Report of the Vermont State Auditor

DOUGLAS R. HOFFER
Vermont State Auditor

Vermont's Self-Funded Web Portal

Portal Manager Fees for Certain Online Services Finance Entire Self-Funded Web Portal, but Some Fees Not Approved as Required

October 26, 2016

Rpt. No. 16-07

Report of the Vermont State Auditor

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Vermont State Auditor

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DOUGLAS R. HOFFER
Vermont State Auditor

132 STATE STREET • MONTPELIER, VERMONT 05633-5101
(802) 828-2281 • TOLL-FREE IN VT: (877) 290-1400 • FAX: (802) 828-2198
AUDITOR@VERMONT.GOV • WWW.AUDITOR.VERMONT.GOV

Dear Colleagues,

Since 2006, Vermont Information Consortium (VIC) has provided management services for the State's self-funded web portal including developing, hosting, and maintaining websites and online services. VIC is compensated for its services by charging fees for certain online transactions. The Department of Information and Innovation (DII) and the Web Portal Board (WPB) oversee the self-funded web portal and VIC. Our audit objective was to describe the State's self-funded web portal, including the fee structure.

In fiscal year 2015, VIC received $1.9 million from fees charged for 37 online services. VIC fees vary because development costs, transaction volume, and total dollars processed differ widely for the various online services.

From 2013 to 2015, fees for 16 online services were not approved by the Governor and Legislature, as required by statute. DII and the WPB think that some VIC fees do not require approval. The Commissioner of DII and the Director of Web Services believe that the Legislature agrees. However, statute does not seem to allow for a process that excludes the WPB, Governor, and Legislature from determining fees for the self-funded web portal. A clarification to statute may be necessary to limit confusion or misinterpretation of what has been agreed to and to ensure that VIC fees are approved as required

Statute does not specify that all state agencies must use the self-funding model and DII believes agencies have the discretion to use vendors other than VIC to develop websites and online services. Some state agencies have used other vendors, but most of the 117 websites and 94 online services available via Vermont.gov as of July 2016, were developed under the self-funded web portal model using VIC as the service provider.

We also noted that the DII Director of Web Services has not communicated to state agencies the recommended controls related to payment processing contained in an Independent Service Auditor's Report because he was not aware that the report contained these recommendations. To the extent that departments do not implement the recommended controls, there is a greater risk that errors in payments to the State or fees retained by VIC will go undetected.

We made a variety of recommendations to the WPB, DII, and the Legislature, such as determining whether statute should be amended to reflect which VIC fees require review by the WPB and the approval of the Governor and Legislature.

DOUGLAS R. HOFFER
Vermont State Auditor

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(802) 828-2281 • TOLL-FREE IN VT: (877) 290-1400 • FAX: (802) 828-2198
AUDITOR@VERMONT.GOV • WWW.AUDITOR.VERMONT.GOV

In accordance with 32 V.S.A. §163, we are also providing copies of this report to the commissioner of the Department of Finance and Management and the Department of Libraries. In addition, the report will be made available on the state auditor's website, http://auditor.vermont.gov/.

Sincerely,

DOUGLAS R. HOFFER
State Auditor

ADDRESSEES

The Honorable Shap Smith
Speaker of the House of Representatives

The Honorable Peter Shumlin
Governor

The Honorable Jane Kitchel
Chair, Joint Fiscal Committee

Mr. Trey Martin
Secretary, Agency of Administration

Mr. Michael Clasen
Chair, Web Portal Board

The Honorable John Campbell
President Pro Tempore of the Senate

The Honorable Janet Ancel
Chair, House Committee on Ways and Means
Vice Chair, Joint Fiscal Committee

Mr. Richard Boes
Commissioner, Department of Information and Innovation

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Introduction

In 2006, with the passage of 22 V.S.A. Chapter 16 the Vermont web portal and the Web Portal Board (WPB) were established. The WPB, in cooperation with the Department of Information and Innovation (DII), was charged with overseeing the development of a self-funded web portal and establishing charges for the services it provides. Statute describes the self-funded web portal as a centralized electronic information system by which information is disseminated or collected via the internet and specifies that it is to be supported entirely with fees collected from financial transactions processed through the self-funded web portal.

Since 2006, the Department of Information and Innovation has contracted with the Vermont Information Consortium (VIC) to provide management services for the self-funded web portal, including 1) hosting, developing, and maintaining Vermont.gov, the official website (i.e., web portal) of the State of Vermont, and 2) developing online services.[1]

The Legislature has requested information from DII about the self-funded web portal and members of the Joint Fiscal Committee (JFC) have raised questions about the fees. According to a 2015 DII legislative report, some state decision makers have been uncomfortable with the fees charged for financial transactions processed online.[2] As a result, we decided to perform an audit to describe the State's self-funded web portal, including the fee structure.

Appendix I contains detail on our scope and methodology. Appendix II contains a list of abbreviations used in this report.

[1] An online service is a dynamic web application on the internet that facilitates a transactional exchange between citizens or businesses, and state government. These services provide information to the public or the ability to conduct financial transactions online.

[2] *Web Portal Project Fee Report* (DII, February 4, 2015).

Highlights

The Legislature has requested information about the self-funded web portal and some state decision makers are not comfortable with the fees charged for online financial services. Our objective was to describe the State's self-funded web portal, including the fee structure.

Under the self-funded model, Vermont Information Consortium (VIC) is primarily compensated for web portal management services by charging fees for online services available on Vermont.gov. As of August 2016, there were 37 online services for which VIC is paid a transaction-based or a fixed fee (the "VIC fees").[3] These fees compensate VIC for all services it provides related to developing, maintaining, and hosting 87 websites and 68 online services.

In state fiscal year 2015 (FY 2015) VIC received $1.9 million from transaction-based and fixed fees charged for online services. VIC uses proprietary software that processes payments for online financial transactions, collecting statutory fees,[4] taxes, and VIC fees. The VIC fees vary widely. According to the General Manager for VIC, the fee variability is due to differing development costs and transaction volumes or dollar amounts processed for online services.

VIC fees for 16 services initiated from 2013 to 2015 were negotiated by VIC with state agencies[5] and were reviewed by the Director of Web Services, but were not set as required by statute. Statute requires that the Web Portal Board (WPB) establish charges (i.e., the VIC fees) for online financial transactions and that these charges be approved by the Governor and the Joint Fiscal Committee (JFC) or the Legislature. However, DII and the WPB believe that the approval of the Governor and the Legislature is not required for VIC fees when the amount paid by the user of the online service is limited to the statutory fee authorized by the Legislature or the state agency is authorized by statute to establish a fee to cover the costs of the service. According to the DII Commissioner and the Director of Web Services, the JFC and the House Ways and Means Committee[6] have agreed to this approach. For six of the sixteen online services, the amount paid by the user of the online service was not limited to the statutory fee or the state agency was not authorized to establish a fee for the service. It's not clear whether the failure to approve these six VIC fees was an oversight or occurred because of

[3] Most of these fees are a set amount per transaction or a percent of the transaction dollar total. A limited number are a set amount per month or per year that is paid by the state agency.

[4] Statutory fees include fees and assessments established by statute, ordinance, resolution, or other law or regulation, charged to a third party by the State to engage in a transaction with a state agency (e.g., to obtain a copy of a record or obtain a license or permit).

[5] Throughout this report, the use of state agency or agency means a state organization, such as a department, commission, or agency.

[6] According to the website of the House Committee on Ways and Means, the committee considers various matters, including those relating to revenue of the State and all matters relating to taxation.

confusion or differing interpretations of which VIC fees require the approval of the Governor and Legislature.

Vermont.gov is the State's official web portal, serving as the central access point to an array of state information resources and online services. According to the "A to Z" listings of websites and online services from Vermont.gov and additional information provided by VIC, there were 117 websites and 94 online services available via Vermont.gov as of July 2016.

Most of these websites and online services were developed under the self-funded web portal model using VIC as the service provider. Some state agencies, such as the Secretary of State, have used other vendors to develop their websites and online services, and are not under the self-funded web portal.[7] Statute does not specify that all state agencies must use the self-funding model and DII believes agencies have the discretion to use vendors other than VIC to develop websites and online services.

During the course of the audit, we became aware that some aspects of the State's oversight of the self-funded web portal and VIC may not be consistent with statutory and contractual requirements. Although oversight of the self-funded web portal and the web portal services manager were not the focus of our report, we have included our observations in an Other Matters section of this report.

[7] Because it was not significant to our audit objective, we did not obtain information about the funding sources used by state organizations that have contracted with vendors other than VIC.

Background

Overview

Vermont.gov is the State's official web portal, serving as the central access point to an array of state information resources and online services. Vermont.gov provides the public with information on topics such as voter registration, social assistance programs, starting a business, maps and roadways, arts and culture, and outdoor recreation. This portal also provides access to online services that allow users to electronically file tax returns, submit tax payments, renew professional licenses, register motor vehicles, and obtain vital records among other transactions.

Since October 2006, DII has contracted with Vermont Information Consortium (VIC) to provide web portal management services, including hosting, developing, and maintaining Vermont.gov. As of August 2016, VIC employs nine full-time information technology staff. During VIC's tenure as web portal manager, a total of 103 websites and 78 online services have been built for the State.[8]

The Director of Web Services (Director) at DII is responsible for overseeing the web portal management contract with VIC. The Director works closely with the Agency of Commerce and Community Development's Chief Marketing Office to provide agencies assistance with website design. The Director also provides web content management training to agencies that host their websites through VIC.

Payment Processing

VIC is a subsidiary of NIC USA, Inc. (NIC)[9] and uses NIC software, support, and other resources to provide services to the State. This includes software applications such as NIC's payment management engine, which is used to collect statutory fees, taxes, and enhanced access fees[10] for certain online services.

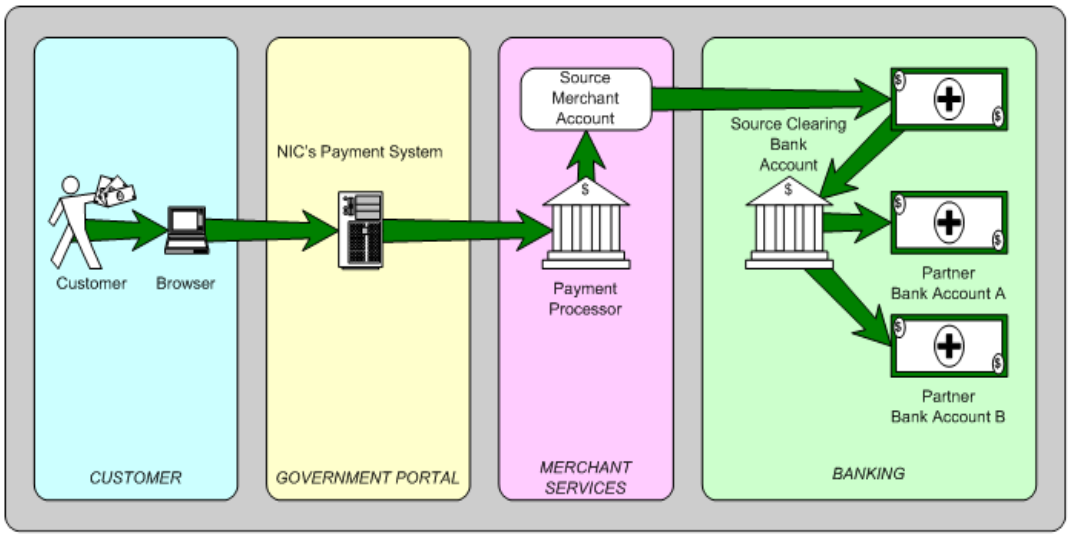
[8] Of these, 16 websites and 15 online services have been retired.

[9] According to its 2015 annual report, NIC is a provider of digital government services that help governments use technology to reduce internal costs, increase efficiencies, and provide service to businesses and citizens. NIC enters into multi-year contracts with its government partners through separate subsidiaries that operate as decentralized businesses. NIC primarily provides outsourced portal services and non-portal software development services.

[10] Enhanced access fees include convenience, electronic access, or electronic delivery charges associated with electronic delivery of a record or electronic filing of a transaction.

Figure 1 outlines the payment process cycle used to collect electronic payments for certain online services. The user accesses the online service (i.e., web application) using an internet browser. The user provides payment information via the web application to originate the payment. The web application contacts NIC's payment management engine to request authorization for the payment. The payment management engine contacts the payment processor to request the authorization. The results of the authorization are passed back to NIC's payment management engine and the web application from which the transaction originated. Merchant processors are used to facilitate the deposit of funds into an NIC source clearing bank account. The funds are disbursed by NIC to the state agency or State Treasurer bank accounts according to instructions provided by state agencies.

Figure 1: Diagram of Payment Processing (via web portal)



Source: NIC Services, LLC.

Two online services - driver history records and criminal conviction records – are available as a subscriber service with a subscription-based fee. The payments for these services are not processed through NIC's payment management engine. Rather, payments for these services are collected using NIC's Customer Database Billing (CDB) system. CDB manages subscriber accounts and bills subscribers for the use of the services. The system invoices subscribers monthly, who pay by check or Automated Clearing House (ACH).

VIC Fees Charged for Online Services Finance Self-Funded Web Portal, but Many Not Set According to Statute; Most Websites and Online Services Part of Self-Funded Web Portal

Under the self-funded web portal, fees charged for 37 online services compensate VIC for the web portal management services it provides related to 87 websites and 68 online services. In FY 2015 VIC received $1.9 million in transaction-based or fixed fees, net of merchant service fees.[11] VIC fees vary widely and are assessed either as a percentage of the total transaction amount, on a per transaction basis, or based on a fixed amount. According to the General Manager of VIC, this variability is due to development costs, transaction volume, and total dollars processed that differ widely among online services.

VIC fees for 16 online services initiated from 2013 to 2015 were negotiated between VIC and state agencies, rather than being set according to the process specified in statute. DII and the WPB have taken the position that these fees did not need to be approved by the Governor and the Legislature because the amount paid by the user of the online service did not exceed the statutory amount due or statute allowed the state agency to establish charges to cover costs.[12] DII officials indicated that they believe the JFC and the House Ways and Means Committee agreed.

The statute that established the WPB and the self-funded web portal does not require all state agencies to use the self-funded web portal to develop websites and online services. According to the DII Director of Web Services, agencies have the discretion to utilize vendors other than VIC and to contract separately for the development and hosting of their websites and online services. As a result, some state agencies have utilized other vendors to develop websites and online services.

[11] Merchant services fees, associated with the online service transaction, are charged to VIC by the credit card/bank/ACH processor.

[12] 32 V.S.A. §603(3)

VIC Fees Charged for Thirty-Seven Online Services Finance all of Self-Funded Web Portal and Vary Widely

VIC is primarily compensated for its web portal manager services by charging transaction-based fees, known as enhanced access and subscription fees, for online financial services. A limited number of services have a fixed fee that is paid periodically by a state agency. As of August 2016, there are 37 online services that charge a VIC fee. These fees compensate VIC for developing, maintaining, and hosting 87 websites and 68 online services for the self-funded web portal.

Thirty-one of the online services that charge a VIC fee also collect a statutory fee or tax on behalf of the State. The VIC fee is paid by the user or state agency. These include services to process payments of taxes due, provide vital records,[13] renew vehicle registrations, and apply and pay for educator licenses. The other six online services facilitate information being provided to the State, and VIC is paid a fixed amount on a periodic basis by the state agency. There is no statutory fee or tax associated with these services. They include services to collect data on driver education and break-open ticket[14] sales. For example, the driver education service allows Vermont driver educators to report completion status of each student that was enrolled in an approved driver education program.

In FY 2015, total VIC fees were $2.6 million. After payments to credit card merchants and ACH processors, VIC received $1.9 million for its services. Of this, $1.1 million was generated from the Department of Motor Vehicles (DMV) motor vehicle records subscription services, which is primarily used by commercial companies.

Table 1 shows transaction volume, statutory fees and taxes, and VIC transaction-based fees for the 15 online services with the highest total VIC fees in FY 2015. It also presents totals for other online services with VIC fees.

[13] Vital records are records of life events kept under governmental authority, including birth certificates, marriage licenses, and death certificates.

[14] Break-open ticket means a lottery utilizing a card or ticket of the so-called pickle card, jar ticket or break-open variety commonly bearing the name "Lucky 7," "Nevada Club," "Victory Bar," "Texas Poker," "Triple Bingo," or any other name.

Table 1: Transaction Volume and Amount, Statutory Fees and Taxes, and VIC Fees for Online Services, Sorted by 15 Highest VIC Fees in FY 2015

Online Service Name	Description and Agency	Transaction Volume[a]	Transaction Amount Total[a, b]	Statutory Fees and Taxes[a]	VIC Fees Paid by User	VIC Fees Paid by Agency
Motor vehicle records	Obtain and pay for motor vehicle records – DMV	265,422	$4,512,174	$3,450,486	$1,061,688	$0
DMV Express	Renew vehicle registrations - DMV	197,095	17,634,469	17,634,469	0	374,481
DMV - Over the Counter	Handheld device used at DMV offices that processes credit and debit card payments - DMV	69,738	7,881,440	7,651,871	229,569	0
Courtpay	Submit payments to Vermont courts – Vermont Judiciary (JUD)	43,069	7,185,231	7,025,099	160,132	17
Bizfile	File and pay business taxes - Department of Taxes (VDT)	90,007	320,675,650	320,579,521	96,129	44,559
eCurrent Use Internal Submission[c]	VDT staff manually enter current use tax applications received by mail into an online database	0	0	0	0	104,580
Criminal Conviction Records	Purchase Vermont criminal conviction records – Department of Public Safety (DPS)	37,233	1,072,260	1,072,260	0	102,850
Property Transfer Taxes[d]	Submit property transfer tax returns and make tax payments - VDT	1,615	112,483	104,408	79,295	0
Medical Licensing	Medical license application, payment, and credential management system for Vermont health care professionals – Vermont Department of Health (VDH)	2,702	1,338,055	1,300,512	37,543	30,000
State Park Reservations	Make and pay for state park reservations – Department of Forest, Parks, and Recreation (FPR)	20,557	2,144,969	2,144,969	0	64,349
VTPAY	Pay a tax bill or personal income tax balance – VDT	15,413	11,266,963	11,226,632	40,331	11,516
Driver's License Reinstatement	Pay fee for driver's license reinstatement – DMV	8,139	592,681	576,449	16,232	0
EZPay4Kids	Pay child support – Department for Child and Families (DCF)	3,495	1,384,824	1,370,076	14,748	0
Attorney Licensing	Apply and pay for attorney licenses - JUD	1,304	466,000	453,705	12,295	0
Dockets	Access court docket information – JUD	1,075	14,452	14,452	0	12,408
Other Online Services		39,812	1,101,200	1,074,397	26,803	77,293
Total		**796,676**	**$377,382,851**	**$375,679,306**	**$1,774,765**	**$822,053**

[a] Volume and amounts presented are those processed through NIC's payment management engine or subscription billing system.

[b] The transaction amount total includes statutory fees, taxes, and VIC user fees collected for online services. Agency fees are paid separately and are not included in the transaction amount total.

[c] For current use tax program applications received in the mail, VDT uses this service to enter the applications into an online database. Statutory fees are collected by VDT for the applications received in the mail and are not processed through NIC's payment systems, so no amounts are included in the table for transaction volume, transaction amount total, and statutory fees and taxes.

[d] Property transfer tax returns can be submitted online and payments can be made online through the service or mailed to VDT. VIC is compensated $5 per return submitted through the service whether payment is made online or mailed. In FY 2015, 15,859 returns were submitted online, of which 1,615 payments were made online resulting in VIC fees paid by users totaling $8,075. Payments for 14,244 returns were mailed to VDT, resulting in additional VIC fees paid by users totaling $71,220.

The fee terms and how they are assessed vary widely among services. About 43 percent of the 37 online services with VIC fees add a transaction-based fee to the user's transaction cost. Transaction-based or fixed fees for the other services are paid by a state agency. Table 2 presents the terms for the 15 online services with the highest VIC fees in FY 2015.

Table 2: VIC Fee Terms for the 15 Online Services with the Highest VIC Fees in FY 2015

Online Service Name	Agency /Dept	Mechanism for Fee Payment	VIC Fee Terms	User or Agency Charged VIC Fee
Motor vehicle records	DMV	Bill	$4 per record	User[a]
DMV Express	DMV	Credit Card(CC)	$1.90 per transaction	Agency[b]
DMV - Over the Counter	DMV	CC	3% of statutory fee	User
Courtpay	JUD	CC/ACH	CC - $3.75 per transaction; ACH - $0.50 per transaction	CC - user; ACH - agency
Bizfile	VDT	CC/ACH	CC - 3% of tax due; ACH - $1 per transaction for the first 28,200 transactions. $0.30 per transaction thereafter	CC - user; ACH -agency
eCurrent Use Internal Submission	VDT	Bill	$70 per application	Agency
Criminal Conviction Records	DPS	CC/Bill	$2.75 per record	CC - agency; Billed - agency
Property Transfer Taxes	VDT	ACH	$5 per transaction	User
Medical Licensing	VDH	CC/Bill	2.2% of statutory fee, plus $3 per transaction; $30,000 per year	CC – user; Billed - agency
State Park Reservations	FPR	CC	3% of transaction	Agency
VT PAY	VDT	CC/ACH	CC - 3% of tax due; ACH - $1 per transaction for the first 28,200 transactions. $0.30 per transaction thereafter	CC - user; ACH - agency
Driver's License Reinstatement	DMV	CC	$2.00 per transaction	User
EZPay4Kids	DCF	CC/ACH	CC - $5.00 per transaction; ACH - $2.00 per transaction	User
Attorney Licensing	JUD	CC/ACH	CC - $10.00 per transaction; ACH - $5.00 per transaction	User
Dockets	JUD	Bill	$1,000 monthly charge plus merchant service costs	Agency

[a] The user pays a transaction fee associated with the cost of online processing.

[b] The agency pays a transaction fee, monthly fee, or annual fee associated with the cost of online processing.

According to the General Manager of VIC, the self-funded model is designed to recover the development costs for each service and other costs such as hosting and maintaining Vermont.gov and the content management

tool for state websites. Fees vary because development costs, transaction volume, and total dollars processed differ widely among services. The state agencies, VIC, and the WPB may determine that services that process high transaction and dollar volume warrant a lower fee for VIC to recover its costs compared to services that process fewer transactions and total dollars. Moreover, state agencies decide whether to assess the fees as a percentage of the total transaction amount, on a per transaction basis, or based on a fixed amount, and whether the agency or user pays the fee, all of which can affect the fee terms.

Many VIC Fees Were Not Set According to Statute

According to 22 V.S.A. §953, the WPB is responsible for establishing the charges (i.e., VIC fees) for services provided via the self-funded web portal. Further, any charges created or changed by the WPB require approval by the Governor and JFC or Legislature.

VIC fees for 16 online services initiated from 2013 to 2015 were not set according to this process. Rather, these fees were negotiated by VIC with state agencies and were reviewed by the Director of Web Services. DII and the WPB believe that VIC fees do not require governor and legislative approval when the amount paid by the user of the online financial service is limited to the statutory fee authorized by the Legislature or the state agency is statutorily authorized to establish a fee to cover the cost of the service provided. However, 22 V.S.A. §953 does not seem to allow for a process that excludes the WPB, Governor, and Legislature from determining the fees for the self-funded web portal.

According to the Commissioner of DII, exempting certain VIC fees from the approval process established in statute has been discussed with the House Ways and Means Committee, including during his testimony regarding the web portal fees in February 2012, and the committee agreed. Further, the Director of Web Services recalled that the JFC had agreed with this approach.

The following are two examples of VIC transaction-based fees that fall under the categories that DII and WPB believe do not require approval as described in 22 V.S.A. §953:

- Teacher online licensing service – Allows teachers to pay online for their license. Teachers pay a $50 statutory fee. The VIC fee is paid from the statutory fee collected and is not incremental to the statutory fee paid by user of the online licensing service.

- Motorcycle online training registration – DMV establishes the participant cost for the training. The user of the online registration pays the participant cost and DMV pays the VIC transaction-based fee.

Six of the sixteen fees do not fit either of the categories that DII and the WPB believe the Legislature has agreed do not require approval as described in statute. These six online services have a transaction-based fee that is 1) incremental to the statutory fee paid by the user, 2) paid by the agency and there is no statutory fee, tax or other charge to the user for the service, or 3) incremental to a donation made by the user.

The reason these six fees were not approved as required is not clear. It may have been an oversight or there could be some confusion about which fees do or do not need to follow the statutory process. To the extent the Legislature has agreed that certain fees for the self-funded web portal are not required to follow the process established in statute, a clarification to statute may be necessary to limit confusion or misinterpretation of what has been agreed to and to ensure that VIC fees are approved as required.

Most Websites and Online Services Developed and Maintained Via Self-Funded Web Portal Model

According to the "A to Z" listings of websites and online services from Vermont.gov and additional information provided by VIC, there are 117 websites and 94 online services available via Vermont.gov as of July 2016. Most of these websites and the online services available via these websites, 87 and 68, respectively, were developed under the self-funded web portal model, using VIC as the service provider. The remainder were developed by other vendors. Active websites and online services developed by VIC and other vendors are accessible through links from Vermont.gov.

As of August 2016, VIC had assisted agencies with the development of 103 state websites, retired 16, and currently hosts 87 state websites accessible through the web portal. VIC custom developed the Vermont.gov platform with the assistance of a website design contractor and used open source software[15] to develop a web content management tool that allows state users to create websites and manage website content. The DII Director of Web Services provides assistance to agency staff with organizing website content and training to use the web content management tool. VIC also developed 78

[15] Open source software is computer software with its source code made available with a license in which the copyright holder provides the rights to study, change, and distribute the software to anyone and for any purpose.

online services, retired 15, and maintains 68[16] services accessible through the web portal.

The statute that established the WPB and the self-funded web portal does not require that all state agencies use the self-funded model. According to the DII Director of Web Services, agencies have the discretion to utilize vendors other than VIC and to contract separately for the development and hosting of their websites and online services.

Examples of websites and online services developed and maintained by other vendors include the Secretary of State's website and online services such as the annual report filing by corporations and limited liability companies and the Department of Fish and Wildlife's online service for purchasing hunting and fishing licenses. Additional state agencies electing to use other vendors include the Judiciary, Lottery, and Department of Tourism and Marketing. The associated costs are not paid by VIC fees charged under the self-funded web portal.

Other Matters

WPB Statutory and Contractual Obligations

In addition to its responsibility for oversight of the development of the self-funded web portal and establishment of charges for financial transaction services, the WPB is responsible for overseeing the implementation by DII of the contract with the web portal service provider. However, in 2014 the WPB met just once and did not hold a meeting in 2015, even though statute directs the WPB to meet at least semi-annually. According to the Chair of the WPB, only one meeting was held during this period because there were few agenda items to discuss and it was difficult to obtain quorums for meetings.

The VIC contract requires VIC to provide an annual web portal business plan for review and approval by the WPB and specifies that VIC's performance is to be monitored against the business plan. The Director of Web Services met periodically with VIC personnel and obtained project updates. The Commissioner of DII and Chair of the WPB recalled that the web portal business plan was made available to members of the WPB. However, there is no evidence to show that the WPB reviewed and approved the business plans developed by VIC for 2014 or 2015. As a result, it's not clear whether the

[16] Included in this number are 5 online services maintained by VIC but developed by New England Interactive prior to VIC's 2006 contract with the State.

2014 and 2015 business plans[17] reflect the State's desired strategies for the self-funded web portal.

Internal Controls over VIC Fees and Financial Reports

For most of the online financial services, VIC collects and remits statutory fees or taxes on behalf of the State and bills state agencies for its services. For some services VIC retains its transaction-based fees. VIC utilizes the NIC payment management engine for these processes. To provide assurance that appropriate controls are suitably designed and operating effectively, NIC obtains an Independent Service Auditor's Report, which evaluates the internal controls of the payment management engine used to process the credit card and ACH payments associated with online financial services. The 2015 report indicated that control objectives related to completeness and accuracy of payment processing for the payment management engine can be achieved only if the user entities (i.e., the state agencies with online services that use the NIC system to process payments for financial transactions) have complementary controls that are suitably designed and operating effectively. For example, the report recommended that user entities reconcile reports generated from the payment management engine or provided by VIC to their internal accounting records, including deposits received and transaction volume.

The Director of Web Services has not communicated the recommended user controls to state agencies because he was not aware that the report contained these recommendations. He did not have information about whether state agencies were performing procedures to verify accuracy and completeness of payments transmitted to the State or fees retained by VIC, but he plans to communicate with state agencies about performing reconciliations of VIC-provided data for online service transactions to state agency records. To the extent that departments do not perform this reconciliation, there is a greater risk that errors in payments to the State or fees retained by VIC will go undetected.

We also observed that there is limited review of the financial reports VIC is required to provide and that there is confusion about some of the information reported, particularly net revenue. A VIC 2016 legislative report had an incorrect amount of VIC revenues for six services and contained errors in formulas, so that the totals for various data were incorrect. According to the Director, his review of financial reports consisted of looking for unexpected changes in transaction volume, dollars collected, and VIC fees. However, he acknowledged that this was insufficient and going forward he plans to

[17] VIC's business plans addressed areas such as portal strategies and improvement plan and operations and technology plans.

conduct a more detailed review, including using transaction data provided by VIC to recalculate the figures in VIC's reports. Supplementary financial data provided by VIC at the request of the Legislature attempted to provide revenue net of the cost of sales (i.e., net revenue). However, the VIC General Manager acknowledged that the information provided may have caused confusion. VIC revised the data and provided an update, but the methodology used to derive cost of sales was only applied to credit card and ACH transactions, not to transactions such as the DMV driver records service which is a subscription service. The Director of Web Services stated that the methodology was agreed to by a prior Commissioner. According to the VIC General Manager, in February 2016 DII and members of the House Ways and Means Committee requested further refining of the numbers, specifically that VIC try to provide a consistent methodology to determine the cost-of-sale for credit cards and ACH as well as subscription services.

Conclusions

VIC fees charged for 37 online services support the development, maintenance, and hosting of 87 websites and 68 online services. In FY 2015, VIC received $1.9 million in transaction-based and fixed fees charged for online services. These fees vary because development costs, transaction volume, and total dollars processed differ widely for the various online services, according to the General Manager of VIC.

DII and WPB believe that the House Ways and Means Committee and the JFC have agreed that certain VIC fees may be set without following the process described in 22 V.S.A. §953. However, six of the sixteen fees that were not approved from 2013 to 2015 are not within the categories of VIC fees that DII and the WPB believe are exempt from the approval process. There appears to be confusion regarding which VIC fees require legislative approval, and a clarification to statute may be necessary.

The statute that established the WPB and the self-funded web portal does not require that all state agencies use the self-funded model. Most of the websites and online services identified on the Vermont.gov "A to Z" listings and in VIC-provided information were developed under the self-funded model using VIC as the service provider. The remainder were developed by other vendors and are not part of the self-funded model.

During the course of our audit we found that the WBP did not meet semiannually in 2014 and 2015, as required by statute, and did not approve the annual business plans submitted by VIC for these years. As a result, it's not clear that the plans reflect the State's desired strategies for the self-funded web portal. We also observed that some internal controls over

verification of payments processed for online services and VIC's reporting of fees collected could be improved. The Director of Web Services has indicated that he will communicate with state agencies about performing a reconciliation of VIC-provided data for online service transactions to state agency records and that he plans to do a more detailed review of VIC fee reports going forward.

Recommendations

We make the recommendations in Table 3 to the Web Portal Board.

Table 3: Recommendations and Related Issues

Recommendation	Report Pages	Issue
1. Meet semi-annually as required by statute.	15	In 2014 the WPB met just once and did not hold a meeting in 2015, even though statute directs the WPB to meet at least semi-annually.
2. Review and approve the annual business plan submitted by VIC.	15-16	The VIC contract requires VIC to provide an annual web portal business plan for review and approval by the WPB and specifies that VIC's performance is to be monitored against the business plan. The Commissioner of DII and Chair of the WPB recalled that the web portal business plan was made available to members of the WPB. However, there is no evidence to show that the WPB reviewed and approved the business plans developed by VIC for 2014 or 2015.

We make the recommendations in Table 4 to the Commissioner of the Department of Information and Innovation.

Table 4: Recommendations and Related Issues

Recommendation	Report Pages	Issue
3. Inform state agencies that have online services with a VIC fee that a reconciliation of VIC-provided data for online service transactions to state agency records is necessary to assure the completeness and accuracy of NIC payment processing services.	16	The Director of Web Services has not communicated recommended controls to state agencies and he did not have information about whether state agencies were performing procedures to verify accuracy and completeness of payments transmitted to the State or fees retained by VIC. He plans to communicate with state agencies about performing reconciliations of VIC-provided data for online service transactions to state agency records.

Recommendation	Report Pages	Issue
4. Implement a plan to conduct additional review of all financial reports provided by VIC and submitted to the WPB, JFC, and Legislature.	16-17	A report provided to the Legislature in January 2016 had an incorrect amount of VIC revenues for six services and contained errors in formulas, so that the totals for various data were incorrect. According to the Director, his review of financial reports had consisted of looking for unexpected changes in transaction volume, dollars collected, and VIC fees. He plans to conduct a more detailed review, including using transaction data provided by VIC to recalculate the figures in VIC's reports.
5. Require VIC to develop and document a definition for net revenue and a methodology for determining cost of sales for all on-line services with VIC fees. Review the definition and methodology and present it to the WPB for consideration.	17	The methodology used by VIC to derive cost of sales was only applied to credit card and ACH transactions, not to transactions such as the DMV driver records service which is a subscription service. In February 2016, DII and members of the House Ways and Means Committee requested further refining of the numbers, specifically that VIC try to provide a consistent methodology to determine the cost-of-sale for credit cards and ACH as well as subscription services.

Matter for Legislature's Consideration

1. We recommend that the Legislature determine whether statute should be amended to reflect which VIC fees require review by the WPB and the approval of the Governor and Legislature.

Management's Comments

On October 25, 2016, the DII Director of Web Services provided comments on the recommendations included in a draft of this report. These comments are reprinted in Appendix III. The comments on the recommendations made to the Web Portal Board and DII have been reviewed and approved by Michael Clasen, Chair of the Web Portal Board, and Richard Boes, Commissioner of DII, respectively. The Chair and Commissioner agreed with our recommendations and the comments included statements that improvements would be made or were in process.

In accordance with 32 V.S.A. §163, we are also providing copies of this report to the commissioner of the Department of Finance and Management and the Department of Libraries. In addition, the report will be made available on the state auditor's website, http://auditor.vermont.gov/.

Appendix I
Scope and Methodology

To address our audit objective, we reviewed state statutes, minutes from Joint Fiscal Committee testimony, minutes from WPB meetings, and DII and VIC reports provided to the Legislature from 2014 to 2016. We also reviewed the VIC master portal services contracts and amendments and VIC's proposals for web portal manager services that were submitted to the State in 2006 and 2012.

We interviewed the DII Director of Web Services and the VIC General Manager to gain an understanding of DII, VIC, and state agencies' roles related to 1) constructing websites and developing online services, 2) establishing VIC fees for online services, and 3) collecting statutory fees, taxes and VIC fees via online services. To corroborate our understanding, we reviewed documentation such as a functional requirements document, agreements between state agencies and VIC, and NIC's 2015 Independent Service Auditor's Report, which evaluated the internal controls of the payment management engine used to process the credit card and ACH payments associated with online services.

In order to verify the reasonableness of financial and transaction data obtained from VIC, we compared data in VIC legislative reports for FY 2015 to VIC detail portal revenue reports from the systems that process online transactions. These reports included originating agencies, transaction volume, total dollars collected from service, total dollars remitted to the State, total credit card processing fees paid, and total fees for service retained by VIC. In particular, we compared portal transaction volume, collections, and VIC fee revenue information. We also re-calculated total dollars collected from each online service, merchant service fees, and total fees for service retained by VIC. In addition, we recalculated the totals in these reports.

From the FY 2015 legislative report, we selected the 10 largest online services in terms of dollars processed online and judgmentally selected 10 additional online services then obtained VIC fee terms for these online services from agency service agreements. We validated the results of this analysis with the VIC General Manager to ensure our understanding of the fees was correct.

We compared the "A to Z" listings of websites and online services from Vermont.gov to VIC-provided lists to establish the number of websites and online services accessible via Vermont.gov. To verify the number of websites and online services developed under the auspices of the self-funded web portal, we compared the lists provided by VIC to the "A to Z" listings and verified that websites and online services per the VIC list had a Vermont.gov extension. We confirmed our results with the General Manager of VIC.

Names and descriptions of current websites and online services were corroborated through observation of actual websites and online services.

Our audit was performed at the Montpelier state offices between May and October 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II
Abbreviations

ACH	Automated Clearing House
CC	Credit Card
CDB	Customer Database Billing
DCF	Department for Children and Families
DII	Department of Information and Innovation
DMV	Department of Motor Vehicles
DPS	Department of Public Safety
FPR	Department of Forest, Parks, and Recreation
JFC	Joint Fiscal Committee
JUD	Vermont Judiciary
NIC	NIC USA, Inc.
V.S.A.	Vermont Statutes Annotated
VDH	Department of Health
VDT	Department of Taxes
VIC	Vermont Information Consortium
WPB	Web Portal Board

Department of Information and Innovation
133 State St., 5th Floor
Montpelier, VT 05633

Memorandum

Department of Information and Innovation

To: Doug Hoffer, State Auditor

From: Bell, Harry, Director of Web Services

CC: Michael Clasen, Chair of the Web Portal Board

Richard Boes, State CIO

Date: 10/25/2016

Re: Auditor's Office "Self-Funded Web Portal Report"

Comments: This memorandum is a response to the recommendations made in the Auditor's Office draft report titled "Self-Funded Web Portal." The responses have been reviewed and approved by Michael Clasen, the Chair of the Web Portal Board, for the items directed at the board, and Richard Boes, State CIO, for the items directed at the Department of Information and Innovation.

Web Portal Board Recommendations

1. Meet semi-annually as required by statute.

   Response:
   The Web Portal Board will schedule two standing meetings each year. The first Will be scheduled for late spring following the completion of the year's legislative session. The second will be in October timed to coincide with the completion of the VIC Annual Report, which is due at the end of the first quarter of the fiscal year.

2. Review and approve the annual business plan submitted by VIC.

   Response:
   The Web Portal Board is currently reviewing the FY2016 annual report. Annual meetings will be scheduled for this specific purpose in October of each year.

DII Recommendations

3. Inform state agencies that have online services with a VIC fee that a reconciliation of VIC-provided data for online service transactions to state agency records is necessary to assure the completeness and accuracy of NIC payment processing services.

   Response:
   State agencies that have online services with a VIC fee will be notified that a reconciliation of VIC-provided data for online service transactions to state agency records is required.

4. Implement a plan to conduct additional review of all financial reports provided by VIC and submitted to the WPB, JFC, and Legislature.

Response:
A method of reviewing financial reports from VIC has been in place since an issue was discovered with a report in January of 2016. All reports including financial data are examined for consistency and accuracy in the calculations used. All calculations will include a description of methodology and a clear definition of the results. New instructions for the creation of reports have been provided to VIC so they can comply with this requirement. Further VIC has been asked to update all reports created since the beginning of the current contract to reflect the new reporting requirements.

5. Require VIC to develop and document a definition for net revenue and a methodology for determining cost of sales for all on-line services with VIC fees. Review the definition and methodology and present it to the WPB for consideration.

Response:
DII has requested that VIC report the actual percentage of payments that are paid to credit card processing vendors. VIC has been requested to create a new methodology for calculating cost of sale. As a part of the reporting requirement VIC has been directed to provide a specific definition of net revenue and include it with all financial reports. The new methodology and definition will be presented to the board at its next meeting.

Harry Bell, Director of Web Services.

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