



COMMISSIONERS COURT  
COMMUNICATION

REFERENCE NUMBER CO#126729

PAGE 1 OF 1

DATE: 12/12/2017

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF THE INFORMATION TECHNOLOGY DEPARTMENT 'S FINANCIAL CONTROLS**

**COMMISSIONERS COURT ACTION REQUESTED:**

It is requested that the Commissioners Court receive and file the Auditor's Report of the Information Technology Department's Financial Controls.

**BACKGROUND:**

In accordance with Local Government Code Chapter 115, we performed a review to determine whether procedures implemented by the Information Technology Department were adequate for the procurement and subsequent payment of goods and services.

**FISCAL IMPACT:**

There is no direct fiscal impact associated with this item.

SUBMITTED BY: Auditor's Office

PREPARED BY: S. Renee Tidwell  
APPROVED BY:



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November 29, 2017

Mr. Christopher Nchopa-Ayafor, Chief Information Officer  
The Honorable District Judges  
The Honorable Commissioners Court  
Tarrant County, Texas

Re: Auditor's Report – Information Technology Department's Financial Controls

## **SUMMARY**

In accordance with Local Government Code Chapter 115, we performed a review to determine whether procedures implemented by the Information Technology Department (ITD) were adequate for the procurement and subsequent payment of goods and services. Initially, we selected six contracts with activity between October 1, 2015 and February 28, 2017. Four of the six vendors, Atos IT Solutions and Services (Atos), Inc., Adobe Systems, Inc., EMC Corporation, and PCMG, Inc., performed services related to the Disaster Management Business Continuity (DMBC) Project. Due to the DMBC Project's value, we expanded our scope of the DMBC Project through September 30, 2017. As a result, we observed budgetary accountability and project management did not exist. Also, procedures were not adequate to ensure the proper procurement and payment of goods and services. Specifically:

- Observation 1 A total budget for the DMBC Project was not presented to Commissioners Court for approval.
- Observation 2 Management approved invoices for payment without adequate support validating the receipt of goods or the completion of services.
- Observation 3 An overall project plan does not exist for the DMBC Project.
- Observation 4 Unauthorized changes were made to goods and services provided by the Atos contract.
- Observation 5 Documentation supporting the movement of ITD assets was not completed accurately.
- Observation 6 The management of assigned software licenses was not adequate.

- Observation 7 The County paid \$66,524 for Adobe Social On-Demand Services that were not implemented.
- Observation 8 Information presented to the Commissioners Court for the award of the Atos contract was not transparent.
- Observation 9 Payments to vendors were not always made within the timelines required by statute.

The Auditor's Office will work with the Chief Information Officer (CIO) and various management staff to address the observations and recommendations contained in this report. Attached is a written management response from the CIO.

From the inception of our audit, we had difficulty obtaining the documents required to perform our audit. On June 9, 2017, we sent an email to the Director of the Project Portfolio Management Office (PPMO) requesting *all* documentation related to the DMBC Project. The Director created a SharePoint site and requested that we post our questions and any requests for documents on the site and designated an ITD staff person to coordinate and respond to our requests. On June 16, 2017, the Auditor's Office gained access to the site. At that time, there were only 35 documents available for our review. These documents did not address our questions and requests. On June 22 and June 28, we met with ITD management to clarify the documents that we had requested for the audit. Although a few more documents were uploaded onto the site, ITD still didn't provide the requested documents. On July 7, we met with ITD management again, along with the County Administrator's Office, to clarify the documents needed to perform our audit. Between July 11 and 13, another 276 documents, consisting of 1,446 pages, were uploaded onto the site. Ultimately, approximately 420 documents, consisting of more than 3,600 pages, were uploaded onto the SharePoint site between June 13 and August 23, 2017. Approximately 60 documents were uploaded two or more times.

During our review of the SharePoint site, we observed meeting minutes dated January 26, 2017 that referenced another DMBC Project SharePoint site. Upon inquiry whether another site existed that contained documents related to the DMBC Project, ITD staff confirmed another SharePoint site existed and stated that *"The DMBC Program SharePoint site is a working site that accepts multiple updates across work streams. The Auditor SharePoint site provides a snap shot of data collect for a period of time."* Based on this response, we do not believe that we received *all* documents related to the DMBC Project as requested in our email to the Director of the PPMO on June 9, 2017.

## **BACKGROUND**

Currently, ITD has 185 active County employees. The approved ITD budget for FY2016 and FY2017, including salaries, totaled approximately \$62 million annually.

ITD has implemented procedures to initiate requisitions once a business need is identified. After a business need is approved by ITD management, a purchase requisition is entered into SAP, Tarrant County's financial management software system. The purchase requisition authorizes the Purchasing Department to enter into a contract with a vendor to purchase goods or services. Upon determining the appropriate procurement process, the Purchasing Agent will issue a purchase order to the vendor for the desired goods or services.

## OBSERVATIONS AND RECOMMENDATIONS

**Observation 1** *A total budget for the DMBC Project was not presented to Commissioners Court for approval.*

### Background

As the governing body of Tarrant County, the Commissioners Court is responsible for the adoption of the County budget and the archival needs of the County. Furthermore, only the Commissioners Court is authorized to let contracts and commit County funds.

ITD reports directly to the County Administrator who is appointed by the Commissioners Court.

### Observation

During our review, we found that a *total* budget for the DMBC Project was not presented to Commissioners Court for approval. Rather, individual contracts related to the project were presented to the commissioners.

In February 2016, ITD management provided a 10-year total cost of ownership budget totaling \$11.7 million to the Tarrant County Budget Office. While reviewing the documents ITD provided during the review, we observed a document showing a budget totaling \$25.4 million. We compared the detailed budgeted costs contained in the two amounts and observed that the amount provided to the Budget Office did not include costs such as maintenance, staff augmentation, licensing, and managed services. When we inquired about the difference between the amount provided to the Budget Office versus the amount calculated and provided to us, ITD management stated that the \$11.7 million included only contract costs since they had the option to replace system components and service providers at the end of the three year contract term.

After a number of requests, ITD prepared and provided a fully-loaded budget totaling \$33 million as of July 2017. We could not validate the reasonableness of ITD's budget since they had not implemented a system to track the budget versus total costs incurred for capital projects. Although we identified payments made to a number of vendors that we believe relate to the DMBC Project, we have no way to determine whether payments were made to any other vendors. Also, the ability to determine the total cost for capital projects is further hindered when the County initiates a single contract with a vendor for services related to multiple projects. For example, we observed that the Open Systems Technologies contract is for staff augmentation for multiple ITD initiatives and projects, including the DMBC Project.

On November 23, 2010, the Auditor's Office presented a report to Commissioners Court that included a finding related to the tracking of costs on capital projects.

### Recommendations

As part of the County's initiative for transparency, the CIO should implement procedures whereby fully-loaded budgets and timelines are prepared and presented to Commissioners Court for capital projects. This budget should include *all* estimated costs including professional service contracts, hardware and software, staff augmentation contracts, and ITD staff.

As previously recommended in 2010, the CIO should also implement a process to track costs and compare to the approved budget for major initiatives. The use of SAP internal orders, currently used to capitalize assets, is a viable option. At an additional cost, SAP also offers a Portfolio and Project Management application.

Regular status reports should also be provided to the Commissioners Court with the project timeline, estimated project completion, project budget, and costs to date.

***Observation 2 Management approved invoices for payment without adequate support validating the receipt of goods or the completion of services.***

### **Background**

According to Article III, Section 52, of the Texas Constitution, “...*the Legislature shall have no power to authorize any county, city, town or other political corporation or subdivision of the State to lend its credit or to grant public money or thing of value in aid of, or to any individual, association or corporation whatsoever, or to become a stockholder in such corporation, association or company...*”

County departments are responsible for ensuring the accuracy of vendor invoices, including verification of goods received and/or services performed. According to the Tarrant County Purchasing Policy, “*Since there is no central receiving location in the County, each department is responsible for receiving goods and services.*” Upon receipt of goods, the department receiving the goods should confirm that the goods match the packing slip and correspond to the purchase order. After confirmation, the department’s designee should enter a “goods receipt” into SAP as confirmation that the goods were received. The Auditor’s Office will not pay the invoice until a goods receipt has been entered by the appropriate department designee(s) confirming that the goods were received in accordance with the purchase order.

County departments are responsible for ensuring compliance with the terms of professional services contracts. Upon receipt of an invoice for professional services, it is the responsibility of the department to ensure that the services were provided *before* approving the invoice for payment. The Auditor’s Office will pay the invoice only if authorized approvals exist on the face of the invoice.

### **Observations**

We observed instances where management approved invoices for payment of goods and services that had not been received or without adequate support validating the receipt of goods or the completion of services. At least four individuals, including the CIO, signed or initialed invoices as approval for payment. Specifically:

1. Invoices totaling \$5,151,522 were paid to Atos as of September 30, 2017. Although various ITD staff had documentation related to the DMBC Project, such as detailed work packages, Bills of Materials, etc., related to their respective responsibilities, there was no centralized depository for project related documentation. Furthermore, the contract does not clearly define the milestones, nor does it tie the milestones to the work packages described in the contract. As a result, we could not trace the work packages and milestones to the invoices ITD approved for payment.

The contract states, that the Provider “*shall send Tarrant County a written notification indicating Phase completion and requesting Tarrant County signature.*” *If Tarrant County is satisfied with the performance for that phase, its signature will indicate acceptance.*” Upon our request, ITD management did not provide the Auditor's Office with written notification from the Provider or written acceptance of the completion of the milestones.

2. ITD approved an invoice for payment to Atos for 100% of Milestone 2 (Month 2) in the amount of \$226,274 for three tasks that had not been completed: Completion of Hardware Relocation, Completion of DMX Data Erasure, and Completion of P2V. Based on ITD's approval, the Auditor's Office remitted payment to Atos on January 10, 2017. According to documentation prepared by ITD, hardware was not transferred to the Colocation Data Center (COLO) until May 2017. Therefore, payment for this service was remitted to Atos 4 months in advance. Additionally, the County paid rent for the COLO in the amount of \$7,500 beginning in May 2016, a year prior to ITD transferring the equipment from the Plaza Building to the COLO.

According to EMC staff, Completion of P2V occurred in September 2017, and Completion of DMX Data Erasure was not complete as of October 25, 2017. Therefore, payment for these services was remitted to Atos at least 9 months in advance.

3. An invoice in the amount of \$20,073 was paid to Adobe Professional Services (Adobe) for Milestone 1 in June 2016. Another invoice in the amount of \$132,775 was paid for Milestones 2-5. Although ITD provided a signed project deliverable acceptance form for Milestone 5, we were not provided signed acceptance forms for Milestones 1-4.

The contract states that Adobe will bill for services upon acceptance of a milestone.

4. Invoices totaling \$1,709,975 were paid to Open Systems during the period October 1, 2016 through September 30, 2017 for contract staff augmentation. We requested documentation supporting the work performed by contract staff who primarily worked on the DMBC Project. Contract staff was paid \$90 per hour, or about \$720 per day, for 12 months. Contract staff provided timesheets that described repetitive work activities including “perform daily health checks and reports, storage infrastructure monitoring and management tasks, and report analysis.” However, ITD could not provide documentation such as reports, correction logs, etc., that supported these activities.
5. Travel reimbursements made to Adobe were not supported with adequate documentation. Specifically, the consultant attached a receipt for airfare totaling \$1,190. The Delta itinerary showed a destination *before* the consultant's arrival into Dallas and a destination *after* the consultant's departure from Dallas. The consultant acknowledged airfare included personal travel. However, the consultant was reimbursed \$618, more than half of the total cost of the airfare. Neither the itinerary nor the receipt included a breakdown of expenses to support this amount.

## Recommendations

To ensure compliance with the Texas Constitution, the CIO should ensure that procedures are implemented whereby contracted goods and services are received *prior* to the approval of an invoice for payment. Also, management should ensure that adequate documentation exists that support goods and services invoiced by the vendor. The invoices should also clearly tie to the milestones, work packages, and scope of work defined in the contract. Specifically:

1. Upon receipt of goods, ITD staff should verify that the goods match the packing slip and corresponds to the purchase order. *Only* after verification, appropriate ITD staff should enter a “goods receipt” into SAP confirming that the goods were received correctly.
2. Upon receipt of an invoice for professional services, it is the responsibility of ITD management to ensure that the services were provided in accordance to the contract *before* approving the invoice for payment. Furthermore, documentation should exist showing that certain milestones and deliverables have been completed by the contractor.

ITD management should document procedures and provide training to staff who validate the receipt of goods and services and approve invoices for payment.

**Observation 3** *An overall project plan does not exist for the DMBC Project.*

## Background

There are several project management methodologies accepted in the Information Technology industry that are used to manage a project. A project management methodology is like an instructional manual or guide to effectively oversee completion of the project. A project team must have a set of defined processes to initiate, plan, and, execute the project. Some common project management methodologies include waterfall, agile, and scrum.

A project plan is a formal document to guide the execution and completion of a project. Project management is the method of using a set of skills, tools, and steps to keep a project on track to satisfy a purpose, within the assigned budget, and completed within the designated schedule.

The Project Portfolio Management Office (PPMO) provides key services to Tarrant County departments and business units such as strategic planning along with project, program, and portfolio management services. The PPMO is primarily responsible for the DMBC Project. By definition, Project Portfolio Management (PPM) is the centralized management of all projects within an organization to achieve strategic objectives. The PPM provides guidance for managing projects throughout the project life cycle, including initiation, planning, execution, monitoring, control, and closeout.

## Observation

After a number of requests, an overall project plan for the DMBC Project was not provided during the review. We specifically requested a plan that described activities, milestones, deliverables, etc., for the DMBC Project. This plan should correlate to the contract. This condition occurred because ITD has not fully

implemented the intent and vision of the PPMO. As a result, there is no centralized depository for major ITD projects and initiatives.

### **Recommendation**

We recommend that the CIO establish defined requirements to fully implement a project management organizational structure within the PPMO. This structure should also include collaboration between the PPMO and Business Management Services.

#### ***Observation 4 Unauthorized changes were made to goods and services provided by the Atos contract.***

### **Background**

The Tarrant County Purchasing Policy requires that all change orders be processed through the Purchasing Department. Furthermore, the policy states:

- 1. The Purchasing Agent is authorized to execute change orders in which the cost of services does not exceed \$50,000 in aggregate, or twenty-five percent (25%) of the original contract amount, whichever is less.*
- 2. Any change orders that result in a contract exceeding \$50,000 in the aggregate must be approved by the Commissioners Court.*

The Purchasing Policy also states, “Any commitment to acquire goods or services without an authorized purchase order is prohibited. *Anyone obligating an expenditure of funds for goods or services prior to securing a purchase order may be held personally responsible for the payment. All such purchases may be considered a donation to Tarrant County.*”

### **Observation**

During our review, we observed instances where ITD did not comply with the Tarrant County Purchasing Policy. Specifically, changes made to the Atos contract were not properly authorized in accordance with policy. Particularly, the scope of work defined in the contract included the deployment of SAP to the COLO. ITD management made the decision to exclude this scope of work although these services were included in the contract. A change order has not been presented to the Purchasing Department.

Furthermore, the scope of work defined in the contract included the installation of power connections at the COLO. Six additional power connections were installed at the COLO around June 2016. ITD did not present this change order to the Purchasing Department prior to the installation of the connections. The change order was presented to Commissioners Court for approval on November 21, 2017.

By not adhering to the Purchasing Policy, the County may be at risk for unauthorized financial commitments for goods and services provided by vendors.



## **Recommendation**

The CIO should ensure that the Tarrant County Purchasing Policy is strictly followed with regard to the acquisition of goods and services, including any change orders to existing contracts. Specifically, change orders, including any additional costs, should be provided to the Purchasing Department *before* the work commences as required by County policy.

**Observation 5** *Documentation supporting the movement of ITD assets was not completed accurately.*

## **Background**

According to Section 25 of the Tarrant County Purchasing Policy, each department head has the primary responsibility for the safeguarding and accounting of all assets assigned to their department. Furthermore, the policy states that ITD will move computer assets upon completion of an ITD Transfer Sheet. The primary purpose of this form is to document the chain of custody for the transfer and disposal of County assets.

## **Observation**

During our review, we observed that documentation supporting the movement of ITD assets was not completed accurately. Specifically, the Transfer Sheet showed equipment was transferred to the COLO on April 13, 2017, when actually the equipment was not transferred until May 10, 2017. According to ITD staff, they understood the form should be dated the day the assets were “tagged” for inventory purposes.

## **Recommendation**

The CIO should provide adequate training to ensure that staff understands the County's Purchasing Policy and the intent of the ITD Transfer Sheet.

**Observation 6** *The management of assigned software licenses was not adequate.*

## **Observation**

During our review, we observed that ITD did not adequately manage the inventory of software licenses. Specifically, the County purchased 20 software licenses totaling \$5,990 in June 2016 for PowerShell Studio. Upon our request, a list of assigned users could not be provided by ITD. Subsequent to our request, ITD took corrective action to identify and update users in Service Now.

Furthermore, four users had multiple software licenses assigned to a single County computer. According to ITD management, users had multiple software licenses primarily because old County computers were not removed from Service Now, and new software licenses were created when old licenses should have been updated.

These conditions occurred because ITD does not have documented policies and procedures to manage software licenses purchased by the County.

### **Recommendation**

The CIO should develop documented policies and procedures for managing software licenses and train ITD staff accordingly.

**Observation 7** *The County paid \$66,524 for Adobe Social On-Demand Services that were not implemented.*

### **Background**

On November 26, 2013, the Commissioners Court approved a contract with PCMG, Inc. in the amount of \$2,157,797 for the Web Portal and Social Media Project. Of the total contract amount, \$288,465 was specifically related to Adobe Social. The contract allowed Tarrant County to terminate the Statement of Work, in whole or in part, upon 10 days prior written notice to PCMG.

### **Observation**

The County paid \$30,000 in December 2013 and \$36,524 in November 2015 to PCMG for the implementation of Adobe Social which was never implemented. According to ITD management, the social media project was terminated in November 2016 because there was no interest from County departments. Furthermore, ITD had not performed due diligence in determining whether adequate interest existed for Adobe Social and the cost-benefit of providing this product to County employees.

### **Recommendation**

The CIO should implement procedures to evaluate not only the cost-benefit of initiatives, but to always evaluate whether adequate interest exists among County elected officials and department heads. Also, management should request a full or partial reimbursement from PCMG since the Adobe Social profiles were never established.

**Observation 8** *Information presented to the Commissioners Court for the award of the Atos contract was not transparent.*

### **Observation**

During our review, we found that the Court Communication presented to the Commissioners Court for the award of the \$6.3 million contract with Atos was not transparent.

The Commissioners Court approved an exemption from competitive bidding to EMC for disaster recovery solutions on September 29, 2015. Then on March 22, 2016, the Commissioners Court approved a contract with Atos in the amount of \$6.3 million for the Disaster Recovery and Colocation Data Center. Attached to the Commissioners Court Communication was a letter from ITD to the Purchasing Department that requested "...the award of the contract to a federation of companies consisting of Atos IT Solutions and Services, Inc., EMC Corporation, VCE Company, LLC, and CyrusOne." ITD did not provide any evidence indicating that Atos was a part of the EMC federation.

Although the County contracted with Atos, various ITD and EMC staff stated that EMC and their partners performed the majority of the work relative to the DMBC Project. Furthermore, EMC staff stated that Atos is a partner, but is not part of the federation. EMC staff was not aware of Atos's role and the value they provided to the project.

### **Recommendation**

As part of the County's initiative for transparency, we recommend that the CIO provide complete and accurate information so the Purchasing Department and the Commissioners Court can make decisions that comply with state purchasing laws, County Purchasing Policy, and the best interest of the County.

*Observation 9 Payments to vendors were not always made within the timelines required by statute.*

### **Background**

Texas Government Code 2251.021(A), TIME FOR PAYMENT BY GOVERNMENTAL ENTITY, states: "*a payment by a governmental entity under a contract executed on or after September 1, 1987, is overdue on the 31st day after the later of:*

- (1) the date the governmental entity receives the goods under the contract;*
- (2) the date the performance of the services under the contract is completed; or*
- (3) the date the governmental entity receives an invoice for the goods or services".*

Eight ITD employees, including the CIO, are authorized to approve invoices for payment. The Auditor's Office will pay the invoice only if authorized approvals exist on the face of the invoice.

The Tarrant County Purchasing Policy provides guidance related to the requisitioning process. The department's purchase requisition authorizes the Purchasing Department to enter into an agreement, via contract or purchase order, with a vendor to purchase goods or services.

### **Observation**

We tested 40 invoices, totaling over \$13 million, submitted by the six vendors selected in our judgmental sample and observed that the payments were not always made within the timeline required by statute. Twelve invoices totaling approximately \$5.6 million were paid between 2 and 53 business days late. Ten of the invoices were not paid on time because the goods receipt had not been entered into SAP by ITD acknowledging delivery and acceptance of the goods. The remaining two payments were late because ITD management's review and approval of the invoices was not timely.

Furthermore, we observed 13 payments whereby the purchase orders were issued *after* the County was in receipt of the vendor's invoice or after the vendor had begun providing services to the County.

### **Recommendations**

The CIO should implement procedures to ensure that invoices are paid within the timeline specified by statute. Specifically, ITD staff should enter the goods receipt or service entry sheet, whichever is applicable, as soon as possible once the goods and/or services are verified.

Furthermore, purchase requisitions should be provided to the Purchasing Department so that appropriate procedures can be determined based on the cost of the purchase, the goods and services to be purchased, etc. to ensure compliance with relevant state procurement law and the County Purchasing Policy.

**CLOSING REMARKS**

We appreciate the cooperation of the CIO and his staff during our review. Please call me if you have any questions regarding the contents of this report.

Sincerely,

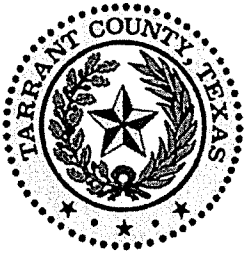


S. Renée Tidwell, CPA  
County Auditor

*Attachment:* Management's response

*Disbursement:* G.K. Maenius, County Administrator

*Audit Team:* Kim Trussell, Audit Manager  
Brandy Greene, Senior Internal Auditor  
Julie Hillhouse, Senior Internal Auditor



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*Business First,  
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*Our vision is to be the best IT  
organization in state and  
local government within the  
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December 6, 2017

Ms. Renee Tidwell, CPA  
County Auditor

Subject: ITD Management Response to the 2017 Review of IT Financial Controls

The Information Technology Department has received and reviewed the audit report for the 2017 Review of IT Financial Controls. On November 9, 2017, ITD met with and provided the Auditor detailed documented responses to each of the audit observations. We are committed to improve our budgetary accountability, project management oversight and related controls for the procurement and payment of goods and services. We value the auditor's recommendations and are actively taking steps to improve ITD processes and controls.

Sincerely,

Chris Nchopa-Ayafor  
Chief Information Officer

cc: G.K. Maenius, County Administrator