information system, and these systems do not directly interface with the DIR's accounting system. Although payments to TEX-AN vendors for telecom bills are processed using the statewide accounts payable system, detailed billing data is transferred from the Telecom Billing System in a summarized format, and dispute details are managed in MS Excel spreadsheets/ dispute files manually.
Effect	Opening and ending statement balances for some TEX-AN vendors increased over time, suggesting a delay in vendors applying credits to DIR invoices. For some vendors, a lump sum credit had to be negotiated to clear older balances.
Audit Recommendations	DIR management from the Chief Financial Office (CFO) should: A. Review current dispute tracking process and identify recurring issues related to tracking, timeliness and materiality in applying credits to specific disputes. B. Coordinate with the Chief Procurement Office (CPO) to update dispute management procedures to clearly define escalation terms and time frames to move up the management chain unresolved disputes, and apply contractual remedies, as needed.
Management Response	
Statement of Agreement	DIR management from the CFO agreed with Internal Audit's recommendations.
Action Plans	A. CFO management will evaluate the current dispute process and identify opportunities to modify existing processes. This will include (a) monitoring the materiality of disputes as a part

	of the total invoice and (b) identifying opportunities to improve the timeliness of resolution. B. CFO will work with CPO to establish a formal process to provide billing dispute detail for TEX-AN vendors that are in noncompliance with dispute resolution timelines for enforcement of contract remedies. CFO will also continue collaborating with CPO on related items in Issue11 regarding contract remedies and the assessment of late fees.
Planned Implementation Date	December 31, 2018
Responsible Leadership	CFO, Director of Accounting; Telecom Accounts Receivable/ Payables Manager and CPO, Director of Enterprise Contracts

Issue 10: Vendor Reported Performance Could Not Be Validated

Condition	DIR staff had neither the tools or procedures to validate contracted service level agreement (SLA) performance data reported by the TEX-AN vendors. Limited manual review is performed for quality assurance purposes that includes: • Confirming that the required files were received on time and in the correct format. • Reviewing whether reported failures were forwarded to billing. • Determining whether incidents reported to DIR were included on the list of incidents reported by the TEX-AN vendors. Currently, there is no technical validation of the contracted SLA metrics reported by the vendors.
Criteria	All TEX-AN contracts have SLAs which are the basis for vendor performance reviews. The Service Delivery Management (SDM) procedure document indicates that SLAs must be tracked and monitored. In addition, the Texas Government Code (TGC) § 2155.322, Inspection and Certification, requires state agencies to (1) inspect

	and evaluate at the time of receipt all goods or services that the agency receives to determine whether the goods or services comply with the contract under which they were purchased; and (2) certify, if true, that the goods or services comply with contract requirements and that the invoice for them is correct.
Cause	DIR does not have access to the source data processed by the vendors' information systems or records to validate the performance data reported by the vendors.
Effect	When incident start dates that support reported performance measures cannot be validated, DIR cannot assess remedies for inaccurate or incomplete reports.
Audit Recommendations	DIR management from the Chief Operations Office (COO) should: A. Develop and implement procedures to validate SLA performance results reported by the TEX-AN vendors. B. Request supporting data or access to source data from the TEX-AN vendors to validate the performance results reported.
Management Response	
Statement of Agreement	DIR management from the COO agreed with Internal Audit's recommendations.
Action Plans	DIR management will: A. Develop and implement procedures to validate SLA performance results reported by the TEX-AN vendors and request supporting data. B. Require access to source data from the TEX-AN vendors to validate the performance results reported in the next TEX-AN contracts.
Planned Implementation Date	A. February 28, 2019 B. May 1, 2021
Responsible Leadership	COO, Director of CTS Operations

Issue 11: Contract Remedies Were Not Always Assessed or Enforced

Condition	Each TEX-AN contract includes service level agreements (SLAs) the vendors must meet and report on and a means of assessing remedies for non-compliance with the contract provisions. Based on the results reported, billing credits may apply. Billing credits are reductions in the amount owed by DIR or a customer in a future invoice due to 1) the vendor's failure to meet an SLA or 2) in response to a billing correction. During our audit, we noted that late fees related to slow issuance of credits by the vendors were not assessed or enforced by DIR.
Criteria	The contract allows for remedies of $100 per day for each day that a credit is applied to a DIR account late. DIR also has a right to charge an administrative fee to deal with unresolved SLA issues.
Cause	DIR does not have a process in place for assessing late fees associated with billing credits.
Effect	DIR may be unable to effectively assess the performance results reported by the TEX-AN vendors and may not be able to enforce related remedies.
Audit Recommendations	DIR management from the Chief Procurement Office (CPO) and Chief Financial Office (CFO) should: A. Establish a process for assessing late fees associated with billing credits. B. Establish a process for enforcing remedies when vendors do not comply with the contract provisions and required performance.
Management Response	
Statement of Agreement	DIR management from the CPO and CFO agreed with Internal Audit's recommendations.
Action Plans	DIR management from the CPO and CFO will coordinate to develop a formal process for identifying when a vendor is in non-compliance in applying credits to DIR invoices and assessing and collecting any late fees. Specifically: A. CPO will collaborate with CFO to establish and document a process for assessing late fees associated with Vendor's

	noncompliance of dispute reconciliation. The process will include tracking of disputes by the TEX-AN NG Billing team, Vendor notification of fee assessment when Billing notifies the Contract Manager (CM), and CM will initiate fee assessment tracking via SalesForce until notice from Vendor that disputes are credited or reconciled off report. Once a vendor credit is confirmed, CM will notify Billing and Accounts Payable to get the reconciliation report updated and fee assessment invoice out to vendor respectively. B. CPO will enforce remedies for non-compliance through processes defined in contract management procedure guides, which include the Enterprise Contract Management Guide and TEX-AN contract management plans. These processes will incorporate the CFO and CPO practice for assessing late fees, to establish what remedy processes should apply for the collection of late fees.
Planned Implementation Date	December 31, 2018
Responsible Leadership	CFO, Director of Accounting; Telecom Accounts Receivable/ Payables Manager and CPO, Director of Enterprise Contracts

Section 3: DIR Process Improvements

Vendor and DIR staff share responsibility for performance outcomes under the TEX-AN contracts. Order processing may be initiated using the Solutions Team email box or in some instances, orders are placed directly with TEX-AN vendors.

The following issues and recommendations are primarily related to communication and documentation of procedures, correspondence, and tools that can support a) DIR in its role of managing TEX-AN services statewide, and b) customers who rely on DIR to provide cost effective voice, video, and data service options.

Issue 12: TEX-AN Policies and Procedures Not Formalized

Condition	Existing policies and procedures for the TEX-AN Program are not documented in the standard DIR template format, are not

	comprehensive, up-to-date, and have not been formally reviewed and approved. For example: • Current procedures for telecom billing, service delivery, quality assurance, and contract management procedures are not formally approved. • Current procedures for telecom billing do not describe how the Chief Financial Office (CFO) staff validates the vendors' charges. • Current procedures do not describe how the quality assurance staff documents and validates reported service level agreement (SLA) results. • Current documentation does not fully detail the roles, responsibilities, and processes required to manage the TEX-AN Program. For example, current service delivery management procedures do not align to the job responsibilities assigned, and links to supporting/ supplemental information are not up-to-date resulting in references to other relevant information that could not be found. • Contract management plans for each major TEX-AN contract specifying DIRs approach to managing, overseeing, and mitigating the risks identified for each contract have not been documented, per guidance issued by the State of Texas Comptroller of Public Accounts (CPA). • Several key areas, such as risk assessment, risk management, contract management plans, and enhanced contract monitoring do not adequately address the contract management guidelines, as issued by the State of Texas CPA, and risk is not considered at the enterprise level.
Criteria	The *Internal Control—Integrated Framework* published by the Committee of Sponsoring Organizations (COSO) specifies that an organization deploys control activities through policies that establish what is expected and procedures that put policies into action. These policies and procedures help to support the

	achievement of operational, reporting, and compliance goals at the entity, division, operating, and functional unit levels. In addition, § 2054.523 of the Texas Government Code (TGC) states “The department shall specify procedures for administering, monitoring, and overseeing each major outsourced contract by creating a management plan for each contract. In each management plan, the department shall specify the department's approach to managing and mitigating the risks inherent in each contract.”
Cause	Current policies and procedures are not subject to the overall DIR’s operational and contract management oversight practices. DIR management indicated two main reasons for delays in developing comprehensive plans, which included: • Limited staffing resources contributes to the lack of more formal documentation. • Guidance was in process of being updated to align with the most recent version of the State of Texas CPA released in June 2018.
Effect	Without formalized policies and procedures, DIR management cannot provide assurance that procedures are properly performed, performed consistently, limited resources are used efficiently, risks are mitigated to an acceptable level, and that existing procedures comply with the requirements of TGC and guidelines of the CPA.
Audit Recommendations	DIR management from the Chief Operations Office (COO) should: A. Revise existing policies and procedures for the TEX-AN Program using DIR standard templates to ensure they are comprehensive, up-to-date, reviewed, approved. Ensure policies and procedures specifically address: • Review of reported performance results, retention of supporting documentation, and the location (centralized and backed-up) of the reviews performed and supporting documentation gathered. • Management review and approval procedures.

	• Risk assessment matrices consider agency and enterprise level risks. • Roles and responsibilities are clearly defined and assigned. • A periodic review and update process that includes formal review and approval. • All documentation required by the State of Texas Comptroller of Public Accounts. B. Coordinate with the Chief Financial Office (CFO) to ensure billing procedures include specific verbiage on how accounting validates vendors charges and detects and reports on double-billing.
Management Response	
Statement of Agreement	DIR management from the COO, CPO, and CFO agreed with Internal Audit's recommendations.
Action Plans	DIR management from the Chief Operations Office (COO) will coordinate with the CPO and CFO offices to: A. Revise existing policies and procedures for the TEX-AN Program using DIR standard templates to ensure they are comprehensive, up-to-date, reviewed, approved. Ensure policies and procedures specifically address: • Review of reported performance results, retention of supporting documentation, and the location (centralized and backed-up) of the reviews performed and supporting documentation gathered. • Management review and approval procedures. • Risk assessment matrices consider agency and enterprise level risks. • Roles and responsibilities are clearly defined and assigned. • A periodic review and update process that includes formal review and approval. • All documentation required by the State of Texas Comptroller of Public Accounts.

	B. DIR CFO management has completed a comprehensive policy documenting all CFO telecom billing processes including invoice validation and dispute tracking.
Planned Implementation Date	A. September 1, 2019 B. CFO Procedures - July 13, 2018
Responsible Leadership	COO, Director of CTS Operations and CPO, Director of Enterprise Contracts

Issue 13: Incomplete Vendor Correspondence Documentation

Condition	The telecom solutions email box is used for collecting order forms from customers. Another system is used to track work orders for new services or deactivations and vendor notifications that communicate the status of orders to DIR. Neither the work order system nor email box contain complete records. All 30 work orders reviewed for completeness of correspondence were missing items. While the original work orders were found, any updates to the work orders such as: scheduling and installations dates, non-contractually required vendor provided updates, or other correspondence could not be found in either the telecom solutions email box or the system of record for work orders.
Criteria	The State of Texas Procurement and Contract Management Guide issued by the Comptroller of Public Accounts (CPA) indicates correspondence with vendors must be kept for the duration of the contract. DIR is responsible for record retention of contract documents.
Cause	According to DIR management, some communications occur between the vendor and customer without DIR's knowledge, thus this correspondence cannot be tracked or retained. In addition, customers and vendors do not always include a work order code and a designated email address in email messages to ensure the communication is stored in the system of record for work orders. In other cases, customers or vendors may have unintentionally failed to communicate timely to DIR.

Effect	Without complete correspondence documentation, DIR existing practices may not comply with record retention requirements or aligned with the guidelines issued by the State of Texas CPA.
Audit Recommendations	DIR management from the Chief Operations Office (COO) should: A. Adopt a policy dictating what correspondence is to be maintained for TEX-AN contracts and ensure the documentation is maintained in the designated system of record. B. Implement a process where all parties communicate through DIR controlled system to collect and retain all pertinent records.
Management Response	
Statement of Agreement	DIR management from the COO agreed with Internal Audit's recommendations.
Action Plans	DIR management from the Chief Operations Office (COO) will: A. Adopt a policy dictating what correspondence is to be maintained for TEX-AN contracts and ensure the documentation is maintained in the designated system of record. B. Consider options for implementing a process via the multisourcing integrator (MSI), where all parties communicate through a controlled system to collect and retain all pertinent records.
Planned Implementation Date	A. May 1, 2019 B. May 1, 2021
Responsible Leadership	COO, Director of CTS Operations

Issue 14: Limited Governance with Customer Partner Involvement

Condition	Currently, the TEX-AN Program does not have a governance body in place with customer partners involvement to address systemic issues related to vendor performance and management. During our review process we noted: • Few customers contact DIR directly to report on vendor performance issues such as outages. • Feedback about vendor responsiveness is limited. • No customer surveys are administered to obtain input on vendor performance and contracting decisions. • There is no visibility into ticketing/ reporting systems for Single Office – Home Office (SOHO) issues; therefore, DIR cannot be aware of these issues unless contacted directly by a SOHO customer. • Although the Service Delivery Management Manual included a reference to a "C3 - Customer Command and Control" dashboard as part of the development of the Service Delivery Plan, this was never developed.
Criteria	Texas Government Code § 2054.524 directs DIR to establish formal procedures to ensure customer involvement in decision making regarding each of the department's major outsourced contracts, including initial analysis, solicitation development, and contract award and implementation, that affect those customers. Article 4 section 1 of the TEX-AN contract indicates that for SOHO internet connectivity, DIR will not issue the purchase orders, however, it does not release DIR from managing the telecommunication services as described in § 2170 of the Texas Government Code. The Service Delivery Management Manual states that the C3 - Customer Command and Control dashboard is made up of "Data Collected from Vendors". The manual indicates that "as the tool evolves, so will data be communicated to Vendors through this plan."

Cause	Management indicated that C3 had been developed, but TEX-AN customers did not use the system. Due to non-usage by TEX-AN customers and the cost of maintaining the system, C3 was terminated. Due to DIR customers execute contracts with TEX-AN vendors directly for certain types of telecom services and are directly billed for these services, DIR has limited or no visibility into complaints or other communications directly related to those direct contracts.
Effect	Without customer involvement, DIR may be missing an opportunity to leverage limited resources over the governance of the TEX-AN Program. Currently, DIR has no process for measuring vendor performance for SOHO services or a dashboard for service delivery purposes
Audit Recommendations	DIR management from the Chief Operations Office (COO) should: A. Establish a governance group with customer partner involvement to 1) collect customer feedback and input periodically, and 2) escalate recurring performance issues for prompt resolution. B. Establish a process to have view access to 1) vendor ticketing systems, or 2) obtain detailed reports form the vendors on outages or other issues reported by the customer issues. C. Update the Service Delivery Management Manual to remove the reference to the C3 Dashboard or establish the dashboard, as described in the manual.
Management Response	
Statement of Agreement	DIR management from the COO agreed with Internal Audit's recommendations.
Action Plans	DIR management will: A. Add TEX-AN services to the responsibility of the Business Executive Leadership Council (BELC) to 1) collect customer feedback and input periodically, and 2) escalate recurring performance issues for prompt resolution. B. Consider establishing a process to have view access to 1) vendor ticketing systems, or 2) obtain detailed reports form the

	vendors on outages or other issues reported by the customer issues. C. Update the Service Delivery Management Manual to remove the reference to the C3 Dashboard or establish the dashboard, as described in the manual.
Planned Implementation Date	A. May 1, 2021 B. May 1, 2021 C. August 31, 2018
Responsible Leadership	COO, Chief Operations Officer and Director of CTS Operations

Issue 15: Background Checks Not Required from Telecom Services Technicians

Condition	Because telecom technicians had not gone through the background check process, as required by agency policy, DIR staff must always escort them while working on-site to troubleshoot equipment at secured DIR facilities.
Criteria	Through the authority granted in Texas Government Code (TGC) § 411.140, DIR conducts criminal history checks on employees, applicants for employment, contractors, sub-contractors, interns and volunteers. DIR Human Resources Policy 3.026 notes the above groups will have checks upon hire, and subsequently on an annual basis.
Cause	According to DIR management, having the telecom contractors go through the background process has not been a priority until recently when management decided to increase efficiencies in responding to outages and other incidents.
Effect	Without proper background checks, physical security can be compromised when technicians are not vetted prior to entry in secured areas.

Audit Recommendations	DIR management from the Chief Operations Office (COO) should: A. Require the telecom contractors who need access to DIR secured areas to provide services to go through the DIR background check process.
Management Response	
Statement of Agreement	DIR management from the COO agreed with Internal Audit's recommendations.
Action Plans	DIR management will: A. Require the telecom contractors who need access to DIR secured areas to provide services to go through the DIR background check process.
Planned Implementation Date	A. February 28, 2019
Responsible Leadership	COO, Director of CTS Operations

Issue 16: SOC Reports are Not Obtained from TEX-AN Vendors

Condition	DIR does not require TEX-AN vendors to provide System and Organization Controls (SOC) reports to provide assurance on key controls in place for the systems they use to support telecom services and billing.
Criteria	SOC reports provide a level of assurance about controls relevant to security, availability, and processing integrity as well as confidentiality and privacy of the data processed using systems.
Cause	Existing contracts do not require the TEX-AN vendors to provide SOC reports to DIR.
Effect	Potential for breaches of sensitive or confidential information can occur if information security controls are not properly designed,

	implemented, and operating effectively at the vendor organizations. In addition, without SOC reports or any other security report requirements, DIR cannot obtain assurance the TEX-AN vendors have minimum security controls over their key systems used to support the telecom services provided to the DIR customers.
Audit Recommendations	DIR management from the Chief Procurement Office (CPO) should: A. Require the TEX-AN vendors to provide an annual SOC 2 Type 2 report to DIR on the controls designed and implemented to ensure the security, availability, and processing integrity of their systems, and the confidentiality and privacy of the data processed by those systems.
Management Response	
Statement of Agreement	DIR management from the CPO agreed with Internal Audit's recommendations.
Action Plans	A. DIR management will coordinate with management from the DIR Chief Information Security Office, Network Security Operations, and other subject matter experts, to assess and determine what the requirements would be for an annual SOC 2 Type 2 report for TEX-AN contracts. Once requirements are established, CPO will work on drafting language to negotiate with the vendors to add this requirement into the contract.
Planned Implementation Date	May 31, 2019
Responsible Leadership	CPO, Director of Enterprise Contracts

Issue 17: Separation of Duties for Billing Management and System Administration

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<tr><th colspan="2"></th></tr>
<tr><td>Condition</td><td>DIR employees from Accounting and IT Services perform tasks related to DIR Telecom billing that are not appropriately separated for internal controls purposes.

Telecom Billing/Accounting

The Telecom Billing Manager compiles detailed performance reports, performs detailed reconciliations, and initiates and approves TEX-AN vendor invoices for payment. The DIR Expense Approval Workflow allows the Telecom Billing Manager to:

• Request and approve payments to TEX-AN vendors for amounts under $1 million.
• Enter billable codes into the DIRs Telecom Billing System.
• Manage dispute detailed spreadsheets and approve monthly payments to TEX-AN vendors without a second level review.

System Administration/IT Services

In addition to activating and deactivating user accounts in the Telecom Billing System, the system administrator is also involved with billing activities. The system administrator:

• Imports all vendor billing files into the DIR Telecom Billing System.
• Generates exception reports to identify potential overcharges, duplicate transactions, and other details requiring follow up (billed items not yet set up in the billing application).
• Troubleshoots the billing system when discrepancies are identified between billing data and active service data from the ordering system.
• Assists the Billing Manager and solutions team with updates to item codes and rate details in the billing system. For example, if over 50 telephone numbers are submitted as part of a DIR customer order, the numbers are sent to the</td></tr>
</table>

	Telecom Billing System Administrator who runs a script to import them into the billing database. Audit logs not are not activated in the Telecom Billing System to monitor for errors, override of entries and controls, or unintended changes to billing data that could otherwise be undetected.
Criteria	A strong internal control environment requires segregation of duties for those involved with the initiation of payment requests and reconciliations, including amounts adjusted from invoiced amounts, from those with approval authority. In addition, best practices require system administration responsibilities be separated from billing tasks.
Cause	The Billing Manager and System Administrator have significant telecom experience in the telecom industry and are subject matter. Limited resources exist with this expertise to perform these responsibilities. In some instances, it is more efficient for them to perform these tasks than to train additional resources to separate the tasks.
Effect	Without proper segregation of duties, there is opportunity for misdeed and errors. Multiple payments could be made to a third-party vendor erroneously and without detection.
Audit Recommendations	DIR management from the Information Technology Services (ITS) should: A. Coordinate with the Chief Financial Office (CFO) to segregate the duties assigned to the Telecom Billing Manager to ensure this individual does not request and approve vendors' payments and establish a second level review process to avoid situations where individuals perform routine billing tasks, such as reconciliations, also approve the transactions. B. Coordinate with the Chief Financial Office (CFO) to revise the DIR Expense Approval Workflow Policy to 1) explicitly state a requestor may not approve the same transaction, 2) reflect the Billing Manager responsibilities' changes and the new responsibilities assigned to other staff, and 3) add and implement a quality assurance process to periodically identify situations where the same staff has "requestor" and "approver" responsibilities.

	C. Coordinate with the Chief Financial Office (CFO) to separate and assign responsibilities for user and system administration functions for the Telecom Billing System. Identify someone other than the System Administrator to assist with telecom billing activities such as: entering customer order data, importing billing data, updating item codes and rate details, and generating and troubleshooting discrepancies found in the billing process.
Management Response	
Statement of Agreement	DIR management from ITS agreed with Internal Audit's recommendations.
Action Plans	A. The CFO will segregate the duties assigned to the billing manager including the removal of authority to create requisitions. B. The Expense Approval workflow policy will be modified to explicitly state that an individual cannot have both requestor and final approver responsibility. This policy will be periodically reviewed. C. ITS and CFO will work with the Telecom Billing System vendor beginning in fiscal year 2019 to modify the billing system to log transactions and create a process so that all requested changes to the billing system data will be submitted to the Accounting Director for approval.
Planned Implementation Date	A. November 30, 2018 B. November 30, 2018 C. February 28, 2019
Responsible Leadership	CFO, Director of Accounting CIO, Director of IT Services

Issue 18: TEX-AN Risk Matrices Do Not Address Enterprise Risk

Condition	The Risk Assessment tool used to evaluate potential TEX-AN vendors does not consider risk factors at the enterprise level (DIR-E). Risk factors at the enterprise level address the potential risk(s) that also impact the DIR customers who receive telecom services under the TEX-AN contracts. Further, TEX-AN risk management procedures do not appear to be based on risks identified in the risk assessment process.
Criteria	The State of Texas Procurement and Contract Management Guide requires risk assessment practices to assess the impact and likelihood of risks. DIR manages the contracts for the State of Texas, thus must have an accurate representation of the statewide risk to manage those risks.
Cause	The matrices used in the procurement process to initially assess risk for each TEX-AN vendor were not specifically designed to assess enterprise level risk.
Effect	DIR monitors the contract based on risk. When the assessment of risk is inaccurate it may not accurately represent the potential risks for each TEX-AN contract and may implement adequate controls to manage risks.
Audit Recommendations	DIR management from the Chief Procurement Office (CPO) should: A. Coordinate with the Chief Operations Office (COO) to revise the risk assessment matrices for the TEX-AN contracts to ensure they address risk at the DIR-E levels. Align TEX-AN risk management processes with risks identified in the risk assessment process. B. For enterprise contracts, calculate risk matrices including enterprise risk and DIR specific risk.
Management Response	
Statement of Agreement	DIR management from the CPO agreed with Internal Audit's recommendations.
Action Plans	A. DIR management will review the risk levels in coordination with COO and include any updates to the risk assessment

	matrices (RAM) for the TEX-AN contracts. The reviews will consider specific factors that would address risk at the DIR-E levels and align with the specific risk management processes of the TEX-AN contracts during routine reviews as RAMs are updated. B. The updates to the RAMs will include calculations to assess a score that will consider enterprise risk and DIR specific risk for Enterprise Contracts.
Planned Implementation Date	March 31, 2019
Responsible Leadership	CPO, Director of Enterprise Contracts

Appendix A: Objective, Scope, and Methodology

The **audit objective** was to assess whether the TEX-AN vendors were (a) being properly managed and (b) performing in accordance with established service level agreements. The **audit scope** included operations and contract management activities from September 1, 2017 through June 30, 2018. In conducting our audit, the **audit methodology** included the following procedures:

- Interviewed Communications Technology Services (CTS) leadership, management and staff, including subject matter experts, including staff from operations, quality assurance, contract management, and finance divisions.
- Reviewed relevant criteria, including Texas Government Code §2170 and relevant sections of the Texas Administrative Code, State of Texas Procurement and Contract Management Guide, TEX-AN vendor contracts, and DIR's published Contract Management Handbook.
- Reviewed telecommunications usage and billing data from TEX-AN vendor invoices, the telecommunications billing system, to compare with customer order details.
- Reviewed performance and billing data for nine months and examined relevant documentation to help determine whether reported performance measures from TEX-AN vendors provided sufficient evidence of compliance with established SLAs.
- Administered a survey of selected TEX-AN customers to obtain feedback about whether telecom vendors were performing as intended.
- Observed key processes from order initiation through customer billing and attended standing vendor meetings, such as monthly operations and quarterly performance meetings from November 2017 through June 2018.
- Reviewed provisioned orders to ensure customer billed amounts included the proper DIR negotiated rates and were billed after full implementation by TEX-AN vendors.
- Reviewed TEX-AN vendor reported performance measures for consistency with expected outcomes required by contract provision and regulation.

Appendix B: Glossary

The glossary provides key terms referenced in the audit report. Definitions were obtained from the master services agreement, state rules and regulations, and other relevant guidance or professional standards.

Adjustment – Correction to an Invoice resulting from a billing error or as a result of billing Dispute reconciliation.

Billing Dispute – A billing inquiry may lead to a written notice from the DIR or Customer to the vendor regarding an error in data or billing element requiring an adjustment or correction to the Monthly Consolidated Invoice which may include any applicable Credits.

Change Management - Includes hardware and software changes to the overall solution, as well as simple changes like adding a phone line or voice mail services to existing solutions.

Cost Recovery Fee (CRF) – In general, the administrative fee assessed by DIR to recover its costs of operating the TEX-AN system.

Credit – Arrangement to reduce the amount owed by DIR or a Customer in a future Invoice by an agreed amount due to a vendor's failure to meet an applicable SLA or in response to a billing correction.

Customer –Customers are defined in accordance with Texas Government Code (TGC) §2170.004. DIR Customers for telecommunications services include state agencies as defined in TGC §2151.002, each house of the legislature, a legislative agency, an agency that is not a state agency as defined in TGC §2151.002, a political subdivision, including a country, municipality, or district; a private institution of higher education accredited by a recognized accreditation agency as defined by Education Code §61.003, and assistance organizations, as defined in TGC §2175.001. A customer may also include those state agencies purchasing from a DIR contract through an Interagency Agreement as authorized by TGC Chapter 771, and any local government as authorized through the Interlocal Cooperation Act, Chapter 791, Texas Government Code.

Deliverable – A report or item that must be completed and delivered under the terms of the contract. The measurable result or output of a process prepared, developed, or procured by the vendor as part of the services under a TEX-AN contract for the use or benefit of DIR, a Customer or the State.

Dispute – Written notice sent by DIR or a Customer to the vendor stating the details of a disagreement pertaining to billing inaccuracies, service issues, failure to meet SLA criteria or any other matter.

Federal Universal Service Fund (FUSF) Fees – The Federal Communications Commission (FCC) and Congress recognize that telephone service provides a vital link to emergency services, government services and surrounding communities. To help promote telecommunications service nationwide, the FCC, as directed by Congress and with the help of the Universal Service Administrative Company (USAC), administers the federal Universal Service Fund (USF). All telecommunications service providers and certain other providers of telecommunications must contribute to the federal USF based on a percentage of their interstate and international end-user telecommunications revenues. These companies include wireline phone companies, wireless phone companies, paging service companies and certain Voice over Internet Protocol (VoIP) providers.

Go Direct Orders – Service Delivery Management requirements in the contract require that the vendors shall accept orders directly from DIR Customers for Local Services, Internet connectivity for non-State agencies and SOHO Services only. The Cost Recovery Fee for Go Direct orders are significantly less than DIR-billed services.

Incident Management – Includes responses to outages and emergency situations that require immediate attention.

Individual Case Basis (ICB) – An item billed out of the Telecom Billing System to a DIR customer which does not align to an item on the TEX-AN contract. ICB is used when pricing cannot be added to contract pricing exhibits due to a non-standard/ unknown piece of the service, for example, a local loop charge from a local exchange carrier (LEC) that the vendor must pay for in order to deliver a service.

IT Infrastructure – All hardware, software, networks, facilities etc. that are required to develop, test, deliver, monitor, control or support applications and IT services. The term includes all information technology but not the associated people, processes, and documentation.

Monthly Consolidated Invoice – A formal, single statement of charges provided by the vendor to DIR, which includes the Invoice file, Detailed Billing File, Adjustment file and monthly in-formational memorandum for all Services provided by the Vendor.

Monthly Recurring Charge (MRC) – The regular fees repeatedly billed each month by the Vendor for Services performed. A routine recurring charge in the provisioning of telecommunication services.

Non-Recurring Charges (NRC) - Extraordinary or unusual fees that are unlikely to occur again in the normal course of performing services. They include fees for facilities, services or products that occurred one time or infrequently. Examples include expedite fees, installations, or special construction costs.

Safe Harbor – A calculation method of the FUSF where instead of assigning FUSF fees individually to interstate calls, a percentage set by the FCC is used for all calls, assuming most calls are interstate.

Service Delivery - Includes the solution design, ordering, deployment, and billing. The Service Delivery group consists of two groups: Solutions Design and Service Order Processing.

- ***Solutions Design*** staff assist customers in understanding the services offered under the TEX-AN contracts and works with customers and vendors to obtain the customer requirements needed to design the solution. They also assist new TEX-AN customers with special needs.

- The ***Service Order Processing*** group works with customers to fill out the appropriate order form for the services required and issues the orders to the vendors. Customer Relationship Management is a critical activity, and whether customers use the online portal or email Service Delivery staff to place service orders, they receive quality customer service for price quotes, service delivery, help desk support, and final billing. This group initiates billing and ensures that every service order is billed correctly in a timely manner.

Service Level Agreement (SLA) – Agreement between DIR and a vendor which establishes the minimum standard of performance for services by the vendor under the contract. Compliance with SLAs is determined by measurement of key performance indicators and acceptable quality levels. The SLA(s) also specifies the amount of credit to which DIR or the customer is entitled if the vendor fails to meet the applicable acceptable quality level.

Small Office/Home Office (SOHO) – A small organization, which by the TEX-AN contract, the vendor may directly sell to. Refer to Article 4 of a TEX-AN contract for explicit terms.

Telecom Billing System – The system used by DIR to collect invoice detail from TEX-AN vendors and bill customers.

TEX-AN Program – The primary objective of the TEX-AN Next Generation (TEX-AN) procurement was to obtain competitive and comprehensive communications solutions for DIR Customers. DIR took a customer requirements/outcome-oriented approach in this procurement, rather than designing a solution and requesting specific pricing. Other goals and objectives of the TEX-AN procurement were to:

- Establish competition to drive pricing down and expand offerings;
- Protect and improve the Customer experience;
- Establish flexible CTSA vehicles to take advantage of new technologies;
- Increase transparency into Service performance; and
- Evolve the DIR business structure to support these goals.

Appendix C: Audit Team and Report Distribution

DIR Audit Team

Lissette Nadal, Director of Internal Audit

Catherine J. Sherwood, Audit Project Manager (Lead Auditor)

Steven Lazar, Staff Auditor

Internal Report Distribution

Department of Information Resources (DIR) Board

DIR Executive Director

DIR Deputy Executive Director

DIR Chief Operations Office (COO)

DIR Chief Procurement Office (CPO)

DIR Chief Financial Office (CFO)

DIR COO Operations Director

DIR CPO Enterprise Contract Management Director

DIR Internal Audit Team

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