



An Audit Report on

Financial Processes at the Department of Information Resources

April 2020
Report No. 20-029



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Overall Conclusion

The Texas Department of Information Resources (Department) has implemented adequate financial processes and controls for administrative fee setting, administrative fee and fund balance reporting, collecting and recording administrative fee revenue for telecommunications and Data Center services, and expenditure processing.

Administrative Fee Setting and Reporting. The Department complied with requirements for setting and reporting its administrative fees and reporting fund balances for those administrative fees to the statutorily required recipients. Texas Government Code, Section 2054.0345, requires the Department to set administrative fee rates that would recover operational costs.

Administrative Fee Revenue. The Department had adequate processes and controls to ensure that its administrative fee revenue was accurate and collected for both telecommunications and Data Center services. It should improve processes for verifying the accuracy and completeness of administrative fee revenue from Texas.gov services and cooperative contract purchases.

Expenditures. The Department had expenditure processes in place to ensure that its payments were allowable, properly supported, and approved.

However, the Department had significant weaknesses in its asset management controls and should strengthen certain information technology (IT) system access controls. Specifically:

Asset Management. The Department had significant weaknesses in its asset management controls. As a result, the Department did not ensure that: (1) all assets could be located, (2) assets were properly disposed, including ensuring data was properly removed before disposal, (3) information in the State Property Accounting System (SPA) was complete and accurate, and (4) the annual inventory was adequately performed. Not properly tracking and recording assets and securing

Background

The Department of Information Resources' (Department) mission is to serve Texas government by leading the state's technology strategy, protecting state technology infrastructure, and offering innovative and cost-effective solutions for all levels of government.

The Department charges administrative fees for information technology (IT) services that it provides to state and local government entities. The IT services that the Department provides include the following:

Cooperative contracts: The Department procures vendor contracts for IT products and services, and state and local government entities use those contracts to purchase those products.

Telecommunications services: The Department provides telecommunications services including the Capitol Complex Telephone System (CCTS); wireless, conferencing, and telecommunications equipment management services for state agencies; and data and voice services for Texas cities and state and local government agencies, Texas school districts, and higher education institutions (TEX-AN).

Data Center services: The Department provides consolidated data services to state agencies.

Texas.gov: The Department provides application and payment services for government entities to conduct business through the Texas.gov application, such as for driver's license applications.

Source: The Department.

This audit was conducted in accordance with Texas Government Code, Section Sections 321.0131 and 321.0132.

For more information regarding this report, please contact Becky Beachy, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

data increases the risk of unauthorized or inappropriate access to sensitive or confidential data, loss or misuse of assets, and inaccurate financial reporting.

Access Controls. The Department had adequate access controls for most of its financial systems. However, the Department should strengthen access controls over the Centralized Accounting and Payroll/Personnel System (CAPPS), which it uses to process financial transactions, and NetPlus, which stores telecommunications billing information, to ensure that access is appropriately restricted.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating ^a
1	The Department Complied with Requirements for Setting Its Administrative Fees and Reporting Its Fund Balances	Low
2-A	The Department Had Processes in Place to Ensure That Administrative Fees for Telecommunications Services and Data Center Services Were Accurate and Collected	Low
2-B	The Department Should Improve Its Processes for Ensuring That Administrative Fees for Texas.gov Services and Cooperative Contracts Purchases Are Accurate	Medium
3	The Department's Expenditure Processes Ensured That Its Payments Were Allowable, Properly Supported, and Approved	Low
4	The Department Did Not Have Adequate Asset Management Controls in Place to Ensure That Assets Were Safeguarded	Priority
5-A	The Department Should Strengthen Access Controls Over CAPPS and NetPlus to Ensure That Access Is Appropriately Restricted	Medium
5-B	The Department's Access Controls Over Other Accounting Systems Are Adequate	Low
<p>^a A chapter/subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.</p> <p>A chapter/subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A chapter/subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A chapter/subchapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.</p>		

Auditors communicated other, less significant issues separately in writing to Department management.

Summary of Management's Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The Department agreed with the recommendations in this report.

Audit Objective and Scope

The objective of this audit was to determine whether the Department has processes and related controls to help ensure it administers financial transactions in accordance with applicable requirements.

The scope of this audit covered certain financial information related to administrative fee revenues, expenditures, assets, and applicable information technology systems that the Department reported in fiscal year 2019 (September 1, 2018, through August 31, 2019). In addition, the audit covered the Department's administrative fee rate setting for fiscal years 2019 and 2020.

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Detailed Results

Chapter 1

The Department Complied with Requirements for Setting Its Administrative Fees and Reporting Its Fund Balances

Chapter 1
Rating:
Low ¹

The Department charges administrative fees for the information technology (IT) products and services it provides to state and local government entities (see text box for details about the Department's fees).

The Department complied with requirements for setting and reporting its administrative fees and reporting fund balances for those administrative fees to the statutorily required recipients.

Administrative Fee Setting. To set its 2019 and 2020 administrative fee rates, the Department implemented processes to comply with Texas Government Code, Sections 2054.0345 and 2054.0346, which required the Department to:

- Adopt a process to determine the administrative fee rates that would recover operational costs.
- Develop procedures that include a requirement for review and approval of all administrative fees by the governing board, the executive director, and the Department's chief financial officer.
- Report the administrative fees to the Legislative Budget Board and on the Department website.

Administrative Fees

The Department charges administrative fees for the following IT services that it provides to state and local government entities. (See text box in Overall Conclusion for details of services) Those fees are posted on the Department's website.

Cooperative contracts: Cooperative contract administrative fees are a percentage of the purchase volume and are included in each individual contract.

Telecommunications services: Administrative fee rates vary for each service type.

Data Center services: The Department charges an administrative fee of 2.95 percent of the entity's monthly invoice.

Texas.gov: Administrative fee rates vary for each service type.

Source: The Department.

¹ The risk related to the issues discussed in Chapter 1 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Fund Balance Reporting. The Department reported its fiscal year 2018 fund balances for the Clearing Fund (cooperative contracts), the Telecommunications Revolving Account (telecommunications services), and the Statewide Technology Account (Data Center services) to the Legislative Budget Board, the Governor, and the Office of the Comptroller of Public Accounts as required in the General Appropriations Act (85th Legislature). The General Appropriations Act establishes the Department's fund balance maximums based on fund balances exceeding a percent of total revenue at the end of the fiscal year. One purpose of reporting that information is to determine whether the fund balances exceeded those maximums for each fund.

The Department Had Adequate Processes to Ensure the Accuracy of Administrative Fee Revenue for Telecommunications and Data Center Services; However, It Should Improve Processes for Ensuring the Accuracy of Texas.gov and Cooperative Contract Administrative Fee Revenue

The Department had adequate processes and controls to ensure that its administrative fee revenue is accurate and collected for both telecommunications and Data Center services. However, it should improve processes for verifying the accuracy and completeness of revenue from Texas.gov and cooperative contract administrative fees.

**Chapter 2-A
Rating:
Low²**

Chapter 2-A

The Department Had Processes in Place to Ensure That Administrative Fees for Telecommunications Services and Data Center Services Were Accurate and Collected

The Department had processes in place to ensure that it collected the correct amount of administrative fees for the telecommunications services and the Data Center services that it provides. As discussed in Chapter 1, the Department charges administrative fees for those services to its customers, which are various state and local government entities. In fiscal year 2019, the Department charged the correct administrative fee rates for those services and had controls to ensure customers paid those administrative fees.

² The risk related to the issues discussed in Chapter 2-A is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

The Department Should Improve Its Processes for Ensuring That Administrative Fees for Texas.gov Services and Cooperative Contract Purchases Are Accurate

**Chapter 2-B
Rating:**
Medium³

Texas.gov Administrative Fee Revenue. The Department had a process in place to verify the accuracy of its administrative fee rates when they were initially established in the Texas.gov application (see text box for more information on Texas.gov). However, it did not have a process to ensure that (1) those administrative fee rates were not changed in the Texas.gov application or (2) the fee rates were correctly applied to administrative fee payments that the Department received. The Department recorded \$9.3 million in Texas.gov administrative fee revenue in fiscal year 2019.

Texas.gov

Texas.gov is the state's official digital government platform, and it hosts more than 1,000 online services, including renewing a driver's license, vehicle registration, or professional license.

After customers pay for services through the Texas.gov application, the system automatically distributes those payments between the service charge to the government entity providing the service and the administrative fee to the Department.

Source: The Department.

By not monitoring the administrative fee rates in the Texas.gov application after initial set up and not reviewing administrative fee payments received, the Department increases the risk of receiving inaccurate administrative fee revenue.

Cooperative Contract Administrative Fee Revenue. The Department had processes in place to ensure that the correct administrative fee rate was charged and collected for cooperative contracts based on vendor-reported monthly sales usage data (see text box for more information on cooperative contracts). However, the Department should strengthen its process for verifying the accuracy of the vendor-reported sales usage data.

Cooperative Contracts

Customers—consisting of Texas state, county, or local government offices, public education entities, and out-of-state public entities—can order information technology (IT) products and services from IT vendors using cooperative contracts, which the Department procures. The vendors self-report cooperative contract usage (purchases of IT products or use of IT services) to the Department monthly. The Department charges administrative fees to the vendors based on reported usage amounts.

Source: The Department.

Texas Government Code, Section 2157.068(k), requires the Department to periodically assess the state's risk related to purchases made from cooperative contracts. Based on the results of that risk assessment and as the Department considers necessary, the Department is required to monitor and verify the accuracy of the purchase transactions in the vendors' monthly sales reports. During fiscal year 2019, the Department sampled state agency purchases and compared

³ The risk related to the issues discussed in Chapter 2-B is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

the vendors' monthly sales reports to the purchase orders to verify that the information in the reports was accurate. Some of the information verified was the item descriptions, manufacturers' suggested retail prices, and discount rates.

However, the Department did not have a process to verify cooperative contract usage information for non-state entities. In fiscal year 2019, 120 state agencies and 3,206 other entities used cooperative contracts. Total sales from those contracts were \$455,482,872 and \$1,589,818,937, respectively.

As of December 2019, the Department was in the process of procuring an audit firm to (1) select a risk-based sample of the cooperative contract vendors and (2) verify entities' (state and non-state) usage of cooperative contracts for those vendors.

Because the Department relies on vendors self-reporting cooperative contract usage, there is an increased risk that the Department is not charging or receiving the proper amount of administrative fees due.

Recommendations

The Department should:

- Develop a monitoring process to ensure that Texas.gov administrative fee rates are correctly applied to administrative fee payments that the Department receives.
- Strengthen the monitoring process for ensuring that accurate administrative fees are charged and collected for cooperative contracts by (1) continuing to internally monitor the vendor-reported sales usage by reviewing state agencies' purchase orders and (2) reviewing the contracted audit firm's verification of entities' (state and non-state) usage of cooperative contracts for the selected vendors.

Management's Response

Management agrees with these recommendations.

Texas.gov:

The Department developed an automated report that compares monthly Texas.gov transactional payment data with the approved administrative fee rates and is in the process of reviewing the report results. The Department will research any anomalies and open service request tickets with the

appropriate entity to request an application code validation to ensure administrative fee compliance or remediation. Results or remediation activities will be tracked in the service ticket to closure. This new process will be integrated into the Department's monthly invoice validation process for Texas.gov.

Responsible Party:

Director of Shared Services Financial Analysis

Implementation Date:

May 1, 2020

Cooperative Contracts Program:

The Department will continue strengthening processes to ensure that accurate administrative fees are charged and collected for cooperative contracts. The Department will supplement the internal monitoring process with the results of the contracted audit firms' results to establish an enhanced monitoring process. The Department plans to continue utilizing external audit firms to assess the accuracy and reliability of sales data reported by cooperative contracts vendors.

Responsible Party:

Director of Contract Services

Implementation Date:

October 31, 2020

The Department's Expenditure Processes Ensured That Its Payments Were Allowable, Properly Supported, and Approved

**Chapter 3
Rating:**
Low ⁴

The Department had expenditure processes in place to ensure that its payments were allowable, properly supported, and approved (see text box for more information on Department expenditures).

All 67 payment transactions tested totaling \$202,776,346 were properly supported, were for allowable expenses, had the required approvals, and were paid after receipt of the goods or services. In addition, of those 67 payment transactions, 60 were for purchases of goods or services requiring procurement, and those purchases used the appropriate procurement method. The 67 payment transactions tested included 30 operating expenditures and 37 cost of services expenditures.

The Department's Expenditure Types

Operational Expenditures are payments for the Department's operating costs.

Cost of Services Expenditures are payments for contractual vendor charges for the services the Department provides to customers for the Data Center, telecommunications, and Texas.gov programs. An example of a contractual vendor charge is a payment for technical support.

Source: The Department.

⁴ The risk related to the issues discussed in Chapter 3 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

The Department Did Not Have Adequate Asset Management Controls in Place to Ensure That Assets Were Safeguarded

Chapter 4
Rating:
Priority ⁵

The Department had significant control weaknesses in its processes for protecting and tracking assets, such as computer equipment. Specifically, the Department could not account for a portion of assets tested. In addition, the Department did not consistently ensure that assets were properly disposed, including retaining disposal documentation and ensuring that information on the asset was properly removed or destroyed prior to disposal.

The Department also did not have adequate processes to ensure that it accurately and completely recorded assets in the State Property Accounting System (SPA). Ensuring that SPA contains accurate and complete information is important for the Department to safeguard its assets and for its required financial reporting. In addition, while the Department certified that an annual inventory was completed in September 2018, auditors identified an extensive amount of missing assets and inaccurate information in SPA.

Not properly tracking and recording assets and securing data increases the risk of unauthorized or inappropriate access to sensitive or confidential data, loss or misuse of assets, and inaccurate financial reporting.

The Department was unable to locate assets.

The Department was unable to locate a significant number of assets, including active assets and assets that were in the process of being disposed. The *SPA Process User's Guide*, which is published by the Office of the Comptroller of Public Accounts (Comptroller's Office), requires agencies to (1) ensure that property is tracked and secured in a manner that is most likely to prevent theft, loss, damage, or misuse and (2) to know at all times where all property under their control is located, have a method for locating any inventory item on-site or off-site, and be able to locate a given item upon request. Specifically:

- The Department could not locate 11 (32.4 percent) of 34 assets tested that it had recorded in SPA as active. Some of those assets were computer equipment, such as servers and tablets. For these 11 assets, the Department either (1) could not locate the assets or (2) did not have documentation that the asset was disposed of as it asserted.

⁵ The risk related to the issues discussed in Chapter 4 is rated as Priority because the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

- The Department could not locate five assets that were recorded in SPA as pending disposal, which still should have been in its possession. (See below for additional information on recording errors for those five assets.)

Because the Department could not locate those assets, there is an increased risk that, in addition to inaccurately recording assets in SPA, the Department may not have adequate physical security over its assets.

The Department does not have a process to ensure that information contained within IT assets was properly removed or destroyed prior to disposal.

Media Sanitization

Agencies are required to sanitize system media (equipment used to store data) prior to disposal or reuse. Agencies must keep a record/form (electronic or hard copy) documenting the removal of data and completion of the process with the following information: date, item description and serial number, inventory number, the process and sanitization tools used to remove the data or method of destruction, and the name and address of the organization receiving the media.

Source: The Department's *Security Controls Standards Catalog*, version 1.3.

The Department asserted that it ensures that its IT assets are properly sanitized (removal of data to prevent data recovery, see text box for more information about media sanitization) prior to disposal. However, it did not keep records on media sanitizations performed as required by the *Security Controls Standards Catalog* (Catalog). The Department publishes that Catalog to establish guidance for state entities to use when implementing IT controls. Since the Department did not have a documented process to perform and record media sanitization, it cannot ensure that disposed and reused assets, including the five missing assets that were pending disposal, were properly sanitized as required.

The Department does not have adequate processes in place to ensure that SPA contains accurate and complete information.

SPA contains asset information that the Department uses to track its assets, such as location and status. When this information is not correct, there is an increased risk that the Department may not be able to locate and safeguard its assets. Texas Government Code, Section 403.273, requires state agency property records to accurately reflect the property that an agency possesses at all times.

Active Assets Not Recorded in SPA. Auditors selected 10 assets identified on-site and with an asset tag to determine whether they were recorded into SPA. Two (20.0 percent) of those assets were not recorded in SPA, and the Department could not provide an explanation for why it did not record those assets.

Asset Acquisitions Not Recorded in SPA. The Department did not record a majority of the assets it acquired during fiscal year 2019 in SPA at the time of acquisition. Auditors selected all assets identified in the

Department's financial accounting system, CAPPs, during fiscal year 2019 as capitalized and controlled assets (see text box for more information on those asset types). Of those, the Department had not entered 19 (76.0 percent) of the 25 capitalized assets or any of the 8 controlled assets in SPA at the time

Asset Definitions

- A **capitalized asset** is an asset with an estimated useful life greater than one year with a value greater than the thresholds established by the Comptroller's Office for that asset type.
- A **controlled asset** is an asset with a value less than those thresholds and that the State has determined to be a high loss risk to be secured and tracked.

Source: Title 34, Texas Administrative Code, Section 5.200.

of acquisition. As of June 28, 2019, the Department had not entered those assets into SPA between 113 and 296 days since acquisition.

The Department performed quarterly reconciliations to verify that all asset acquisitions in CAPPs were entered into SPA. However, it did not consistently update SPA based on the results of those reconciliations.

Recording and Documenting Asset Disposals. The Department did not accurately record asset disposals in SPA or consistently maintain documentation for disposals. Specifically:

- Auditors requested documentation for 13 assets that the Department either recorded in SPA as disposed or asserted were disposed. For 8 (61.5 percent) of those assets, either the SPA status code was inaccurate or the disposal documentation was not adequate.
- For 31 (93.9 percent) of 33 of the assets recorded in SPA with the pending disposal status code, those assets were recorded incorrectly in SPA. For example, the Department provided documentation showing that the majority of those were fully disposed and not in its possession. As of June 28, 2019, those assets had an incorrect pending disposal status code for time periods ranging from 42 days to 1,883 days.

Inaccurate Asset Information. The Department did not record and maintain accurate information for assets recorded as active in SPA as required by Texas Government Code, Section 403.273. For example, seven active assets tested had incorrect locations and four assets had incorrect or missing serial numbers.

Not entering assets timely and not maintaining accurate and complete records in SPA increases the risk of loss or misuse of assets and data and decreases the effectiveness of an inventory process.

The Department did not have adequate policies and procedures for asset management or effective inventory processes.

Policies and Procedures. The Department did not have documented policies and procedures for: (1) entering asset information in SPA; (2) updating SPA when assets are stolen, lost, transferred, or disposed; (3) disposing assets; (4) removing or destroying data on disposed and transferred assets; and (5) performing an annual inventory. Without adequate policies and procedures, Department staff may not be aware of the appropriate steps to perform to maintain accurate asset information and safeguard assets and data.

Annual Inventory. While the Department completed and certified an annual inventory in September 2018, as required by the Comptroller's Office, it did not retain records of the process it used to perform the inventory, including

documentation of any issues identified and their resolutions. As a result, it cannot be determined if the inventory was adequately performed and resulted in an accurate asset listing. In addition, the Comptroller's Office encourages agencies to conduct more frequent supplemental physical inventories to ensure the accuracy of reported personal property information. Performing an effective annual inventory and performing more frequent inventories could have corrected some of the issues that auditors identified.

Recommendations

To strengthen its processes for tracking and securing assets, the Department should:

- Ensure that accurate asset information is recorded in SPA, including:
 - ♦ Verifying that asset locations are recorded correctly in SPA and updating that information in a timely manner when asset locations change.
 - ♦ Entering assets in SPA at the time of acquisition.
 - ♦ Updating SPA accurately and timely for changes to active assets and for disposals.
- Assess physical security controls to determine whether they are adequate to safeguard assets and implement additional physical security controls if necessary.
- Perform and document media sanitization before an asset is disposed or transferred as required by its *Security Controls Catalog*.
- Update SPA based on the results of reconciliations performed to ensure that capital and controlled asset acquisitions in CAPPs are entered in SPA.
- Maintain appropriate documentation for disposed assets.
- Develop and implement policies and procedures with detailed steps for asset management, including:
 - ♦ Recording assets in SPA.
 - ♦ Maintaining accurate asset information in SPA.
 - ♦ Performing asset disposals and recording asset disposals in SPA.
 - ♦ Performing and recording media sanitization.

- ♦ Performing the annual inventory.
- Strengthen its asset inventory process by:
 - ♦ Maintaining appropriate inventory records for the annual inventory.
 - ♦ Assessing inventory controls to determine whether they should be strengthened to include (1) performing inventories more frequently throughout the year and (2) performing inventory steps to select physical assets located on-site to verify entry in SPA.

Management's Response

Management agrees with and will implement all asset management recommendations made by the State Auditor's Office. The Department took immediate action to update SPA based on the results of the State Auditor's fieldwork. SPA was updated to reflect the results of the asset inventory performed for fiscal year 2019. Asset status and locations were updated to reflect current physical inventory. Regarding the sixteen assets that the auditors stated could not be located, 15 were acquired in 2011 or earlier and were fully depreciated. Seven of these assets were part of a project for another agency and the transfer of these assets was not completed correctly. The Department is working with the other agency to complete the transfers.

The Department has drafted an updated Asset Management Manual that is currently under review and will be in effect no later than May 1, 2020. More specifically:

- *The Department has automated asset entry utilizing CAPPs functionality so that upon receipt in CAPPs all assets are automatically loaded into CAPPs Asset Management for upload into SPA. Property transfers will be initiated by the property custodian and submitted electronically to the Property Manager. The Property Manager will update the Asset Management system within three days of the request and notify the requester when the update has been completed. The completed form will be stored in the electronic file folder for the asset.*
- *The Department will assess physical security controls to ensure all assets are secured and only authorized employees have access to assets.*
- *A formal/written procedure for wiping/sanitizing assets is now included in the Asset Management Manual. Assets with sensitive information will be wiped/sanitized by a server technician or Information Technology Service (ITS) employee. The related asset forms have also been updated to capture this information.*

- *SPA will be updated within five days of completion of reconciliations.*
- *A comprehensive asset management policy detailing all aspects of the asset life cycle from acquisition to disposal has been drafted and currently under management review.*
- *The Department has documented and updated its procedures to conduct semi-annual full inventories and periodic spot checks.*

Responsible Party:

Director of Accounting and Property Manager

Implementation Date:

August 31, 2020

The Department Had Adequate Access Controls for Most of Its Financial Systems; However, the Department Should Strengthen Access Controls Over Certain Systems

The Department had adequate access controls for most of its financial systems; however, the Department should strengthen access controls over the Centralized Accounting and Payroll/Personnel System (CAPPS) and NetPlus to ensure that access is appropriately restricted.

Chapter 5-A

The Department Should Strengthen Access Controls Over CAPPS and NetPlus to Ensure That Access Is Appropriately Restricted

**Chapter 5-A
Rating:**

Medium ⁶

The Department has established information security standards for state agencies for ensuring user access is appropriate (see text box for more details about those standards). However, the Department should strengthen controls over CAPPS and NetPlus to ensure that it adheres to those

standards. Not appropriately restricting user access increases the risk of unauthorized access to the Department's financial and customer data, which could lead to a compromise of data integrity or misuse of confidential data.

CAPPS. All users with access to CAPPS, which the Department uses to process financial transactions, were current employees. However, the Department did not have current and complete policies and procedures governing user account setup and management as required. For example, the policies and procedures did not (1) include information on when or how to perform user access reviews or (2) define CAPPS user roles, preferences, and workflows. That information is used to determine whether users have the appropriate access to CAPPS based on their job duties and whether a separation of duties is maintained. In addition, the Department's semiannual user access reviews were not adequately documented to ensure that the appropriateness of the user access for all users was reviewed. Due to the lack of policies and procedures and inadequate user access reviews, the Department cannot ensure that users had the appropriate access for their job duties. However, during fiscal year 2019, the Department appropriately restricted user access to the

Information Security Standards

Access Policy and Procedures - The Department's *Security Controls Standards Catalog* states that an organization shall create, distribute, and implement an account management policy which defines the rules for establishing user identity, administering user accounts, and establishing and monitoring user access to information resources.

Account Management - The Department's *Security Controls Standards Catalog* states that an organization should monitor the use of information system accounts and notify account managers when accounts are no longer required, when users are terminated or transferred, and when individual information system usage or need-to-know changes. In addition, it states that the organization should allow only authorized accesses for users (or processes acting on behalf of users) that are necessary to accomplish assigned tasks in accordance with organizational missions and business functions.

Access Reviews - The Texas Administrative Code requires information owners, or designated representatives, to periodically review access lists based on documented risk-management decisions.

Source: The Texas Administrative Code, Title 1, Chapter 202, and the Department's *Security Controls Standards Catalog*, version 1.3.

⁶ The risk related to the issues discussed in Chapter 5-A is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Uniform Statewide Accounting System (USAS), which includes approving and releasing expenditure payments entered in CAPPs.

NetPlus. The Department did not have documented policies and procedures for periodic user access reviews for NetPlus as required and did not perform those reviews during fiscal year 2019. In addition, the Department did not ensure that all users with access to NetPlus, which stores telecommunications billing information, were current employees or contractors.

Recommendations

The Department should:

- Perform and document user access reviews for CAPPs and NetPlus to ensure that all users are current employees and/or contractors and that the access is appropriate.
- Develop and implement comprehensive policies and procedures for account management and user access reviews for CAPPs and NetPlus, in accordance with Title 1, Texas Administrative Code, Chapter 202, and the Department's *Security Controls Standards Catalog*.

Management's Response

Management agrees and has added an additional Security Coordinator to expand the current policy of reviewing CAPPs access for appropriate segregation of duties and authority to process transactions to now include a review of all user access to CAPPs Financials. Prior security reviews were done by reviewing security via roles assigned, workflow roles, and user preferences in order to determine that no individual could initiate and approve/post a transaction. A CAPPs Access Review history section will be created in Salesforce for each employee documenting their manager's workflow approval responses. This process will be carried out no less than every six months in coordination with the Semiannual Verification of Users' Security Access Level review required by the Comptroller of Public Accounts.

The Department has also revised the policies and procedures for account management and user access reviews to require that access reviews are performed and documented for NetPlus. These reviews will ensure that all users are current employees or contractors and that all users have appropriate access.

Responsible Party:

Director of Accounting (CAPPS) and Director of Information Technology Services (NetPlus)

Implementation Date:

October 31, 2020

Chapter 5-B

The Department's Access Controls Over Other Accounting Systems Are Adequate

Chapter 5-B
Rating:
Low⁷

The Department had effective access controls in place for other key accounting systems. Auditors reviewed user access for three accounting systems that the Department uses in addition to CAPPS and NetPlus (see text box for information about those accounting systems).

Access was appropriate for those systems. All users were current employees or contractors, and their access was appropriate for their job duties.

The Department's Additional Accounting Systems

- **Salesforce**, which is used for various accounting functions including: (1) calculating administrative fees for cooperative contracts, staffing, and certain telecommunications services; (2) logging and tracking checks received; (3) routing approvals for revenue adjustments and refunds; (4) routing expenditure approvals, and (5) managing help desk tickets including user access changes.
- **State Property Accounting System (SPA)**, which is used to record and track the Department's assets.
- **Uniform Statewide Accounting System (USAS)**, which is used to record revenue and expenditures.

Source: The Department.

⁷ The risk related to the issues discussed in Chapter 5-B is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Department of Information Resources (Department) has processes and related controls to help ensure it administers financial transactions in accordance with applicable requirements.

Scope

The scope of this audit covered certain financial information related to administrative fee revenues, expenditures, assets, and applicable information technology systems that the Department reported in fiscal year 2019 (September 1, 2018, through August 31, 2019). In addition, the audit covered the Department's administrative fee rate setting for fiscal years 2019 and 2020.

Methodology

The audit methodology consisted of evaluating the Department's financial processes by collecting information and documentation, performing selected tests and other procedures on the information obtained, analyzing the results of tests, and conducting interviews with Department management and staff. This included reviewing support for cost estimates and the Department's process for setting fees based on those cost estimates, reviewing the Department's revenues and expenditure transactions, and reviewing the asset-monitoring process. In addition, the methodology included performing a limited review of the general and application controls over the information technology systems that the Department used to manage and record financial data.

Data Reliability and Completeness

The Department provided computer-processed revenue and expenditure data from the following sources to support the financial transaction information:

- Revenue and expenditure data from the Centralized Accounting and Payroll/Personnel System (CAPPS).

- Revenue data from the Department’s NetPlus system, which the Department uses to maintain telecommunication transaction information.
- Revenue data from the Department’s Salesforce system, which the Department uses for its cooperative contract transactions.

To determine data reliability, validity, and completeness, auditors (1) reviewed the queries that the Department used to extract data from the sources listed above, (2) reviewed key fields for accuracy and validity, (3) tested certain general and application controls and (4) compared revenue and expenditure data in CAPPs to data from the Office of the Comptroller of Public Accounts’ (Comptroller’s Office) Uniform Statewide Accounting System (USAS). Auditors determined that the data was sufficiently reliable for the purposes of this audit.

In addition, auditors reviewed asset data from the State Property Accounting (SPA) system, which the Department uses to track assets. Auditors’ procedures to review the asset data for completeness and reliability included (1) comparing the data to the capital asset acquisition value in the Department’s *Annual Financial Report for Fiscal Year 2018*, (2) performing a physical asset verification, and (3) reviewing supporting information that the Department provided. Based on testing results, auditors identified missing and inaccurate information in SPA (see Chapter 4 for details). While auditors determined that the data was not reliable, that data was the most complete population available; therefore, auditors used that data for the purposes of this audit.

Sampling Methodology

Auditors selected nonstatistical samples for tests of compliance and controls for expenditures, revenues, and assets. The sample items were not representative of the population; therefore, it would not be appropriate to project those test results to the population. Those samples are described below.

Expenditures. For tests of compliance and controls for expenditures, auditors selected samples. Each population included both a random sample and a risk-based sample that was selected based on the highest and lowest dollar values. Table 2 on the next page shows the expenditure samples.

Table 2

Total Expenditure Population and Samples Tested for Fiscal Year 2019				
Description	Operational Expenditures	Cost of Services Expenditures ^a		
		Data Center Services	Telecommunications Services	Texas.gov Services
Total Population Dollar Amount	\$81,073,442 ^b	\$214,168,145	\$55,171,737	\$32,144,163
Sample Population Dollar Amount Tested	\$41,499,288 ^b	\$140,648,731	\$7,632,405	\$12,995,922
Total Number Sampled	30	21	9	7

^a Cost of services expenditures are contractual vendor charges for the services that the Department provides to customers, such as for technical support.

^b Total population and sample does not include payroll transactions.

Revenue. Auditors selected the following samples to test whether the Department charged and received the correct amount of administrative fee revenue:

- **Data Center Services Revenue.** Auditors selected a random sample of 25 Data Center service sales transactions totaling \$14,007,007 of \$266,291,081 in reported sales.
- **Cooperative Contract Revenue.** Auditors selected both a random and a risk-based sample of 28 cooperative contracts from 674 cooperative contracts. The risk-based sample was selected based on various factors, such as contracts with administrative fees that varied, negative sales amounts, greatest dollar amount of sales, greatest sales volume, and no administrative fees.
- **Monthly Reconciliations.** Auditors selected nonrandom samples of monthly reconciliations. Auditors selected 2 monthly telecommunications billing reconciliations, 4 monthly cash log reconciliations, and 7 of 72 monthly telecommunication disparity reports. Auditors also selected four monthly accounts receivable reconciliations for each of these service types: Data Center services, telecommunications services, and cooperative contracts.

Assets. Auditors selected a random sample of 8 of 41 disposed capital assets. In addition, auditors selected assets to test based on where most Department assets were located, which was Austin and San Angelo.

- **Austin.** Auditors selected a sample of 30 of 477 assets located in Austin, which included randomly selected items and risk-based items selected based on various factors such as an acquisition cost greater than

\$100,000, asset portability, and assets housed at non-state entities. Further, auditors selected 7 assets identified with an asset tag while on-site in Austin.

- **San Angelo.** Auditors selected all 15 assets that SPA showed were located in San Angelo. In addition, auditors selected 3 assets identified with an asset tag while on-site in San Angelo.

The test results as presented in this report do not identify which items were randomly selected or selected based on risk. In addition, the sample items included both active assets and assets in the disposal process and each type was tested for different factors. Therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- Department policies and procedures.
- Spreadsheets that the Department used to determine its fee rates and cost-recovery strategies for fiscal years 2019 and 2020.
- Department board meeting minutes for August 2018 and August 2019, which included approvals for administrative fee rates.
- Department revenue and expenditure data from USAS and CAPPs and supporting documentation.
- Department asset data, including acquisitions and disposals, from SPA and CAPPs and supporting documentation.
- Account Receivable's supporting documentation for Data Center services, telecommunications services, and cooperative contracts.
- The Department's aged receivables reports (tracking of receivables based on time outstanding), cash log reports, and disparity reports, in addition to supporting documentation.

Procedures and tests conducted included the following:

- Interviewed Department management and staff about processes for (1) determining and monitoring administrative fees, (2) asset management, (3) revenue, and (4) expenditures.
- Evaluated the Department's process for setting administrative fees based on its cost estimates.

- Evaluated the Department’s process for reporting administrative fees and fund balances.
- Evaluated the accuracy of the administrative fee revenues for cooperative contract purchases, telecommunication services, Data Center services, and Texas.gov services.
- Evaluated whether the aged receivables and cash logs were appropriately reconciled.
- Reviewed the Department’s process for ensuring that cooperative contract usage is appropriately monitored.
- Evaluated whether the Department has processes and controls to ensure that expenditures comply with applicable requirements.
- Evaluated the Department’s assets to ensure that they were appropriately tracked and recorded in accordance with SPA process requirements.

Criteria used included the following:

- Title 34, Texas Administrative Code, Chapters 5 and 202.
- Texas Government Code, Chapters 403, 2054, 2157, and 2251.
- General Appropriations Act (84th and 85th Legislatures, regular session).
- *State of Texas Procurement and Contract Management Guide*, Version 1.
- The Department’s *Security Control Standards Catalog*, Version 1.3.
- The Department’s *Texas Cybersecurity Framework Control Objectives and Definitions*.
- The Department’s administrative fee rates.
- Department policies and procedures.
- The Department’s vendor contracts.
- The Comptroller’s Office’s eXpendit purchasing procedures.
- The *SPA Process User’s Guide*.

Project Information

Audit fieldwork was conducted from June 2019 through January 2020. We conducted this performance audit in accordance with generally accepted government auditing standards.⁸ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Rachel Lynne Goldman, CPA (Project Manager)
- Rebecca Franklin, CISA, CFE, CGAP
- Allison Fries, CFE
- Ashlie Garcia, MS, CFE
- Alexander Grunstein, CFE, CFCS
- Kevin Mack
- Adam Ryan
- Mary Ann Wise, CPA, CFE (Quality Control Reviewer)
- Becky Beachy, CIA, CGAP (Audit Manager)

⁸ United States Government Accountability Office's *Government Auditing Standards*, 2011 Revision.

Issue Rating Classifications and Descriptions

Auditors used professional judgment and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 3 provides a description of the issue ratings presented in this report.

Table 3

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dennis Bonnen, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Giovanni Capriglione, House Appropriations Committee
The Honorable Dustin Burrows, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Department of Information Resources

Members of the Department of Information Resources Governing Board

Mr. Ben Gatzke, Chair
Mr. Christian Alvarado
Mr. Mike Bell
Mr. Stuart Bernstein
Ms. Stacey Napier
Mr. Jeffrey Tayon
Ms. Kara Thompson

Ex Officio Members:

Mr. Richardo Blanco, Chief Operating Officer, Health and Human Services Commission
Ms. Anh Selissen, Chief Information Officer, Texas Department of Transportation
Ms. Nancy Clark, Deputy Commissioner for Administrative Operations, Department of Insurance
Ms. Amanda Crawford, Executive Director



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