



An Audit Report on

# **Human Resources Contract Management at the Health and Human Services Commission**

October 2016  
Report No. 17-004



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## Overall Conclusion

The Health and Human Services Commission (Commission) has outsourced the majority of its human resources functions. However, the Commission did not adequately monitor and enforce the human resource requirements in its \$56.9 million human resources and payroll services agreement (contract) with NorthgateArinso.<sup>1</sup> As a result, there were weaknesses in classification of employees and compliance with human resources and information technology contract requirements.

The Commission did not ensure that the contractor adequately performed some critical human resources tasks required by the contract, including:

- Ensuring the proper classification of employees.
- Ensuring that the contractor is complying with human resources contract requirements.

In addition, the Commission did not:

- Develop a comprehensive monitoring plan and risk assessment for the contract.
- Adequately document the activities it performed to monitor **the contractor's** compliance with the human resources contract requirements.
- Adequately monitor **the contractor's compliance with** significant information technology contract requirements.

The Commission **adequately monitored the contractor's compliance with payroll-** related requirements. It also adequately reviewed contractor invoices and generally complied with requirements for contract planning, procurement, and formation.

### Background Information

The Health and Human Services Commission (Commission) contracted with NorthgateArinso for human resources and payroll services. **The contract's term is** May 1, 2013, through April 30, 2018, with two one-year options to extend. The initial cost of the contract was not to exceed \$56.9 million. As of February 29, 2016, the health and human services (HHS) agencies reported that there were 53,736 full-time equivalent (FTE) positions for which the contractor was responsible for providing services.

The mission of the contract, as stated in the request for proposals, is to provide efficiently delivered, high-quality human resources; payroll; and time, labor, and leave services that support the mission of the HHS agencies. Those services include:

- Recruitment and hiring.
- Compensation management.
- Performance management.
- Benefits management.

Sources: The **Commission's contract with NorthgateArinso and the State Auditor's Office's** Full-time Equivalent (FTE) State Employee System.

<sup>1</sup> The contractor is also referred to as HHS Employee Service Center.

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

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating <sup>a</sup>
1	The Commission Lacked Sufficient Processes to Ensure That Employees Were Properly Classified	Priority
2-A	The Commission Lacked a Comprehensive Monitoring Plan and Risk Assessment to Direct Its Monitoring of the Contract	Priority
2-B	The Commission Did Not Sufficiently Monitor to Ensure That the Contractor Complied with the Human Resources Contract Requirements	Priority
2-C	The Commission Did Not Adequately Monitor Significant Information Technology Contract Requirements	High
2-D	The Commission Provided Adequate Oversight of the Payroll and Time, Labor, and Leave Services the Contractor Performed	Low
2-E	The Commission Adequately Reviewed Contractor Invoices; However, It Did Not Always Accurately Charge the Payments to the Correct Contract	Medium
3	The Commission Generally Complied with State Requirements for Contract Planning, Procurement, and Formation	Low
<p><sup>a</sup> A subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited <b>entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.</b></p> <p>A subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited <b>entity's ability to effectively administer the program(s)/function(s) audited. Prompt</b> action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited <b>entity's ability to effectively</b> administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A subchapter is rated Low <b>if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.</b></p>		

Auditors communicated other, less significant issues in writing to the Commission.

## Key Points

The Commission had significant weaknesses in its processes for ensuring proper classification of employees.

Auditors determined that a significant number of employees at and job postings for **the State's health and human services agencies**<sup>2</sup> (HHS agencies) were not properly classified according to the State's Position Classification Plan. Specifically:

- Based on a list of 5,484 HHS agency managers and supervisors on January 15, 2016, 760 (13.9 percent) were misclassified with entry-level titles and other nonsupervisory titles.
- An **audit conducted by the State Auditor's Office's State Classification Team** determined that 356 (57.7 percent) of 617 program specialist employees at the Department of Aging and Disability Services were not classified correctly (see *A Classification Compliance Audit Report on Program Specialist and Program Supervisor Positions at the Department of Aging and Disability Services, State Auditor's Office Report No. 16-705*, August 2016).
- Of the 149 job postings tested, 40 (26.8 percent) appeared to be incorrectly classified based on the duties described in the job description compared to **information in the State's Position Classification Plan**.

Correct job classifications are essential in preventing underpaying or overpaying employees. Improper job classification can also lead to unqualified managers and supervisors. In addition, it may contribute to employee turnover.

The Commission did not adequately monitor to ensure that the contractor complied with certain contract requirements.

The Commission did not ensure that the contractor complied with the following contract requirements, which contributed to misclassifications of job positions, possible misclassifications of job postings, and inaccurate job postings:

- Assist managers with the development and revision of job descriptions.
- Maintain a repository of job descriptions and make that repository readily available to HHS agency employees.
- Review job postings to verify accuracy, completeness, and compliance with Commission policies and procedures.

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<sup>2</sup> The contract included critical human resources functions for Commission employees and employees at the Department of Family and Protective Services, Department of Assistive and Rehabilitative Services, Department of Aging and Disability Services, and Department of State Health Services (collectively referred to as "HHS agencies" in this report).

- Monitor the application selection process to ensure that minimum qualification criteria are met, and that selection summary documents are properly submitted.
- Maintain selection packets.
- Perform an annual classification review, including the review of Fair Labor Standards Act (FLSA) designations for all HHS agency positions.

The Commission did not have a comprehensive monitoring plan or perform risk assessments to direct its monitoring of the contract.

The Commission did not have a comprehensive monitoring plan and a supporting risk assessment in place to help focus its monitoring of the contractor to determine whether the contractor provided the required services. A monitoring plan and risk assessment should identify the contract requirements to be monitored, how the requirements will be monitored, and who will perform the monitoring.

The Commission should improve its documentation of its monitoring activities.

The Commission did not adequately document its interactions with the contractor. **The lack of documentation associated with the Commission's monitoring makes it** difficult for the Commission to hold the contractor accountable for providing the services required in the contract.

The Commission did not ensure that the contractor complied with significant information technology contract requirements.

The Commission should improve its monitoring of the information technology-related requirements in the contract. Neither the Commission nor the contractor **had an adequate process to periodically review user access to the Commission's** human resources system or to ERS Online, which contains confidential employee data, and ensure that user accounts are disabled when users leave employment. In addition, the Commission did not adequately ensure that the contractor complied **with information security best practices and the Commission's security protocols** and standards as required by the contract.

**The Commission monitored the contractor's compliance with payroll**-related requirements; reviewed invoices; and generally complied with contract planning, procurement, and formation requirements.

The Commission's **Payroll**, Time, Labor, and Leave Department developed a process to adequately monitor contractor performance in those areas. The monitoring was performed by subject matter experts. The Commission also adequately reviewed contractor invoices; however, it did not always accurately charge the payments to the correct contract. In addition, the Commission generally complied with applicable statutes and *State of Texas Contract Management Guide* requirements for contract planning, procurement, and formation for the contract.

## Summary of **Management's Response**

At the end of each chapter in this report, auditors made recommendations to address the issues identified during this audit. The Commission generally agreed with the findings and recommendations in this report.

## *Audit Objective and Scope*

The objective of this audit was to determine whether the Commission has administered certain contract management functions for selected contracts in accordance with applicable requirements.

**The scope of this audit covered the Commission's** human resources and payroll services agreement with NorthgateArinso, effective on May 1, 2013. That contract covered services for the Commission, as well as the Department of Aging and Disability Services, the Department of Assistive and Rehabilitative Services, the Department of Family and Protective Services, and the Department of State Health Services.

Auditors reviewed contract planning, procurement, formation, and monitoring activities through February 29, 2016.

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# Detailed Results

Chapter 1

## *The Commission Lacked Sufficient Processes to Ensure That Employees Were Properly Classified*

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Chapter 1  
Rating:  
Priority <sup>3</sup>

The Health and Human Services Commission (Commission) did not have sufficient processes to ensure that employees were properly classified, including enforcing certain requirements in its \$56.9 million human resources and payroll services agreement (contract) with NorthgateArinso<sup>4</sup> (contractor).

The Commission designed a model in which managers at the State's health and human services agencies<sup>5</sup> (HHS agencies) and the contractor have shared responsibility for ensuring that (1) employees are properly classified, (2) employees have the proper Fair Labor Standards Act (FLSA)<sup>6</sup> status as an exempt or non-exempt employee, and (3) job postings are accurate. The Commission's Human Resources Department's role in the designed model is limited to functions such as employee relations, policy interpretation, workforce planning, and Centralized Accounting and Payroll/Personnel System (CAPPS) testing and security. The Commission has not required the contractor to comply with certain contract requirements that would help ensure that HHS agency employees are properly classified and job postings are accurate. For HHS agency managers and supervisors, the human resources-related job duties are in addition to their regular job duties. The Commission has not ensured that training or guidance are available to help HHS agency managers and supervisors to perform classification duties, perform the FLSA status reviews, and accurately post a job position.

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<sup>3</sup> The risk related to the issues discussed in Chapter 1 is rated as Priority because they present risks or results that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

<sup>4</sup> The contractor is also referred to as HHS Employee Service Center.

<sup>5</sup> The contract provided critical human resources services for Commission employees and for employees at the Department of Family and Protective Services, Department of Assistive and Rehabilitative Services, Department of Aging and Disability Services, and Department of State Health Services (collectively referred to as "HHS agencies" in this report).

<sup>6</sup> The FLSA requires that most employees in the United States be paid at least the federal minimum wage for all hours worked and overtime pay at time-and-one-half the regular rate of pay for all hours worked more than 40 hours in a workweek. However, employees with certain job duties and salaries are exempt from both the minimum wage and overtime pay requirements.

## Incorrectly Classified Job Positions

The Commission had a significant number of the job positions that were not correctly classified according to the State's Position Classification Plan. Specifically:

- Based on a list of 5,484 HHS agency managers and supervisors on January 15, 2016, 760 (13.9 percent) of those employees were misclassified with entry-level and other nonsupervisory titles. For example, an employee classified as an Administrative Assistant I had employees directly reporting to that position and was responsible for providing annual performance evaluations. Those job duties are not appropriate for that job classification title. The State's Position Classification Plan states that an Administrative Assistant I position "works under close supervision, with minimal latitude for the use of initiative and independent judgment."
- An audit conducted by the State Auditor's Office's State Classification Team determined that 356 (57.7 percent) of 617 employees classified within program specialist and program supervisor job classification series at the Department of Aging and Disability Services were not classified correctly (see *A Classification Compliance Audit Report on Program Specialist and Program Supervisor Positions at the Department of Aging and Disability Services*, State Auditor's Office Report No. 16-705, August 2016).

Correct job classifications are essential in preventing underpaying or overpaying employees. Improper job classification can also lead to unqualified managers and supervisors. In addition, it may contribute to employee turnover.

## Incorrectly Classified and Inaccurate Job Postings

The Commission had a significant number of job postings that appeared to not be (1) correctly classified according to the State's Position Classification Plan and (2) accurate (see text box for more information about the Commission's job posting process). Specifically:

- Of the 149 job postings tested, 40 (26.8 percent) appeared to be incorrectly classified based on the duties described in the job posting compared to information in the State's Position Classification Plan.

### The Commission's Job-posting Process

For a job position to be posted, the hiring manager at the HHS agency creates a job requisition that includes items such as position title, FLSA status, essential job duties, and minimum qualifications. The contractor reviews and approves the job requisition, then the hiring manager's supervisor reviews and approves it. After the supervisor's approval, the job requisition is automatically posted to the HHS employment Web site and other Web sites as required.

Sources: The Commission and NorthgateArinso.

- Of the 55 job postings tested that required military crosswalk language, 28 (50.9 percent) did not contain that language as required by Texas Government Code, Section 656.002, which was effective as of September 1, 2015 (see text box for more information about military crosswalk language).
- Forty (26.7 percent) of 150 job postings tested contained information that was not entered into the correct section in the posting. For example, some postings listed the education requirements in the registrations, licensure requirements, or certifications section. A more appropriate section to list the education requirements would be in the initial screening criteria section. By not having information in the proper sections, there is an increased risk that requirements are unclear for applicants and applicant screeners.
- Of the 79 job postings for a manager or supervisor tested, 17 (21.5 percent) did not contain information regarding supervisor responsibilities, such as hiring and performing annual evaluations, reviewing the accuracy of job classifications, and determining FLSA status.

Military Crosswalk

Texas Government Code, Section 656.002, states that a state agency shall include on all forms and notices related to a state agency employment opening the military occupational specialty code for each branch of the armed forces of the United States, identified as provided by Section 654.0375, that corresponds to the employment opening if the duties of the available position correlate with a military occupational specialty.

Not Adequately Enforcing All Contract Requirements

The Commission did not ensure that the contractor complied with certain contract requirements, which contributed to misclassifications of the job positions, possible misclassifications of job postings, and inaccurate job postings. Specifically:

- Contract requirement - Assist managers and supervisors with the development and revision of job descriptions. **The Commission did not require the contractor to assist HHS agency managers and supervisors in the development of job descriptions, even though assisting them is an explicit requirement in the contract. In addition, the contractor stated to auditors that it does not assist HHS managers and supervisors in the development of job descriptions.**
- Contract requirement - Maintain a repository of job descriptions and make that repository available to HHS agency employees. **As of May 2016, there was not a job description repository that contained all of the job descriptions being used within the HHS agencies that was easily accessible to employees. HHS agency managers and supervisors can request a job description from the contractor; however, the contractor will provide it to them only with approval from the requesting person’s supervisor. In addition, the**

contractor maintains job descriptions for only those positions the contractor has audited.<sup>7</sup> If the position has not been audited, the HHS agency manager or supervisor must draft the job description.

- Contract requirement - Review of the job postings to verify the accuracy, completeness, and compliance with Commission policies and procedures. **The contract requires the contractor to perform those reviews. Proper review of the job postings would help ensure that the job title and job duties in the job postings align with the State's Position Classification Plan and reduce the risk of misclassifications of newly hired employees. In addition, proper review would help ensure that all required information is included in the job posting and that the information is in the proper job posting sections.**
- Contract requirement - Monitor the application selection process to ensure that minimum qualifications criteria are met, and that the selection summary documents are properly submitted. **HHS agency managers and supervisors are required to complete a selection summary document, which explains how the selected applicant met the hiring criteria. The contractor is required to monitor to ensure that minimum qualifications criteria and licensing and certifications requirements were met, and that the selection summary document was properly submitted. However, the contractor did not ensure that the selection summary was adequately completed for 22 (17.3 percent) of the 127 job postings tested for which an applicant was hired.**
- Contract requirement - Maintain selection packets in a way that makes the information retrievable by multiple search tools. **The contractor could not provide the selection packet to auditors for 69 (54.3 percent) of the 127 job postings tested for which an applicant was hired. The contractor stated that it does not have a process to identify when selection packets are not provided or follow up when packets are not provided by the HHS agency managers or supervisors.**

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<sup>7</sup> According to WorldatWork, a nonprofit human resources association, a job position analysis (or audit) is the systematic, formal study of the duties and responsibilities that constitute job content. The process seeks to obtain important and relevant information about the nature and level of the work performed and the specifications required for an incumbent to perform the job at a competent level.

- Contract requirement - Perform an annual classification review, including review of FLSA designations on all HHS agency positions (see text box for more information about FLSA status determinations). **An annual classification and FLSA status review would verify that each HHS agency employee’s job classification and FLSA status reflect the actual job duties performed. In addition, Texas Government Code, Section 654.0155, requires state entities to annually review individual job assignments for all positions to ensure that each position is properly classified. Instead of requiring the contractor to perform an annual classification and FLSA status review, as required by the contract, the Commission required the managers and supervisors to review the classification and FLSA status for employees directly reporting to them during the employees’ annual performance evaluations. However, that process was not effective because:**

**Determining FLSA Status**

To determine whether an employee is exempt from FLSA requirements, an agency **must verify an employee’s** specific job duties and salary and compare them to the U.S. **Department of Labor’s** requirements for FLSA exemption. Job titles do not determine exempt status.

Source: U.S. Department of Labor.

- ♦ The Commission did not have a mechanism to track whether the managers and supervisors reviewed an employee’s job classification and FLSA status during the annual performance evaluations.
- ♦ HHS agency managers and supervisors did not complete annual performance evaluations in a timely manner. The Commission reported that completion rates<sup>8</sup> since 2013 for annual evaluations for all HHS agencies ranged from a low of 45.4 percent on August 31, 2014, to a high of 58.5 percent on August 31, 2015.

Lack of Sufficient Training and Guidance to HHS Agency Managers and Supervisors

HHS agency managers and supervisors write and approve job postings, which includes writing the job duties and essential functions and determining proper job classification and FLSA status. However, the HHS agencies did not provide those managers and supervisors with the training or guidance needed to write the job postings and perform classification and FLSA status reviews. In addition, the Commission did not offer any training courses related to job classification.

The contractor is required by the contract to provide job description training to HHS agency employees four times per year. The contractor offered the job description class six times each in the second and third years of the contract (the class was not offered during the first year), and 176 HHS agency employees attended those classes. On January 15, 2016, the Commission

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<sup>8</sup> The completion rates are based on the number of performance evaluations that should have been completed within the previous 12 months.

reported that 5,484 managers and supervisors within the HHS agencies were responsible for hiring which includes writing and reviewing job postings.

## Recommendations

### The Commission should:

- Evaluate its model for delivering human resources services to determine whether it is working as intended and providing the desired outcomes, such as correctly classified employees. The Commission should update the model to address identified deficiencies.
- Require the contractor to perform contract requirements including, but not limited to:
  - ♦ Assisting managers and supervisors with the development and revision of job descriptions.
  - ♦ Maintaining a repository of job descriptions and making that repository readily available to HHS agency employees.
  - ♦ Performing adequate reviews of the job postings to verify whether (1) they are accurate, complete, and comply with Commission policies and procedures and (2) the job postings are properly classified according to the State's Position Classification Plan.
  - ♦ Monitoring to ensure that the selection summaries completed by HHS agency managers and supervisors are properly submitted and demonstrate how the selected applicants met the requirements in the job postings.
  - ♦ Obtaining and maintaining all selection packets after a job posting is filled.
- Require the contractor to provide an annual classification and FLSA review for all HHS agency employees as required by the contract.
- Provide HHS agency managers and supervisors with sufficient training and guidance if those managers and supervisors continue to be responsible for writing and approving job postings and conducting annual reviews of job classifications and FLSA status.

## Management's Response

*The Health and Human Services Commission (HHSC) is in agreement with the findings and associated recommendations and offer the following responses.*

**Contractor Requirements** - *The contractor is required to assist managers and supervisors with the development and revision of job descriptions. The contract does not require the contractor to compose the job descriptions as a job description is typically composed by one who knows the most about what the position does, i.e., incumbents and managers. Managers utilize the Centralized Accounting and Payroll/Personnel System (CAPPS) to draft job descriptions and submit job audit requests directly to the contractor. Since the classification/job audit process is somewhat subjective, the process will need to be reviewed internally by HHS Management to develop and implement a plan for process improvement and make a decision on how best to provide the service to our employees in an efficient, timely manner -- while ensuring a consistent, equitable process. Once a decision has been made, the contract requirements, service level agreements, monitoring plans, etc. will be updated accordingly.*

*The contract requirement to "maintain a repository of job descriptions and making that repository available to HHS agency employees" was contingent upon HHSC configuration of PeopleSoft 9.1 functionality to use Profile Manager. At the time of contract execution, this requirement was listed and accepted along with NorthgateArinso's clarification: "Included in NGA solution. NGA will coordinate with HHS and CPA to configure PeopleSoft 9.1 functionality using Profile Manager for the Job Description Repository based upon requested requirements" Due to funding, other project priorities, and resource restraints, the requirement has not been implemented; however removing the requirement was not considered because it would likely result in significant, additional cost to HHSC if this were treated as a future enhancement to the system. The agreed upon workaround was to provide the available job description to the manager upon request. Management will need to review and determine if additional language should be added to the scope of work document to clarify this item or if NorthgateArinso's proposal which is incorporated into the Agreement.*

*As recommended by SAO, additional process improvements will be incorporated into the contract monitoring plan to help ensure the contractor is conducting an adequate review of job postings and coordinating with the hiring authority to clarify, confirm, and revise information as appropriate. The current approach to contract monitoring employs traditional risk assessment and contract monitoring procedures. Contract oversight uses a risk*

*assessment instrument completed annually to identify and prioritize the service level agreements deem as high, medium and low risks.*

*Currently, the contractor collects and maintains selection packets as they are submitted to the service center by the manager/hiring authority once a selection is made. The ability for hiring authorities to scan/upload the selection packets to the contractor was explored but was not feasible at that time. Additional discussions have occurred with the contractor to determine the best course and fiscal action to take to follow up with managers/hiring authorities and/or escalate instances when selection packets are significantly delayed or not received.*

*Communications will be provided to managers approving job offers to emphasize that the minimal job offer requirements of the job posting must be met.*

***Classification and FLSA Review*** - Management will revisit the current annual classification and FLSA review process and develop and implement a plan to ensure annual reviews are conducted by the contractor.

*Additional staff that includes subject matter experts in classification will be used to conduct monitoring activities, as recommended by SAO.*

***Training for Managers and Supervisors*** - Management will identify additional opportunities for managers and supervisors to attend training on how to write job descriptions. As a value-added service the contractor provides at least four job description trainings to HHS agency employee per year.

**Implementation Date:**

*September 2017*

**Responsible Person:**

*Deputy Executive Commissioner of System Support Services*

*The Commission Did Not Adequately Monitor to Ensure That the Contractor Performed Critical Human Resources and Information Technology Tasks; However, the Commission Adequately Monitored Payroll and Time, Labor, and Leave*

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The Commission did not have a comprehensive monitoring plan or perform risk assessments to direct its monitoring of the contract. As a result, the Commission's monitoring of the contractor's human resources services was not sufficient to ensure that the contractor complied with the contract requirements.

The Commission also did not adequately monitor to verify that the contractor complied with significant information technology contract requirements. Auditors identified instances in which former contractor employees had active accounts to both CAPPs and ERS Online, both of which contain confidential data.

The Commission's Payroll, Time, Labor, and Leave Department adequately monitored the contractor's payroll and time, labor, and leave services provided and verified that the contractor complied with requirements in those areas. In addition, the Commission adequately reviewed contractor invoices; however, it did not always accurately charge the payments to the correct contract.

Service Level Agreements

The contract contains service level agreements, which are specific service requirements used to measure the contractor's performance or specified obligations during the course of the contract. The service level agreements include a performance standard, benchmark, and specified liquidated damages.

The Commission's Contract Oversight Unit (within the System Support Services Division) focused its monitoring on the service level agreements (see text box for information about service level agreements). However, the contract does not include service level agreements that address the quality of the services provided for the accuracy and completeness of job postings and the proper classification of employees. In addition, the Contract Oversight Unit did not adequately document (1) its interactions with the contractor as required and (2) what was monitored, how it was monitored, or the results of any of the site visits that the unit performed from May 1, 2013, through February 29, 2016.

The Contract Oversight Unit has the primary responsibility for monitoring the contract; however, it relies on subject matter experts to monitor payroll; time, labor, and leave; and information technology requirements. The Contract Oversight Unit does not consistently involve subject matter experts in monitoring the human resources services the contractor provides.

## The Commission Lacked a Comprehensive Monitoring Plan and Risk Assessment to Direct Its Monitoring of the Contract

Chapter 2-A  
Rating:  
Priority<sup>9</sup>

The Contract Oversight Unit did not have a comprehensive monitoring plan and a supporting risk assessment in place to help focus its monitoring of the contractor to determine whether the contractor provided the required services. A monitoring plan and risk assessment should identify the contract requirements to be monitored, how the requirements will be monitored, and who will perform the monitoring. A monitoring plan and risk assessment are required by the *State of Texas Contract Management Guide* and the Commission's *Contracting Processes and Procedures Manual*.

The Contract Oversight Unit's *Operations Manual* states that the Commission predetermined the risk of the services the contractor provides, and it included the service level agreements in the contract to address those risks. As a result, the Commission's monitoring of the contract has focused almost exclusively on the contract's service level agreements. Although the contract contains 20 service level agreements that pertain to human resources services (see Appendix 3), none of them measures the quality of the services provided for the accuracy and completeness of job postings and the proper classification of employees. Because the Commission did not assess any risks that were outside the scope of the service level agreements, it lacked an oversight mechanism to monitor and identify problems related to the quality of the services provided.

As discussed above, the Contract Oversight Unit did not consistently involve the Commission's Human Resources Department in the monitoring of the human resources services the contractor provided. In addition, the Human Resources Department did not have a copy of the contract and, therefore, may not be aware of all of the service requirements in the contract. Because the requirements for the human resources areas included in the contract are complex, increasing the Human Resources Department's role in monitoring contractor performance could help the Commission address the issues discussed in Chapter 1.

In addition, because it did not conduct a risk assessment, the Contract Oversight Unit did not identify contractor access to ERS Online, which allowed users to modify data and/or view confidential information for HHS agency employees, as a high-risk item needing monitoring. As a result, the Commission did not monitor to ensure that contractor employee access to

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<sup>9</sup> The risk related to the issues discussed in Chapter 2-A is rated as Priority because they present risks or results that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

ERS Online was disabled when a user leaves employment. (See Chapter 2-C for more information about user access.)

## Recommendations

### The Commission should:

- Develop, implement, and document a comprehensive contract monitoring plan that is based on a risk assessment of all contract requirements, including those in the statement of work. That plan should:
  - ♦ Address significant areas of the contract, including human resources, payroll services, and information technology.
  - ♦ Include the subject matter experts in the monitoring of the contract, including the Commission's Human Resources Department.
- Evaluate the contract requirements and create additional service level agreements as appropriate, such as service level agreements containing metrics addressing the quality of the human resources services provided.

### Management's Response

*The Health and Human Services Commission (HHSC) is in agreement with the findings and associated recommendations and offer the following responses.*

***Contract Monitoring Plan*** - *The services provided under the human resources and payroll services contract expand over multiple business units and program areas within the health and human services system. Due to the size, scope, the use of manager self-service functionality, and number of resources available, the service level agreements were developed and agreed upon by all parties involved to capture those contract requirements deemed high risk, with high visibility and would require focused monitoring. The monitoring plan/checklist developed was created to ensure those critical requirements were reviewed on a regular, ongoing basis. Action will be taken to improve and enhance the monitoring plan/checklist and to incorporate relevant requirements (including those in the statement of work) and more details on how the identified requirements will be monitored, who will perform the monitoring, and the rationale for selecting items to monitor. Subject matter experts from each of the health and human services business areas (Human Resources, Information Technology, and Payroll) will be requested to assist with monitoring and reviewing data associated with the requirements of the contract.*

***Contractor Requirements and Service Level Agreements*** - Although, there is not a service level agreement specific to measuring the quality of services provided by the vendor, Exhibit A, Article 11 of the contract describes the remedies the Commission may pursue for any areas of noncompliance with the Agreement and serves as an oversight mechanism available to address quality of services/deliverables provided under the Agreement. The Contract Oversight Unit will coordinate with the appropriate business partners as well as the General Counsel team to evaluate the contract requirements, review the current service level agreements, and determine whether additional service level metrics need to be developed.

**Implementation Date:**

April 2017

**Responsible Person:**

Deputy Executive Commissioner of System Support Services

Chapter 2-B

**The Commission Did Not Sufficiently Monitor to Ensure That the Contractor Complied with the Human Resources Contract Requirements**

Chapter 2-B  
Rating:  
Priority<sup>10</sup>

The Commission's monitoring of the human resources services that the contractor performed was not sufficient to ensure that the contractor complied with the contract requirements. As discussed in Chapter 2-A, the Commission's monitoring was primarily focused on the contract's service level agreements, which did not address key human resources functions for ensuring the accuracy of job postings and the proper classification of employees.

The Commission's Contract Oversight Unit did not document its interactions with the contractor as required by the Commission's *Contracting Process and Procedures Manual* and the Contract Oversight Unit's *Operations Manual*, which require the creation of a log of actions that provides a brief synopsis of an inspection of contractor-provided service, a meeting, or a conversation with the contractor regarding its performance.

The lack of documentation associated with the Commission's monitoring makes it difficult for the Commission to hold the contractor accountable for

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<sup>10</sup> The risk related to the issues discussed in Chapter 2-B is rated as Priority because they present risks or results that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

providing the services required in the contract. Examples of inadequate documentation included:

- Weekly calls with the contractor. According to the Contract Oversight Unit, it conducts weekly calls with the contractor as a way to communicate on-going activities and/or projects. The results of those interactions are not documented in a log of actions as required.
- Site visits at the contractor's location. The Contract Oversight Unit did not create a report for any of its site visits (see next section for additional discussion about the Commission's site visit processes). The *State of Texas Contract Management Guide* and the Commission's *Contract Oversight Operations Manual* require a "report of the site visit [that] should stand by itself and serve as a record of the site monitoring work." That report should document what was monitored, how it was monitored, or the results of the site visit.

The Commission should strengthen its site monitoring processes.

The Contract Oversight Unit asserted that it performed seven site visits at the contractor from May 1, 2013, through February 29, 2016. It was able to provide auditors with some documentation that showed five of those site visits occurred. Specifically:

- For three site visits, the Contract Oversight Unit reviewed the contractor's performance for 17 individual service level agreements. Eight of the service level agreements were related to human resources. Auditors reviewed the monitoring the Contract Oversight Unit asserted it performed during the site visits for three of those human resources-related service level agreements. For those three service level agreements, the Contract Oversight Unit:
  - ♦ Did not document the justification for why those specific service level agreements were selected for review during the site visit.
  - ♦ Did not document the procedures used to review two of the service level agreements.
  - ♦ Did not validate the accuracy of the information the contractor reported in its monthly service level agreement report for those three service level agreements. For example, for one of the service level agreements, the contractor was required to monitor 275 calls per month. However, during the site visit, the Contract Oversight Unit did not perform steps to validate the numbers the contractor reported in its monthly report for calls monitored and calls that had issues. Verifying the accuracy of the reported numbers is important because

the Commission assesses liquidated damages based on the information in the monthly reports. Based on self-reported information, the Commission assessed liquidated damages nine times between May 2013 and February 2016 when the contractor did not meet service level agreement requirements.

- ♦ Identified issues for two of the three human resources service level agreements reviewed; however, the Commission did not have any documentation showing that it communicated those issues to the contractor or that the Commission followed up on the issues.
- ♦ Did not share the results of the site visits with the Human Resources Department.
- For the fourth site visit, the Contract Oversight Unit asserted that it observed the job description training the contractor provided to HHS agencies employees; however, it did not document the results of that observation.
- For the fifth site visit, the Contract Oversight Unit, along with the Human Resources Department, discussed the job audit process with the contractor. The results of that discussion were documented.

## Recommendations

### The Commission should:

- Develop and implement a method to document (1) weekly calls with the contractor as required and (2) the monitoring performed during site visits. That should include, at a minimum, documenting:
  - ♦ Significant issues discussed with the contractor.
  - ♦ The rationale for selecting service level agreements to monitor.
  - ♦ What procedures were used to monitor.
  - ♦ How it validated the information that the contractor reported.
  - ♦ Issues identified, corrective action required, and resolution of identified issues.
- Develop and implement a report to document what monitoring procedures were performed during site visits and the results of site visits, and distribute those reports to the contractor and appropriate HHS agencies' business partners.

## Management's Response

*The Health and Human Services Commission (HHSC) is in agreement with the findings and associated recommendations and offer the following responses.*

***Contract Monitoring Calls and Visits Documentation*** - *Calls and meetings with the contractor are held on a regular, ongoing basis (at least weekly). Processes have been developed and implemented to adequately document the weekly calls, which will include transcribing the notes and sharing/maintaining evidence that discussion of significant issues occurred. Site visit documentation will be revised to include written detail to capture the rationale for review of the selected items, what procedures were used to monitor, how information was validated, issues identified, corrective action required, and resolution of issues.*

***Contractor Monitoring Calls and Visits Results Report*** - *A more thorough process will be developed and implemented to revise the current reporting methodology to incorporate details associated with the monitoring procedures performed and the results of the site visits. A process will be developed to share the findings with the appropriate teams.*

### **Implementation Date:**

*December 2016*

### **Responsible Person:**

*Deputy Executive Commissioner of System Support Services*

Chapter 2-C

The Commission Did Not Adequately Monitor Significant Information Technology Contract Requirements

The Commission is not adequately monitoring significant information technology requirements. Specifically, it did not ensure that contractor access to the Commission's human resources information system (CAPPS) and ERS Online was appropriate. In addition, while the Commission performed some monitoring of information technology related aspects of its contract, it did not adequately monitor other significant information technology requirements.

Chapter 2-C  
Rating:  
High <sup>11</sup>

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<sup>11</sup> The risk related to the issues discussed in Chapter 2-C is rated as High because they present risks or results that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

The Commission did not adequately monitor contractor access to confidential information in CAPPs and ERS Online.

Neither the Commission nor the contractor had an adequate process in place to periodically review user access to CAPPs or ERS Online, which contains HHS agency employees' confidential data (see text box). Specifically, the Commission did not ensure that all user accounts were disabled when users left employment, as required by the Title 1, Texas Administrative Code, Section 202.24. Auditors identified instances in which former contractor employees had active accounts to both CAPPs and ERS Online with access to confidential data in the systems. Specifically:

- Two former contractor employees had access to CAPPs. When auditors brought that issue to the Commission's attention, the Commission removed the access for both accounts. Neither of the accounts was accessed after the employees' last day of employment.
- Four former contractor employees had access to confidential data in ERS Online. One of those accounts was accessed a month after the user's last day of employment. It was not possible for auditors to determine who accessed the account. When auditors brought that issue to the contractor's attention, the contractor contacted the Employees Retirement System to have the access for those four accounts removed. As discussed in Chapter 2-A, because the Commission's Contract Oversight Unit did not conduct a risk assessment, it did not identify contractor access to ERS Online as a high-risk item that needed monitoring (see Chapter 2-A for more information about user access).

**Contractor Access to CAPPs and ERS Online Data**

Employees of the contractor, NorthgateArinso, have access to the following systems:

- CAPPs - Contractor employees have access to update human resources, payroll, and time and labor information for HHS agency employees.
- ERS Online - Contractor employees have access to enter and/or update HHS employees' benefit information, such as benefits enrollment, qualifying life events, and personal information. This is a Web-based application.

Sources: Request for proposals and information provided by the Commission.

While the Commission performed some monitoring of information technology-related requirements in the contract, it did not adequately monitor other significant information technology-related requirements.

The Commission performed some monitoring of information technology requirements of the contract. Specifically, the Commission:

- Participated in an annual disaster recovery testing exercise. The disaster recovery testing was successful and the required changes to the related information technology were minor.
- Had a process in place to receive and review reports from the contractor about CAPPs system availability.

However, the Commission did not adequately monitor to ensure contractor compliance with information security best practices and the Commission's security protocols and standards as required by the contract. Specifically, the Commission:

- Did not monitor the contractor to verify compliance with information security best practices or with the Commission's policies and the service level agreement related to security protocols and standards, as required by the contract. In May 2015, the Commission started requiring all contractors handling confidential agency information to have a completed Security and Privacy Initial Inquiry (SPI) form on file (see text box for more information about the SPI form). However, as of May 2016, the Commission did not have an SPI in place from the contractor.
- Did not follow up on the issues identified in the contractor's 2015 Statement on Standards for Attestation Engagements (SSAE) No. 16 report, which is a third-party report on the effectiveness of the contractor's controls over its human resources system.
- Did not review other plans related to information technology that the contractor submitted at the commencement of the contract in May 2013.
- Failed to document its review of the contractor's security management plan.

SPI Form

The SPI form is the Commission's contractor security and privacy self-assessment form. The HHS System Information Security Office uses those forms as part of its contractor risk assessment process to establish risks associated with that contractor.

Source: The Commission.

#### Recommendations

##### The Commission should:

- Develop, document, and implement a process to periodically review access to CAPPS and ERS Online, and verify that the contractor requests removal of former employees' access to those systems in a timely manner.
- Develop, document, and implement a methodology to monitor the contractor's compliance with the security requirements in the contract, information security best practices, and state and agency-specific requirements. That methodology should include a process to follow up on the results of the monitoring to verify remediation of all issues identified.

## **Management's Response**

*The Health and Human Services Commission (HHSC) is in agreement with the findings and associated recommendations and offer the following responses.*

**Reviewing Access to CAPPs and ERS Online** - Contract Oversight will coordinate with the appropriate information technology subject matter experts to (1) develop, document, and implement a process to periodically review access to CAPPs and ERS Online, and verify that the contractor requests removal of former employees in a timely manner.

*NorthgateArinso (NGA) has updated the CAPPs and ERS access and removal process documents with the new HHS Portal process (for CAPPs access) and ERS process. Documents have been provided to HHS for review.*

*These processes will be incorporated into the contract monitoring plan as appropriate.*

**Contractor Monitoring of Security Requirements** - Contract Oversight will coordinate with the appropriate information technology subject matter experts to develop, document, and implement a methodology to monitor the contractor's compliance with the security requirements in the contract, information security best practices, and state and agency-specific requirements.

*These processes will be incorporated into the contract monitoring plan as appropriate.*

### **Implementation Date:**

*December 2016*

### **Responsible Person:**

*Deputy Executive Commissioner of System Support Services*

## The Commission Provided Adequate Oversight of the Payroll and Time, Labor, and Leave Services the Contractor Performed

Chapter 2-D  
Rating:  
Low <sup>12</sup>

As discussed in previous chapters, the Contract Oversight Unit had the primary responsibility for monitoring the contract; however, it relies on the Commission's Payroll, Time, Labor, and Leave Department to ensure that the contractor performed the daily required tasks in those areas. The Payroll, Time, Labor, and Leave Department developed processes to adequately monitor contractor performance. That monitoring was designed to monitor contractor compliance with applicable service level agreements and significant requirements outlined in the contract.

In addition to payroll tracking and production, the contractor is required to provide other compensation activities such as additional pay processing; overpayment prevention; and time, labor, and leave reconciliation. The Commission's Payroll, Time, Labor, and Leave Department monitoring activities included reviewing the daily contractor activities that must occur to ensure that payroll, time, labor, and leave are completed correctly and in a timely manner.

In addition, the Commission required the contractor to develop three corrective action plans when the contractor did not meet performance expectations related to payroll services. For example, in one instance, due to a processing error, 138 HHS agencies employees received paper warrant paychecks, instead of the paychecks being direct deposited into the employees' bank accounts. The Commission's Payroll, Time, Labor, and Leave Department worked with the contractor to determine the root cause of the problem and to develop a corrective action plan to prevent the problem from occurring in the future.

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<sup>12</sup> The risk related to the issues discussed in Chapter 2-D is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

The Commission Adequately Reviewed Contractor Invoices;  
However, It Did Not Always Accurately Charge the Payments to the  
Correct Contract

Chapter 2-E  
Rating:  
Medium<sup>13</sup>

The Commission reviewed all 35 of the contractor invoices and made payments from May 1, 2013, through February 2016 totaling \$30.5 million. All of those payments were properly supported by the documentation, complied with the contract requirements, and were approved by authorized parties.

However, four payments totaling \$3.5 million were charged to the prior contract for human resources and payroll services. If payments are not charged to the correct contract, the Commission will not be able to accurately determine each contract's true cost.

Recommendation

The Commission should ensure that contractor payments are charged to the proper contract.

**Management's Response**

*The Health and Human Services Commission (HHSC) is in agreement with the finding and associated recommendation and offer the following response.*

***Ensuring Contractor Payments are Charged to the Proper Contract*** - *At the beginning of a new fully executed contract, Contract Oversight will provide Procurement and Contracting Services (PCS) a requisition within five business days of a new fully executed contract. Contract Oversight will ensure any previous purchase order is closed and a new purchase order is established prior to execution of a new contract. Contract Oversight has updated its manual to include the additional step to the contract closeout and renewal procedures.*

**Implementation Date:**

***September 30, 2016***

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<sup>13</sup> The risk related to the issues discussed in Chapter 2-E is rated as Medium because they present risks or results that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concerns and reduce risks to a more desirable level.

Responsible Persons:

*Deputy Executive Commissioner of System Support Services*

*Chief Financial Officer*

## The Commission Generally Complied with State Requirements for Contract Planning, Procurement, and Formation

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Chapter 3  
Rating:  
Low <sup>14</sup>

### Contract Planning, Procurement, and Formation

Planning - Identify contracting objectives and contracting strategy.

Procurement - Fairly and objectively select the most qualified contractors.

Contract Formation/Rate/Price Establishment - Ensure that the contract contains provisions that hold the contractor accountable for producing desired results, including all relevant terms and conditions, and establish processes that are cost-effective and aligned with the cost of providing goods and services.

Source: *State of Texas Contract Management Guide*, version 1.10.

The Commission generally complied with applicable statutes and *State of Texas Contract Management Guide* requirements for contract planning, procurement, and formation for the contract (see text box for more information about those phases of contract management). The request for proposals was published on April 9, 2012, with the responses due on April 30, 2012. The Commission signed the contract on March 27, 2013, with an effective date of May 1, 2013. The contract manager was a certified Texas contract manager and signed a conflict of interest form. The purchaser was a certified Texas procurement manager at the time of the procurement and signed the required annual conflict of interest form as required by the *State of Texas Contract Management Guide*.

Contract Planning. The Commission performed and completed most of the requirements for contract planning, which included identifying needs, involving the appropriate level of sponsorship, and having a communication plan. However, the Commission did not specify in the request for proposals the weight that would be applied to each evaluation criteria as required by the *State of Texas Contract Management Guide*. In addition, the Contract Advisory Team recommended that the Commission add those weights to the request for proposals. However, the Commission did not include that information in the request for proposals.

The Commission's *Contracting Processes and Procedures Manual* did not contain any requirements to include the weights for evaluation criteria in request for proposals. By not including the weights of the evaluation criteria in the request for proposals, the competitive bidding process could be circumvented because the evaluation criteria weights could be assigned after proposals are received to favor a specific vendor. The Commission finalized the evaluation tool that included the evaluation criteria and weights in July 2012.

Contract Procurement. The Commission followed requirements in applicable statutes and the *State Texas Contract Management Guide* to procure the

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<sup>14</sup> The risk related to the issues discussed in Chapter 3 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

contract. It properly advertised the solicitation, verified that vendor responses submitted required HUB subcontracting plans and disclosed conflicts of interest, evaluated the responses using the published criteria, and ensured that each evaluator used the same scoring and point scale.

Contract Formation. The contract contained all the essential clauses required by the *State of Texas Contract Management Guide*. Prior to the contract being signed, all required persons signed and dated the contract routing form indicating review and approval.

See Chapter 2-A for additional discussion about the contract not containing performance metrics for the quality of human resources services.

#### Recommendations

The Commission should:

- Include the evaluation criteria weights in all requests for proposals as required.
- Update its policies and procedures to require evaluation criteria weights to be included in all requests for proposals.

#### Management's Response

*The Health and Human Services Commission (HHSC) is in agreement with the findings and associated recommendations and offer the following response.*

***Update Policies and Include Evaluation Criteria Weights in all RFPs - The Procurement and Contracting Services department has already been revising policies and procedures to require that evaluation criteria have weighting identified in the solicitation. The RFP template in use at HHSC also requires this, as of early Fiscal Year 2016.***

#### **Implementation Date:**

*September 30, 2016*

#### **Responsible Person:**

*Deputy Executive Commissioner of System Support Services*

*Deputy Executive Commissioner of Procurement and Contracting Services*

# Appendices

## Appendix 1

### *Objective, Scope, and Methodology*

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#### Objective

The objective of this audit was to determine whether the Health and Human Services Commission (Commission) has administered certain contract management functions for selected contracts in accordance with applicable requirements.

#### Scope

The scope of this audit covered the Commission's human resources and payroll services agreement (contract) with NorthgateArinso<sup>15</sup> effective on May 1, 2013. That contract covered services for the Commission, as well as the Department of Aging and Disability Services, the Department of Assistive and Rehabilitative Services, the Department of Family and Protective Services, and the Department of State Health Services (collectively referred to as "HHS agencies" in this report).

Auditors reviewed contract planning, procurement, formation, and monitoring activities through February 29, 2016.

#### Methodology

The audit methodology included gaining an understanding of the Commission's contracting processes; collecting and reviewing the contract and the related procurement documentation, financial information, and monitoring tools; conducting interviews with Commission staff; reviewing statutes, rules, Office of the Comptroller of Public Accounts requirements, and Commission policies and procedures; and performing selected tests and other procedures.

Auditors used personnel and payroll information from the Uniform Statewide Payroll/Personnel System (USPS) and relied on previous State Auditor's Office audit work to determine that data in that system was sufficiently reliable for the purposes of this audit.

Auditors also reviewed expenditure data from the Health and Human Services Administration System (HHSAS) for May 1, 2013, through February 29, 2016; data from the recruitment module (VURV) of the Centralized

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<sup>15</sup> The contractor is also referred to as HHS Employee Service Center.

Accounting and Payroll/Personnel System (CAPPS) for job postings that were opened between May 1, 2013, and February 29, 2016; manager list data from CAPPS and employee access data from CAPPS as of April 20, 2016; and ERS Online data as of April 29, 2016.

For HHSAS, auditors relied on previous audit work to determine that data was sufficiently reliable for the purposes of this audit. Auditors also compared HHSAS expenditure data to the Uniform Statewide Accounting System (USAS) and the invoices that the Commission received. Auditors used that data to test all of the Commission's payment of contractor invoices for the contract made during the audit scope.

Auditors determined that job posting data was reliable for the purposes of this audit by verifying that the data did not have blank fields, verifying that each data line was unique, and performing applicable application controls on the VURV module. Auditors used that data to pull the job posting sample that auditors tested and obtain additional data related to the job postings to verify information.

Auditors determined that the manager list data from CAPPS was reliable for the purposes of this audit by verifying that the data did not have unexplained blank or missing fields and that it contained expected values in each column. Auditors also reviewed the query language used to pull the data. Auditors used that data to determine whether the HHS agencies' managers and supervisors were properly classified based on their job titles and whether they had employees reporting directly to them.

#### Sampling Methodology

Auditors used professional judgment to select a sample of job postings. The sampled items were generally not representative of the population; therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- The Commission's contract with NorthgateArinso.
- The Commission's policies and procedures, manuals, and monitoring tools.
- The Commission's solicitation and bid documentation, evaluation criteria and documentation, and related supporting documentation.

- The Commission’s contract procurement documentation, including planning documentation, approvals, and other supporting documentation.
- The Commission’s contract expenditures from HHSAS and USAS.
- Employment data for all HHS agencies’ employees from USPS.
- Employment data from the contractor.
- User access data from ERS Online and CAPPs.
- Commission internal audit reports.
- Prior State Auditor’s Office reports.

Procedures and tests conducted included the following:

- Interviewed management and employees at the Commission and HHS agencies.
- Tested selected contract planning, procurement, formation, function, and monitoring processes for compliance with the *State of Texas Contract Management Guide*, *State of Texas Procurement Manual*, Commission policies and procedures, and applicable rules and statutes.
- Reviewed applicable conflict of interest and nondisclosure forms.
- Tested job posting data to determine whether job postings and associated documentation complied with the contract and Commission policies and procedures.
- Tested contractor access to CAPPs and ERS Online.
- Tested the Commission’s monitoring of the contractor’s compliance with requirements related to payroll; time, labor, and leave; human resources; and information technology.
- Tested contractor invoices and the Commission’s payments to determine whether the contractor payments were supported, accurate, timely, conformed to contract requirements, and approved prior to payment.

Criteria used included the following:

- *State of Texas Contract Management Guide*, versions 1.10, 1.11, 1.12, 1.13, and 1.14.
- Contract terms for the contract, which includes the final executed contract, the request for proposals, and the contractor's proposal, as modified and agreed upon by the Commission and the contractor.
- Commission policies and procedures.
- State of Texas Procurement Manual.
- Title 1, Texas Administrative Code, Chapters 202 and 212.
- Title 34, Texas Administrative Code, Chapter 20.
- Texas Government Code, Chapters 322, 572, 2155-2158, 2161, 2251, 2252, 2254, and 2261-2263.

#### Project Information

Audit fieldwork was conducted from December 2015 through July 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Becky Beachy, CIA, CGAP (Project Manager)
- Serra Tamur, MPAff, CISA, CIA (Assistant Project Manager)
- Paige Dahl
- Jennifer Fries, MS
- Richard E. Kukucka, III
- Kathy-Ann Moe, MBA
- Joy Myers, MPP
- Lara Foronda Tai, PHR, SHRM-CP

- Mary Ann Wise, CPA, CFE (Quality Control Reviewer)
- John Young, MPAff (Audit Manager)

## Issue Rating Classifications and Descriptions

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

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

Table 2 provides a description of the issue ratings presented in this report.

Table 2

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

## Human Resources Service Level Agreements in the Contract

The Health and Human Services Commission’s human resources and payroll services agreement (contract) with NorthgateArinso contains service level agreements that the request for proposals defined as “specific service requirements used to measure the Contractor’s performance or specified obligations during the course of the contract.” The contract contained 69 service level agreements, 20 of which were related to human resources services. None of those 20 service level agreements measured the quality of human resource services provided for the accuracy and completeness of job postings and the proper classification of employees. Table 3 lists the 20 human resources service level agreements.

Table 3

Human Resources Service Level Agreements (SLAs)				
SLA Number	Service Component	Performance Standard	Benchmark	Time Measure
2.01	Call Handling Plan	Submit, implement, and maintain a Comprehensive Plan for customer inquiry handling methods and procedures within 10 business days after the effective date of the contract.	Within 10 business days after the effective date of the contract.	One-time
2.02	Call Accuracy Monitoring Plan/ Quality Assurance	Contractor will provide accurate call information to callers, as measured by the Call Accuracy Monitoring/Quality Management Monitoring Plan. Note: “Call Accuracy Monitoring Plan” means a plan to monitor 275 calls per month.	Greater than or equal to 95 percent of monitored calls must provide completely accurate information.	Monthly
2.03	Call Abandonment Rate	Contractor will answer all calls within 20 seconds. Note: “Answer” means to respond to an inbound call by connecting the caller to a live person or to an Interactive Voice Response unit.	Greater than or equal to 97 percent.	Monthly
2.04	Forced Disconnect Percentage	Contractor will ensure that the forced disconnect percentage does not exceed 2 percent of all calls that attempt to enter the queue during the month. Note: “Forced disconnect” means calls that are prevented from entering the queue.	Less than or equal to 2 percent.	Monthly
2.05	Telephone Answer Time	Contractor will answer calls within 20 seconds after the first call ring upon caller exiting the Interactive Voice Response (IVR). Note: “Answer” means to respond to an inbound call by connecting the caller to a live person.	Greater than or equal to 80 percent.	Monthly
2.06	Service Center Responsiveness-Acknowledgments	Contractor will issue acknowledgments of requests within two business days of receiving the request. The targeted resolution date will be before the next scheduled payroll affected by the request and resolution. Note: “Acknowledgement” means a written statement delivered to the requestor indicating that the request has been received and a date provided for a targeted resolution. “Request” means an inbound call, email from a customer that includes a request, inquiry, complaint, or similar message that anticipates an appropriate response from the Contractor.	Greater than or equal to 95 percent.	Monthly

Human Resources Service Level Agreements (SLAs)				
SLA Number	Service Component	Performance Standard	Benchmark	Time Measure
2.07	Service Center Responsiveness-Responses	Contractor will provide written responses to requestors within two business days of logged case close date, unless [the Health and Human Services Commission] agrees to a longer time period. Note: If the request was pay impacting, then the written response should be delivered before the next scheduled payroll affected by the request and resolution. If the resolution does not occur in time for the next scheduled payroll, then requestor will be informed of how the pay impacting condition will be resolved before the next scheduled payroll.	Greater than or equal to 95 percent.	Monthly
2.08	Monthly Service Level Agreement Report	Contractor will provide a monthly SLA Report acceptable to [the Health and Human Services Commission] in form and substance that provides detailed information on the Contractor's performance on each SLA during the preceding date month, within 15 business days after the end of the reporting period.	100 percent.	Monthly
2.09	Required Reporting Timeliness	Contractor will submit required information or required reports by the deadline that HHSC establishes for each report. Report or data include, but are not limited to: <ul style="list-style-type: none"> <li>▪ EEO-4 State and Local Government Report.</li> <li>▪ Veterans Employment Report.</li> <li>▪ W-2 Employee Annual Earnings Statements.</li> <li>▪ W-3 Transmittal of Wage and Tax Statements.</li> <li>▪ [Texas Workforce Commission] (TWC) Unemployment Quarterly Reports.</li> <li>▪ Texas Department of Insurance (TDI) Worker Compensation Reports.</li> <li>▪ Quarterly 941 Federal Tax Reports and Required Attachments and Amendments.</li> <li>▪ Annual Medicare Data Match Reports.</li> <li>▪ Historically Underutilized Business (HUB).</li> <li>▪ Other reports required by state or federal law or as required by Section 5.02. UTC of the contract.</li> </ul>	Submission of information or report by the deadline.	Per Report
2.10	Required Reporting Accuracy	Contractor will ensure accuracy of data included in all federal, state, and required reports before submitting report to [the Health and Human Services Commission] for final review. Report or data include, but are not limited to: <ul style="list-style-type: none"> <li>▪ EEO-4 State and Local Government Report.</li> <li>▪ Veterans Employment Report.</li> <li>▪ W-2 Employee Annual Earnings Statements.</li> <li>▪ W-3 Transmittal of Wage and Tax Statements.</li> <li>▪ [Texas Workforce Commission] (TWC) Unemployment Quarterly Reports.</li> <li>▪ Texas Department of Insurance (TDI) Worker Compensation Reports.</li> <li>▪ Quarterly 941 Federal Tax Reports and Required Attachments and Amendments.</li> <li>▪ Annual Medicare Data Match Reports.</li> <li>▪ Historically Underutilized Business (HUB).</li> </ul>	98 percent.	Monthly

Human Resources Service Level Agreements (SLAs)				
SLA Number	Service Component	Performance Standard	Benchmark	Time Measure
		<ul style="list-style-type: none"> <li>Other reports required by state or federal law or as required by Section 5.02, UTC of the contract.</li> </ul> <p>For purposes of this Performance Standard, “accuracy” refers to the degree to which a report is free of material errors. An accurate report is one that contains no material errors; an inaccurate report is one that contains one or more material errors. A “material error,” for purposes of this Performance Standard, means an error in the value, format or placement of one or more data elements within a report that may impact the usefulness or reliability of the report or impair its effectiveness in light of its intended purpose.</p>		
2.11	Turnover Report	Contractor will prepare and submit an acceptable Turnover Results Report within 45 calendar days after the completion of turnover activities.	Within 45 days after the completion of turnover activities.	One time
2.12	Key Personnel Timely Verbal Notification	Contractor will orally notify [the Health and Human Services Commission] at least two business days in advance or otherwise as soon as identified that a key personnel vacancy will occur for any reason.	Two business days in advance that a key personnel vacancy will occur.	As Required
2.13	Key Personnel Written Notification	Contractor will provide written notice of any changes of key personnel to [the Health and Human Services Commission] within 10 business days of the date on which the Contractor becomes aware of an actual or prospective change.	Within 10 business days of the date on which the Contractor becomes aware of an actual or prospective change.	As Required
2.14	Classification/FLSA Change Processing Timeliness	Contractor will process and track complete requests for classification/job audits and Fair Labor Standards Act (FLSA) changes during each month. Contractor will process all complete requests within 10 business days of receiving request and will post to the employee’s record within 2 business days. Note: “Complete request” means a classification or job audit request that contains all required data available from the manager.	Greater than or equal to 98 percent.	Monthly
2.15	90-Day Wait Processing: Retirement	[Employees Retirement System] Contribution set-up: Contractor will ensure [Employees Retirement System] Retirement Contribution set up is completed prior to next scheduled on-cycle payroll for all eligible personnel.	100 percent.	Monthly
2.16	Application Processing Timeliness	Contractor will provide hiring managers closed, completed application packages, and via [Health and Human Services Commission] approved media, within three business days of job requisition closing date.	Greater than or equal to 97 percent.	Monthly
2.17	SAO Exit Interview	Contractor will request and obtain unique ID number in the [State Auditor’s Office] exit interview system and will issue to a voluntarily separated employee within five business days of Contractor’s receipt of notice of termination from the manager.	Greater than or equal to 95 percent.	Monthly
2.18	Verifying Prior State Service	Contractor will issue a request to verify prior state employment from the designated agency within two business days after receipt of the HR0112 (Prior State Employment Form).	Greater than or equal to 97 percent.	Monthly
2.19	Verifying Prior State Service	Contractor will enter all applicable prior state service and benefits data, such as benefit	Greater than or equal to 97 percent.	Monthly

Human Resources Service Level Agreements (SLAs)				
SLA Number	Service Component	Performance Standard	Benchmark	Time Measure
		replacement pay, longevity, vacation accruals, or other service credit information, into the Centralized Accounting and Payroll/Personnel System (CAPPS) within two business days after receipt of the HR0113 (Prior State Employment Verification Form). If the on-cycle payroll has calculated prior to receipt, the information will be entered prior to the next supplemental payroll for the pay impacting entries. All other entries not affecting current payroll calculation will be entered within two business days after receipt of the prior state verification.		
2.20	Verifying Prior State Service	Contractor will issue a second request to verify prior state employment if Contractor has not received verification from the designated agency within 10 business days after the date of the initial request. The second request will be issued no later than close of business on the 12th business day from the date of the initial request, and the service center will notify the state human resources office by email upon issuing the second request.	Greater than or equal to 97 percent.	Monthly

Source: The Health and Human Services **Commission's** contract with NorthgateArinso.

## Related State Auditor's Office Work

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Related State Auditor's Office Work		
Number	Product Name	Release Date
16-705	A Classification Compliance Audit Report on Program Specialist and Program Supervisor Positions at the Department of Aging and Disability Services	August 2016
16-031	An Audit Report on a Selected Contract at the Department of State Health Services	June 2016
16-020	<b>An Audit Report on Selected Agencies' Use of Department of Information Resources</b> Information Technology Staffing Services Contracts	March 2016
16-006	A Report on Health and Human Services Commission Contracts	October 2015
15-031	<b>An Investigative Report on the Health and Human Services Commission's and the Office of Inspector General's Procurement of Services and Commodities from 21CT, Inc.</b>	April 2015
15-030	An Audit Report on Procurement for Terrell State Hospital Operations at the Health and Human Services Commission and the Department of State Health Services	March 2015
15-019	A Report on Recent Contracting Audits	January 2015
15-017	An Audit Report on the Telecommunications Managed Services Contract at the Health and Human Services Commission	December 2014
14-035	An Audit Report on Selected Contracts at the Health and Human Services Commission	June 2014
14-013	An Audit Report on Information and Communications Technology Cooperative Contracts at the Health and Human Services Commission	December 2013

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