

**Review of Information Technology Procurement Processes for
Microsoft Software and Services purchased under
State Term Contract 43230000-15-02**

Office of Technology and Information Services

Report: A-1819DEP-025

Office of Inspector General

Internal Audit Section

Florida Department of Environmental Protection

February 18, 2020

3900 Commonwealth Boulevard, MS 40
Tallahassee, Florida 32399-3000

<https://floridadep.gov/>





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The Department of Environmental Protection (Department), Office of Inspector General (OIG) conducted a review of the Office of Technology and Information Services (OTIS) procurement processes related to Microsoft Software and Services purchased under State Term Contract 43230000-15-02 (Contract), with Software House International Corporation (Contractor). This review was initiated as a result of the Fiscal Year (FY) 2018-2019 Annual Audit Plan.

Scope and Objectives

The scope of this review included activities and financial transactions beginning on July 1, 2017. The objectives were to:

- determine whether approved payments were supported by applicable Contract prices, quotes, and required deliverables
- evaluate controls and management oversight of the Department's procurement of Microsoft Software and Services

Methodology

This review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors, and under the authority of Section 20.055, Florida Statutes (F.S.). Our procedures included review of authoritative documents, Department of Management Services (DMS) Contract documents, and purchase order documentation. We reviewed Department cloud storage usage through the Microsoft Azure Portal (Azure Portal) and the Department's licensing services through the Microsoft Volume Licensing Service Center (MVLSC Portal). We interviewed management and staff from DMS, the Department, the Contractor, and external entities.

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Background

In accordance with Section 287.056, agencies shall purchase commodities and contractual services from purchasing agreements established and State Term Contracts. On January 29, 2016, DMS entered into the Contract as an overarching agreement with the Contractor. The Contractor is the sole Licensing Solutions Provider (LSP) of Microsoft Software and Services for all state agencies in Florida. The Contract was originally executed February 1, 2016 and will expire January 31, 2020. As the LSP, the Contractor provides agencies discount pricing on Microsoft Software and Services through Enterprise Agreements. Under the Enterprise Agreements, prices for software and services are based on aggregate volume and establish maximum/ceiling prices for the term of the Contract. Microsoft sets the Estimated Reference Price (ERP) for Florida Level D (Government) pricing. Section 7.13.1 of the Invitation to Bid, which is incorporated into the Contract by reference, requires the LSP to provide an updated price list on a quarterly basis. The Contractor's price lists are posted on the DMS website. The Department entered into a three-year Enterprise Agreement for the period July 1, 2016, through June 30, 2019. A new Enterprise Agreement was executed for the period July 1, 2019, through June 30, 2022. On August 24, 2017, DMS entered into an Alternative Contract 43450000-NASPO-16-ACS with the Contractor to provide an alternative contracting methodology using the National Association of State Procurement Officials (NASPO) Contract for the purchase of cloud services.

The Department's Information Technology Resource Management Procedures are established under DEP Directive 370. Section (E)(a)(2) of this Directive requires OTIS to maintain a list of Information Technology (IT) commodities and services that require approval

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by the Chief Information Officer (CIO) prior to procurement. Based on this Directive, OTIS has created an IT Resource Inclusion List that outlines IT products that require OTIS review and approval prior to purchase, including all software. Once a software purchase is approved at the Division, District or Office level, it must be approved through OTIS.

Staff in the OTIS Bureau of Business Management Services (BMS) Section assists Department programs in the procurement of IT commodities and services under the Enterprise Agreements. Staff in the Customer Support Services Asset Management Section (AMS) assists with accountability and tracking of software assets. Purchases made by the Department through the Contract primarily include renewal of the Microsoft Enterprise Agreement for Office 365, individual license/subscription purchases, and purchases of other Microsoft Services. Total purchase orders issued by the Department with the Contractor since July 2017 are as follows:

Fiscal Year	Purchase Orders Issued	Total
2017-2018	69	\$946,212.16
2018-2019	83	\$1,370,124.72
2019-2020 ¹	33	\$1,530,954.27

Results

Annual Microsoft License Renewal

Each year OTIS works with Department programs through the Information Technology Workgroup (ITWG) to determine annual licenses and subscription renewal needs. The AMS Program Administrator tracks Microsoft purchases and renewals and serves as the Department's software asset custodian for Microsoft Software. Based on our review, the AMS Program

¹ FY 2019-2020 purchase orders issued as of December 30, 2019.

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Administrator has an established process to track and renew Microsoft Software services consistent with DEP Directive 370 and the Department's IT Resource Management Procedures.

When developing the purchase order under the Enterprise Agreement for annual license and subscription service renewal, BMS staff obtain a quote from the Contractor. Quotes contain service part numbers, descriptions, and the associated unit prices. OTIS obtains approval from the Department of Financial Services for advanced payment for the renewal year to the Contractor. AMS management verifies service purchases in the MVLSC Portal. Purchase orders issued for annual license and subscription renewals were as follows:

Fiscal Year	Purchase Order	Amount	Total Paid
2018	B12B3B	\$604,479.72	\$604,479.72
2019	B3452A	\$600,351.84	\$600,351.84
2020	PO2147891	\$701,345.90	\$701,345.90

For services purchased under these annual renewal purchase orders, the Contractor is required to provide agencies a discount of 18.2% off the Microsoft ERP. We compared part numbers and prices to Contractor invoices, quotes, published price lists, and the Department's purchased services in the MVLSC Portal. Purchase order part numbers and prices were consistent with the Contractor's quotes. However, we noted several discrepancies between purchase order part numbers and prices, invoices, the Contractor's price lists, and purchased services in the MVLSC Portal.

The majority of part numbers and prices listed in the purchase orders for FY 2018 and 2019 were consistent with part numbers and prices included on the Contractor's price list. However, the part numbers and quantities were not consistent between the purchase order amounts and services reflected in the MVLSC Portal. In addition, part numbers submitted with the Contractor's 2018 invoice differed from the quote and purchase order.

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In contrast, the part numbers and prices listed in the FY 2020 purchase order differed from the part numbers and prices for the same services described in prior year purchase orders and were not included in the Contractor's price list. However, the service part numbers and quantities purchased aligned with the service part numbers and quantities listed in the MVLSC Portal. Since many of the 2020 purchase order part numbers and prices were not included on the Contractor's published price list, we obtained an additional unpublished price list schedule from the Contractor. This list is also provided to the DMS Contract Manager. Service part numbers included in the FY 2020 purchase order were consistent with those included in the Contractor's unpublished pricelist. However, without the unpublished pricelist, BMS staff had approved the 2020 purchase order without verifying the cost of the service part numbers purchased.

General Contract Conditions Paragraph 4.(b), of the Contract states, *During the Contract term, if the Customer becomes aware of better pricing offered by the Contractor for substantially the same or a smaller quantity of a product outside of the Contract, but upon the same or similar terms of the Contract, then at the discretion of the Customer the price under the Contract shall be immediately reduced to the lower price.* Due to the inconsistent nature of information and prices provided in the published and unpublished price lists, we reviewed annual renewal purchase orders issued by other agencies. Prices quoted for several service part numbers varied from quotes obtained by the Department and were generally lower. According to BMS staff, there is no process in place to review pricing offered to agencies external to the Department.

Azure Cloud Storage

The Department purchases Microsoft Azure cloud computing services from the Contractor for network data storage, primarily under the Contract. As with Microsoft licensing

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and subscription services, when developing the purchase order for annual Azure Monetary Commitment of Microsoft Azure cloud services, BMS staff obtain a quote from the Contractor. Quotes contain the Contractor's Azure Monetary Commitment service part number along with the price per unit. Management from the Security and Infrastructure Services (SIS) Section verifies the Department's credit in the Azure Portal. Purchase orders issued for the Department's annual Azure Monetary Commitment of Azure cloud services were as follows:

Fiscal Year	Purchase Order	Amount	Total Paid
2018	B127B0	\$193,497.00	\$191,611.53
2019	B34A23	\$463,806.00	\$463,192.50
2020	PO2148049	\$454,098.00	\$157,771.75 ²

The part numbers used for purchasing the Department's annual Azure Monetary Commitment under the Contract were consistent with the Contractor's quote and price list³. However, the purchased credit in the Azure Portal did not reflect the number of units purchased nor amounts consistent with Department payments. Based on discussions with the Contractor, the Department's credits in the Azure Portal are not based on the number of units purchased, but rather on the monetary value purchased. Initially during our review, the value of credits reflected in the Azure Portal was not consistent with Department payments to the Contractor. Contract staff explained that credits added to the Azure Portal should have reflected the purchased credit less the Contractor's fee of 2.25%. This credit calculation was not specified in the Contract nor

² Payments as of December 31, 2019

³ \$180,000 of Purchase Order B127B0 during FY 2018 was for cloud services purchased under the NASPO Contract. As such, there was no associated part number contained in the quote.

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the NASPO Contract. As a result of our inquiry, the Azure Portal was subsequently updated to reflect credits consistent with Department payments beginning August 2018⁴.

During FY 2018, OTIS had not ensured the Department maintained a positive credit balance in the Azure Portal. As a result, the Contractor billed the Department for usage through invoices reflecting overage charges. These invoices did not reflect service part numbers consistent with the price list and did not include support from Microsoft consistent with the overage amounts being billed. The Azure Portal also did not reflect credits for Department overage payments. The Contractor was unable to provide support for the discrepancies.

Conclusions

Based on our review, OTIS AMS management has an established process to track and renew Microsoft Software services consistent with DEP Directive 370 and the Department's IT Resource Management Procedures. However, control weaknesses were noted in the areas of annual license and subscription renewal purchases as well as in purchases for Azure cloud storage service costs.

Findings and Recommendations

Finding 1: Annual License and Subscription Renewal

When developing the purchase order under the Enterprise Agreement for annual renewal, BMS staff obtain a quote from the Contractor. Quotes contain service part numbers, descriptions, and the associated unit prices. AMS management verifies the Department's services listed in the

⁴ Prior to 2018, Department payments do not align with credits or payments for service overage charges listed in the Azure Portal.

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MVLSC Portal to confirm the purchase. Purchase orders issued for annual license and subscription renewals were as follows:

Fiscal Year	Purchase Order	Amount	Total Paid
2018	B12B3B	\$604,479.72	\$604,479.72
2019	B3452A	\$600,351.84	\$600,351.84
2020	PO2147891	\$701,345.90	\$701,345.90

Based on our review, there were several discrepancies between service part numbers, prices, the Contractor’s price lists, and MVLSC Portal as follows:

Fiscal Year	Purchase Order	Purchase Order Part Numbers and Prices Supported by Contractor’s Quote	Purchase Order Part Numbers and Prices Supported by Contractor’s Invoice	Purchase Order Part Numbers and Prices Consistent with Contractor’s Price List	Purchase Order Part Numbers and Quantities Consistent with Part Numbers and Quantities Represented in the MVLSC Portal
2018	B12B3B	✓		✓	
2019	B3452A	✓	✓	✓	
2020	PO2147891	✓	✓		✓

The majority of part numbers and prices listed in the purchase orders for FY 2018 and FY 2019 were consistent with part numbers and prices included on the Contractor’s price list. However, the part numbers and quantities were not consistent between the purchase orders and the MVLSC Portal. For FY 2018, the part numbers submitted with the Contractor’s invoice differed from the part numbers contained in the submitted quote and purchase order.

The part numbers and prices listed in the FY 2020 purchase order differed from the part numbers and prices for the same services described in prior year purchase orders but aligned with the service part numbers and quantities listed in the MVLSC Portal. However, the FY 2020 purchase order part numbers and prices were not included in the Contractor’s price list. Upon inquiry, BMS staff indicated that they verified all items on the Contractor’s price list.

Based on discussions with the DMS Contract Manager, due to previously noted concerns, recent efforts had been made to audit the Contractor’s prices on a quarterly basis using a

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contracted Certified Public Accountant (CPA). Since many of the 2020 purchase order part numbers and prices were not included on the Contractor's published price list, we obtained an additional unpublished price list schedule from the Contractor. This list is also provided to the DMS Contract Manager. Service part numbers included in the FY 2020 purchase order were consistent with prices on the unpublished price list, with the exception of one part number which listed a price lower than the price quoted and invoiced. Without the additional price list, BMS staff had approved the 2020 purchase order without verifying the correct price of service part numbers purchased. The DMS Contract Manager advised that additional unpublished price lists may be provided to the Department upon request.

General Contract Conditions Paragraph 4.(b), of the Contract states, *During the Contract term, if the Customer becomes aware of better pricing offered by the Contractor for substantially the same or a smaller quantity of a product outside of the Contract, but upon the same or similar terms of the Contract, then at the discretion of the Customer the price under the Contract shall be immediately reduced to the lower price.* Due to the inconsistent nature of the Department's purchase information in the MVLSC, as well as inconsistent part number's prices provided in published and unpublished price lists, we reviewed annual license and subscription renewal purchase orders issued by other agencies for FY 2020. Prices quoted for several of the same service part numbers purchased by other agencies varied from quotes obtained by the Department and were generally lower. According to BMS staff, there is no process in place to review pricing offered to agencies external to the Department. As a result of these cumulative circumstances, the Department does not have assurance that license and subscription services are being purchased at a price consistent with the Contract and at the best available price.

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Recommendation

During the annual renewal of licenses and subscriptions, we recommend OTIS obtain price confirmation on all purchased service part numbers from both the most recent published and unpublished price list. Unpublished price lists are available from DMS Contract management upon request. We also recommend OTIS verify the accuracy of service part numbers and quantities purchased in the MVLSC Portal to confirm that the Department has been invoiced and paid for the correct service part numbers and quantities each year. If discrepancies exist, OTIS should work with the Contractor to ensure necessary corrections are made. Further, given the inconsistent nature of prices available under the Contract, OTIS should compare quotes obtained for purchase orders issued by other agencies for the same services with each annual renewal. If management becomes aware of better pricing offered by the Contractor for substantially the same or a smaller quantity of a service part offered under similar terms, OTIS should work with the Contractor to reduce the Department's quote to the lower price.

Finding 2: Azure Cloud Storage Service Costs

When developing purchase orders for the Department's annual Azure Monetary Commitment of Microsoft Azure cloud services, BMS staff obtain a quote from the Contractor. Quotes contain the Azure Monetary Commitment service part number along with the price per unit, which is consistent with the price list. Department credits, adjustments, and usage charges are reflected in the Azure Portal. Purchase orders issued for the Department's Microsoft Azure services were as follows:

Fiscal Year	Purchase Order	Amount	Total Paid
2018	B127B0	\$193,497.00	\$191,611.53
2019	B34A23	\$463,806.00	\$463,192.50
2020	PO2148049	\$454,098.00	\$157,771.75

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The Azure Portal does not reflect the number of units purchased nor amounts consistent with Department payments. Initially during our review, purchased credit amounts in the Azure Portal were not consistent with Department payments. As a result of our inquiry, the Azure Portal was subsequently updated to reflect credit amounts consistent with Department payments beginning August 2018.

During FY 2018, OTIS had not ensured that the Department maintained a positive credit balance in the Azure Portal. As a result, the Contractor billed the Department for service usage through invoices for overage charges. These invoices did not include service part numbers and prices consistent with the price list and were not consistent with service overage charges reflected in the Azure Portal. The Contractor's invoices also did not include Microsoft invoice support consistent with the overage amounts billed to the Department. The Contractor indicated that documentation reflecting Microsoft charges to the Contractor for overages were not available to the Department. The Azure Portal also did not reflect credits from Department overage payments. As a result, the amounts paid to the Contractor for overage charges could not be verified against charges in the Azure Portal, Contractor price lists, or direct charges to the Contractor for Department overage costs. A comparison of Azure Portal credits and charges to Department payments is provided in the following table.

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Comparison of Azure Portal Credits and Charges to Department Payments												
Azure Portal Credits and Charges									Department Payments			
Month	Beginning Credit	Ending Credit	Charges Against Commitment	Service Overage Charges	Adjustments	Charges Billed Separately	Azure Market Place	New Credit	Purchase Order	Payment Amount	Payment Date	Fiscal Year
Dec-19	21,462.12	0.00	21,462.12	18,443.26								
Nov-19	42,501.57	21,462.12	44,761.45					23,722.00	PO2148049	\$306.75	11/8/2019	2020
Oct-19	87,116.83	42,501.57	44,676.09		60.83							
Sep-19	125,761.97	87,116.83	38,645.14									
Aug-19	6,221.48	125,761.97	37,924.51					157,465.00	PO2148049	\$157,465.00	8/8/2019	2020
Jul-19	44,644.62	6,221.48	38,423.14									
Jun-19	0.00	44,644.62	67,896.27		-70,895.61			183,436.50	B34A23	\$183,436.50	6/18/2019	2019
May-19	44,936.62	0.00	44,936.62									
Apr-19	22,661.88	44,936.62	48,620.87		70,895.61							
Mar-19	66,520.96	22,661.88	43,859.08									
Feb-19	101,957.02	66,520.96	35,436.06									
Jan-19	137,023.43	101,957.02	35,066.41									
Dec-18	173,508.20	137,023.43	36,484.77									
Nov-18	206,839.18	173,508.20	33,330.98									
Oct-18	243,267.15	206,839.18	36,427.97									
Sep-18	268,438.71	243,267.15	25,171.56									
Aug-18	34,260.56	268,438.71	22,162.60					256,340.75				
									B34A23	\$279,756.00	7/18/2018	2019
Jul-18	0.00	34,260.56	16,864.44		51,125.00				B127B0	\$62,555.21	7/16/2018	2018
Jun-18	0.00	0.00	0.00	30,943.37								
									B127B0	\$7,431.37	5/24/2018	2018
May-18	0.00	0.00	0.00	15,233.32					B127B0	\$2,127.95	5/2/2018	2018
Apr-18	0.00	0.00	820.10	14,165.62	820.10				B127B0	\$106,000.00	4/18/2018	2018
Mar-18	6,296.13	0.00	6,296.13	7,054.56								
Feb-18	18,385.28	6,296.16	12,089.15			41.83						
Jan-18	31,277.61	18,385.28	12,892.33			46.27						
Dec-17	44,345.14	31,277.61	13,067.53			46.37						
Nov-17	58,154.64	44,345.14	13,809.50			55.38			B127B0	\$13,497.00	11/20/2017	2018
Oct-17	71,645.65	58,154.64	13,491.01			93.40	1,627.26					
Sep-17	83,771.16	71,645.64	12,125.52			92.03						
Aug-17	96,987.40	83,771.16	13,216.24			92.03						
Jul-17	102,249.96	96,987.40	5,262.56			42.95			AF311A	\$32,601.09	7/14/2017	2017
		Total	775,220.15	85,840.13	52,005.93	510.26	1,627.26	620,964.25		\$844,870.12		

While credits purchased for charges against the commitment aligned with Department payments subsequent to our inquiry, service overage charges did not. As of December 31, 2019, the Azure Portal reflected that the Department's cloud service credit had been exhausted and overage charges were accumulating.

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Recommendation

We recommend OTIS monitor the Azure Portal to ensure that the Department's Azure Monetary Commitment payments are accurately credited going forward. Given that the Department is reliant on cloud service Contracts established by DMS and under these Contracts, there is limited means in which to verify the accuracy of service overage charges, we recommend OTIS carefully monitor the Azure Portal to ensure a positive credit balance is maintained to avoid overage charges. If payments for overage charges are necessary, OTIS should work with the Contractor to ensure the amounts billed are consistent with overage amounts reflected in the Azure Portal.

To promote accountability, integrity, and efficiency in state government, the OIG completes audits and reviews of agency programs, activities, and functions. Our review was conducted under the authority of Section 20.055, F.S., and in conformance with the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors, and Principles and Standards for Offices of Inspector General, published by the Association of Inspectors General. The review was conducted by Jeffrey S. Taylor and Joy James and was supervised by Valerie J. Peacock.

Please address inquiries regarding this report to the OIG's Audit Director by telephone at (850) 245-3151. Copies of final reports may be viewed and downloaded via the internet at <https://floridadep.gov/oig/internal-audit/content/final-audit-reports>. Copies may also be obtained by telephone (850) 245-3151, by fax (850)245-2994, in person or by mail at Department of Environmental Protection, Office of Inspector General, 3900 Commonwealth Boulevard, Mail Station #41, Tallahassee, FL 32399.

*Valerie J. Peacock,
Director of Auditing*

*Candie M. Fuller,
Inspector General*



FLORIDA DEPARTMENT OF Environmental Protection

Marjory Stoneman Douglas Building
3900 Commonwealth Boulevard
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Ron DeSantis
Governor

Jeanette Nuñez
Lt. Governor

Noah Valenstein
Secretary

February 12, 2020

MEMORANDUM:

TO: Valerie Peacock, Audit Director
Office of Inspector General

FROM: Warren Sponholtz, Chief Information Officer
Office of Technology & Information Services

SUBJECT: Response to Procurement Audit,
Preliminary Findings A-1819DEP-025

AUDIT SUBJECTS:

- (I) Review of Information Technology Procurement Processes for Microsoft Software
- (II) Services purchased under State Term Contract 43230000-15-02

I. FINDING SUMMARY - ANNUAL LICENSE AND SUBSCRIPTION RENEWAL:

When developing the purchase order under the Enterprise Agreement for annual renewal, BMS staff obtain a quote from the Contractor. Quotes contain service part numbers, descriptions, and the associated unit prices. AMS management verifies the Department's services listed in the MVLSC Portal to confirm the purchase. Purchase orders issued for annual license and subscription renewals were as follows:

Fiscal Year	Purchase Order	Amount	Total Paid
2018	B12B3B	\$604,479.72	\$604,479.72
2019	B3452A	\$600,351.84	\$600,351.84
2020	PO2147891	\$701,345.90	\$701,345.90

Based on our review, there were several discrepancies between service part numbers, prices, the Contractor's price lists, and MVLSC Portal as follows:

Fiscal Year	Purchase Order	Purchase Order Part Numbers and Prices Supported by Contractor's Quote	Purchase Order Part Numbers and Prices Supported by Contractor's Invoice	Purchase Order Part Numbers and Prices Consistent with Contractor's Price List	Purchase Order Part Numbers and Quantities Consistent with Part Numbers and Quantities Represented in the MVLSC Portal
2018	B12B3B	✓		✓	
2019	B3452A	✓	✓	✓	
2020	PO2147891	✓	✓		✓

The majority of part numbers and prices listed in the purchase orders for FY 2018 and FY 2019 were consistent with part numbers and prices included on the Contractor's price list. However, the part numbers and quantities were not consistent between the purchase orders and the MVLSC Portal. For FY 2018, the part numbers submitted with the Contractor's invoice differed from the part numbers contained in the submitted quote and purchase order.

The part numbers and prices listed in the FY 2020 purchase order differed from the part numbers and prices for the same services described in prior year purchase orders but aligned with the service part numbers and quantities listed in the MVLSC Portal. However, the FY 2020 purchase order part numbers and prices were not included in the Contractor's price list. Upon inquiry, BMS staff indicated that they verified all items on the Contractor's price list.

Based on discussions with the DMS Contract Manager, due to previously noted concerns, recent efforts had been made to audit the Contractor's prices on a quarterly basis using a contracted Certified Public Accountant (CPA). Since many of the 2020 purchase order part numbers and prices were not included on the Contractor's published price list, we obtained an additional unpublished price list schedule from the Contractor. This list is also provided to the DMS Contract Manager. Service part numbers included in the FY 2020 purchase order were consistent with prices on the unpublished price list, with the exception of one part number which listed a price lower than the price quoted and invoiced. Without the additional price list, BMS staff had approved the 2020 purchase order without verifying the correct price of service part numbers purchased. The DMS Contract Manager advised that additional unpublished price lists may be provided to the Department upon request.

General Contract Conditions Paragraph 4.(b), of the Contract states, During the Contract term, if the Customer becomes aware of better pricing offered by the Contractor for substantially the same or a smaller quantity of a product outside of the Contract, but upon the same or similar terms of the Contract, then at the discretion of the Customer the price under the Contract shall be immediately reduced to the lower price. Due to the inconsistent nature of the Department's purchase information in the MVLSC, as well as inconsistent part number's prices provided in published and unpublished price lists, we reviewed annual license and subscription renewal purchase orders issued by other agencies for FY 2020.

Prices quoted for several of the same service part numbers purchased by other agencies varied from quotes obtained by the Department and were generally lower. According to BMS staff, there is no process in place to review pricing offered to agencies external to the Department. As a result of these cumulative circumstances, the Department does not have assurance that license and subscription services are being purchased at a price consistent with the Contract and at the best available price.

RECOMMENDATION:

During the annual renewal of licenses and subscriptions, we recommend OTIS obtain price confirmation on all purchased service part numbers from both the most recent published and unpublished price list. Unpublished price lists are available from DMS Contract management upon request. We also recommend OTIS verify the accuracy of service part numbers and quantities purchased in the MVLSC Portal to confirm that the Department has been invoiced and paid for the correct service part numbers and quantities each year. If discrepancies exist,

OTIS should work with the Contractor to ensure necessary corrections are made. Further, given the inconsistent nature of prices available under the Contract, OTIS should compare quotes obtained for purchase orders issued by other agencies for the same services with each annual renewal. If management becomes aware of better pricing offered by the Contractor for substantially the same or a smaller quantity of a service part offered under similar terms, OTIS should work with the Contractor to reduce the Department's quote to the lower price.

RESPONSE - CORRECTIVE ACTION:

OTIS concurs with the recommendations and will update relevant internal policies and procedures by June 2020.

II. FINDING SUMMARY - AZURE CLOUD STORAGE SERVICE COSTS

When developing purchase orders for the Department's annual Azure Monetary Commitment of Microsoft Azure cloud services, BMS staff obtain a quote from the Contractor. Quotes contain the Azure Monetary Commitment service part number along with the price per unit, which is consistent with the price list. Department credits, adjustments, and usage charges are reflected in the Azure Portal. Purchase orders issued for the Department's Microsoft Azure services were as follows:

Fiscal Year	Purchase Order	Amount	Total Paid
2018	B127B0	\$193,497.00	\$191,611.53
2019	B34A23	\$463,806.00	\$463,192.50
2020	PO2148049	\$454,098.00	\$157,771.75

The Azure Portal does not reflect the number of units purchased nor amounts consistent with Department payments. Initially during our review, purchased credit amounts in the Azure Portal were not consistent with Department payments. As a result of our inquiry, the Azure Portal was subsequently updated to reflect credit amounts consistent with Department payments beginning August 2018.

During FY 2018, OTIS had not ensured that the Department maintained a positive credit balance in the Azure Portal. As a result, the Contractor billed the Department for service usage through invoices for overage charges. These invoices did not include service part numbers and prices consistent with the price list and were not consistent with service overage charges reflected in the Azure Portal. The Contractor's invoices also did not include Microsoft invoice support consistent with the overage amounts billed to the Department. The Contractor indicated that documentation reflecting Microsoft charges to the Contractor for overages were not available to the Department. The Azure Portal also did not reflect credits from Department overage payments. As a result, the amounts paid to the Contractor for overage charges could not be verified against charges in the Azure Portal, Contractor price lists, or direct charges to the Contractor for Department overage costs. A comparison of Azure Portal credits and charges to Department payments is provided in the following table.

Comparison of Azure Portal Credits and Charges to Department Payments												
Azure Portal Credits and Charges								Department Payments				
Month	Beginning Credit	Ending Credit	Charges Against Commitment	Service Overage Charges	Adjustments	Charges Billed Separately	Azure Market Place	New Credit	Purchase Order	Payment Amount	Payment Date	Fiscal Year
Dec-19	21,462.12	0.00	21,462.12	18,443.26								
Nov-19	42,501.57	21,462.12	44,761.45					23,722.00	PO2148049	\$306.75	11/8/2019	2020
Oct-19	87,116.83	42,501.57	44,676.09		60.83							
Sep-19	125,761.97	87,116.83	38,645.14									
Aug-19	6,221.48	125,761.97	37,924.51					157,465.00	PO2148049	\$157,465.00	8/8/2019	2020
Jul-19	44,644.62	6,221.48	38,423.14									
Jun-19	0.00	44,644.62	67,896.27		-70,895.61			183,436.50	B34A23	\$183,436.50	6/18/2019	2019
May-19	44,936.62	0.00	44,936.62									
Apr-19	22,661.88	44,936.62	48,620.87		70,895.61							
Mar-19	66,520.96	22,661.88	43,859.08									
Feb-19	101,957.02	66,520.96	35,436.06									
Jan-19	137,023.43	101,957.02	35,066.41									
Dec-18	173,508.20	137,023.43	36,484.77									
Nov-18	206,839.18	173,508.20	33,330.98									
Oct-18	243,267.15	206,839.18	36,427.97									
Sep-18	268,438.71	243,267.15	25,171.56									
Aug-18	34,260.56	268,438.71	22,162.60					256,340.75				
									B34A23	\$279,756.00	7/18/2018	2019
Jul-18	0.00	34,260.56	16,864.44		51,125.00				B127B0	\$62,555.21	7/16/2018	2018
Jun-18	0.00	0.00	0.00	30,943.37								
									B127B0	\$7,431.37	5/24/2018	2018
May-18	0.00	0.00	0.00	15,233.32					B127B0	\$2,127.95	5/2/2018	2018
Apr-18	0.00	0.00	820.10	14,165.62	820.10				B127B0	\$106,000.00	4/18/2018	2018
Mar-18	6,296.13	0.00	6,296.13	7,054.56								
Feb-18	18,385.28	6,296.16	12,089.15			41.83						
Jan-18	31,277.61	18,385.28	12,892.33			46.27						
Dec-17	44,345.14	31,277.61	13,067.53			46.37						
Nov-17	58,154.64	44,345.14	13,809.50			55.38			B127B0	\$13,497.00	11/20/2017	2018
Oct-17	71,645.65	58,154.64	13,491.01			93.40	1,627.26					
Sep-17	83,771.16	71,645.64	12,125.52			92.03						
Aug-17	96,987.40	83,771.16	13,216.24			92.03						
Jul-17	102,249.96	96,987.40	5,262.56			42.95			AF311A	\$32,601.09	7/14/2017	2017
			Total	775,220.15	85,840.13	\$2,005.93	\$10.26	1,627.26	620,964.25	\$844,870.12		

While credits purchased for charges against the commitment aligned with Department payments subsequent to our inquiry, service overage charges did not. As of December 31, 2019, the Azure Portal reflected that the Department's cloud service credit had been exhausted and overage charges were accumulating.

RECOMMENDATION:

We recommend OTIS monitor the Azure Portal to ensure that the Department's Azure Monetary Commitment payments are accurately credited going forward. Given that the Department is reliant on cloud service Contracts established by DMS and under these Contracts, there is limited means in which to verify the accuracy of service overage charges, we recommend OTIS carefully monitor the Azure Portal to ensure a positive credit balance is maintained to avoid overage charges. If payments for overage charges are necessary, OTIS should work with the Contractor to ensure the amounts billed are consistent with overage amounts reflected in the Azure Portal.

RESPONSE - CORRECTIVE ACTION:

OTIS concurs with the recommendations and will update relevant internal policies and procedures by June 2020.