



An Audit Report on

Contract Management at the Department of State Health Services

- The Department developed an enhanced monitoring plan for its contract for Newborn Screening Program laboratory services and supplies.
- The Department did not consistently perform or document its enhanced monitoring activities or perform them within the required timelines.
- The Department properly approved invoices for most contract payments and complied with requirements when it extended the contract term.

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State Auditor

The Department of State Health Services (Department) established enhanced monitoring activities to assess the performance and quality of contract services that support the Newborn Screening Program for fiscal years 2023, 2024, and 2025. It also verified that invoices were accurate prior to payment and obtained required approvals prior to extending the contract's term.

However, the Department should strengthen its enhanced monitoring so that it consistently performs certain activities required by the plan or identifies and follows up on instances of Contractor noncompliance.

- [Background](#) | p. 4
- [Audit Objective](#) | p. 14

This audit was conducted in accordance with Texas Government Code, Sections 321.013, 321.0131, and 321.0132.

MEDIUM

ENHANCED MONITORING ACTIVITIES

The Department performed enhanced monitoring of its contract for services and supplies for the Newborn Screening Program. However, it should strengthen its processes to ensure that its monitoring consistently identifies and assesses instances of Contractor noncompliance with contract requirements and that it follows up to verify and document that the Contractor addressed identified performance issues.

[Chapter 1 | p. 5](#)

LOW

CONTRACT PAYMENTS AND AMENDMENTS

The Department verified that invoices from the Contractor for laboratory services and supplies were accurate. In addition, the Department obtained required approvals from management to execute amendments to extend the contract term prior to the term's expiration dates as required.

[Chapter 2 | p. 11](#)

Note on Confidential Findings

To minimize security risks, auditors communicated in a separate report to the Department details about certain control weaknesses that could put its laboratory data at risk.

HIGH

The findings were rated High because the issues could substantially affect data security. Prompt action is needed to address the noted concerns and reduce risks to a more desirable level.

A separate report references confidential information. Pursuant to Standard 9.61 of the U.S. Government Accountability Office's *Government Auditing Standards*, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. Under the provisions of Texas Government Code, Section 552.139, the omitted information is also exempt from the requirements of the Texas Public Information Act.

Summary of Management's Response

Auditors made recommendations to address the issues identified during this audit, provided at the end of each chapter in this report. The Department agreed with the recommendations.

Ratings Definitions

Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objective.

PRIORITY: Issues identified present risks or effects that if not addressed could ***critically affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

HIGH: Issues identified present risks or effects that if not addressed could ***substantially affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

MEDIUM: Issues identified present risks or effects that if not addressed could ***moderately affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

LOW: The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks ***or*** effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

For more on the methodology for issue ratings, see [Report Ratings](#) in Appendix 1.

Background Information

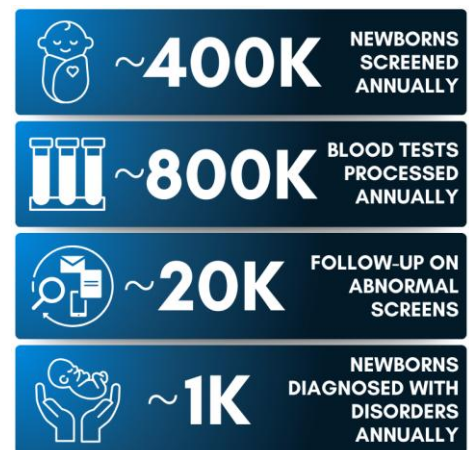
Newborn Screening Program

Texas Health and Safety Code, Chapter 33, requires the Department of State Health Services (Department) to establish a Newborn Screening Program (Program). The Department implemented screening processes for examining babies shortly after birth for certain serious health conditions, such as critical congenital heart diseases and other disorders and conditions. The Department's Public Health Laboratory administered the Program. The tests performed helped to identify 59 conditions, such as phenylketonuria, hypothyroidism, sickle cell disease, cystic fibrosis, and severe immunodeficiencies. Figure 1 summarizes the Program statistics from the Department as of August 2025.

For the 2024-2025 biennium, the General Appropriations Act (88th Legislature) appropriated \$132.4 million to the Department for laboratory services, which includes administration of the Program.

Figure 1

Newborn Screening Program Statistics



Source: The Department.

Contract Services for Newborn Screening

The Department contracted with Revvity Health Sciences Inc.¹ (Contractor) to provide the Public Health Laboratory with testing and laboratory supplies, testing equipment, and an information management system that supported the administration of the Program. The initial contract term was effective from September 1, 2020, through August 31, 2022, with a not-to-exceed value totaling \$38.6 million. The contract has been amended three times to extend the contract term. Amendment 5, executed on May 28, 2024, extended the contract term to August 31, 2025, and increased the not-to-exceed value of the contract to \$101.9 million.

¹ The Contractor was formerly known as PerkinElmer Health Sciences Inc. until its name changed with the execution of contract amendment 5 on May 28, 2024.



MEDIUM

Chapter 1 Enhanced Monitoring Activities

The Department of State Health Services (Department) developed an enhanced monitoring plan and performed monitoring activities to oversee the performance of its contract with Revvity Health Sciences Inc. (Contractor), which provided laboratory services and supplies that supported the administration of the Newborn Screening Program. The enhanced monitoring plan outlined critical activities for the Department to perform to ensure the delivery and quality of the laboratory services and supplies provided (see text box).

However, the Department should strengthen its processes to ensure that (1) its evaluations of Contractor performance consistently identify and assess instances of Contractor noncompliance with contract requirements and (2) it follows up to verify that the Contractor addressed identified performance issues.

Enhanced Monitoring

According to the Department's enhanced monitoring plan, it will perform additional monitoring activities for its contract with Revvity Health Sciences Inc. (Contractor): Those activities include:

- Annual desk reviews of Contractor performance.
- Quarterly meetings with the Contractor.
- Contractor information and performance reporting.
- Periodic post payment billing validations that reconcile Contractor billings and invoices (see Chapter 2).

Source: The Department.

The Department performed annual desk reviews of vendor performance as required; however, those reviews did not always identify instances of noncompliance.

The Department conducted annual desk reviews of the Contractor's performance for fiscal years 2023 and 2024 as required by the enhanced monitoring plan. Those reviews evaluated whether the Contractor complied with performance requirements related to:

- The billing for laboratory services and supplies.
- The provision of testing and laboratory materials.
- The delivery and support of laboratory equipment.
- The operation and performance of the Laboratory Information Management System (LIMS), which supports the Newborn Screening Program and for which the Contractor provides maintenance and support.

For those reviews, the Department completed an evaluation checklist and included summary comments on the annual desk review forms to explain why it concluded that the Contractor complied with review requirements.

However, the reviews did not identify Contractor noncompliance with certain contract requirements. For example, the desk review for fiscal year 2024 was not sufficient to identify that the Contractor did not comply with certain employee training and user access requirements. In addition, because the Department did not document the information reviewed or analysis conducted to support its conclusions, it is unclear whether the desk reviews considered concerns raised during the Department's meetings with the Contractor.

Strengthening its desk review methodology and procedures would help the Department identify and evaluate all instances of noncompliance and help ensure that its evaluations of Contractor performance are reasonable. This should include documenting the information to be gathered and the analysis conducted.

The Department met with its Contractor to discuss performance issues; however, it did not always meet on a quarterly basis as required.

According to its meeting summaries, the Department held 8 “quarterly” meetings with the Contractor from September 1, 2023, through March 31, 2025. However, a total of 10 quarterly meetings should have been held during the period. Additionally, 7 of those 8 meetings held were not conducted within 90 days (quarterly) as required by the enhanced monitoring plan, with 1 meeting occurring 215 days after the prior meeting. Meeting with the Contractor within the required timeframes is important to ensure that the Department and the Contractor are aware of and can address performance issues and other problems in a timely manner.

The Department did not consistently verify that identified performance issues were adequately resolved.

The Department’s summaries of its quarterly meetings with the Contractor showed that they discussed new and reoccurring performance issues involving equipment and services, such as problems with laboratory equipment and the performance of LIMS. However, the summaries did not provide information on any updates or follow-up actions the Department and Contractor may have taken to resolve the identified issues. Furthermore, the Department could not otherwise show that it verified that the issues were satisfactorily resolved or addressed in a timely manner.

Recommendations

The Department should:

- Strengthen its desk review processes to ensure that it consistently identifies and assesses instances of Contractor noncompliance and that it sufficiently documents the information reviewed or analysis conducted to support its conclusions.

- Consistently meet with the Contractor quarterly as required by its enhanced monitoring plan.
- Follows up to verify and document that identified performance issues are addressed and resolved in a timely manner.

Management's Response

Recommendation 1-1:

The Department should strengthen its desk review processes to ensure that it consistently identifies and assesses instances of Contractor noncompliance and that it sufficiently documents the information reviewed or analysis conducted to support its conclusions.

Action Plan

The Department agrees to strengthen desk review processes to ensure more consistent identification of Contractor noncompliance.

The Department will revise the desk review tool utilized to monitor the Newborn Screening contract. The revised tool will expand how the contractor is meeting or not meeting elements identified on the desk review tool and will maintain source documentation and interdepartmental discussions relating to analysis conducted.

Tool revision is expected to be completed by December 2025, with consistent use established by February 2026.

Responsible Manager

Director, Contract Management Section, Operations Division

Target Implementation Date

February 15, 2026

Recommendation 1-2:

The Department should consistently meet with the Contractor quarterly as required by its enhanced monitoring plan.

Action Plan

The Department agrees to meet quarterly with the Contractor and strengthen documentation regarding the timing of specific quarterly Contractor meetings held.

The Department will continue holding quarterly meetings with the Contractor as required by its enhanced monitoring plan. Meetings will include Contractor representatives and Department representatives from Contract Management, Newborn Screening, Laboratory Informatics, and Laboratory Business Operations Unit. The Department will document instances when specific formal meetings are not held, are delayed, or are replaced by an alternative form of communication. Meeting documentation expectations were initiated in September 2025. The next quarterly meeting is anticipated by February 2026.

Responsible Manager

Director, Contract Management Section, Operations Division

Deputy Commissioner, Public Health Laboratory Division

Target Implementation Date

A quarterly meeting outlining expectations for increased scheduling documentation was held on September 30, 2025. The next meeting is anticipated by February 2026.

Recommendation 1-3:

The Department should follow up to verify and document that identified performance issues are addressed and resolved in a timely manner.

Action Plan

The department agrees to follow up to verify, document, address, and resolve identified performance issues in a timely manner.

The Department will continue to document status updates on performance issues to ensure they are addressed and resolved in a timely manner. Current issues will be discussed and documented in each quarterly meeting and revisited during subsequent meetings as necessary, to ensure they are being addressed. Meeting notes will include a log of issues and their status. Additionally, contractors will provide a shared document identifying issues tracked. Meeting

documentation expectations were initiated in September 2025. The next quarterly meeting is anticipated by February 2026.

Responsible Manager

Director, Contract Management Section, Operations Division

Deputy Commissioner, Public Health Laboratory Division

Target Implementation Date

A quarterly meeting outlining expectations for increased documentation of issues was held on September 30, 2025. The next meeting is anticipated by February 2026.

LOW

Chapter 2

Contract Payments and Amendments

The Department properly approved invoices for most contract payments.

From September 2022 through March 2025, the Department ensured that invoices from the Contractor for laboratory services and supplies were accurate. Specifically, when approving invoices, the Department verified the accuracy of the prices and the quantities of the laboratory services and supplies received. In addition, under the Department's enhanced monitoring plan, it performed additional post-payment billing validations during fiscal years 2023 and 2025.

However, the Department should strengthen its processes to ensure that it consistently documents the adequacy of the services received prior to issuing a payment. Specifically, the Department documented this verification for 9 (82 percent) of the 11 payments tested. But the Department did not document this verification for the other two invoices, which were quarterly payments for LIMS support and maintenance services. The Department also issued one of those payments 40 days prior to the end of the quarter, which is not permitted by the contract.

The Department appropriately amended the contract to extend the term.

The Department obtained required approvals from management to execute amendments to extend the contract term prior to the term's expiration dates as required. The Department amended the contract three times to extend the contract through the end of fiscal years 2023, 2024, and 2025. Figure 2 on the next page shows the amendments that extended the contract through August 2025.

Figure 2

Contract Amendments for Fiscal Years 2023, 2024, and 2025

Amendment	Amendment Executed Date	Amendment Beginning Term Date ^a	Amendment Ending Term Date	Contract Value (Not-to-Exceed) for Renewal Period ^b
Amendment 3	June 23, 2022	September 1, 2022	August 31, 2023	\$15.0 Million
Amendment 4	June 2, 2023	June 2, 2023	August 31, 2024	\$22.4 Million
Amendment 5	May 28, 2024	May 28, 2024	August 31, 2025	\$25.7 Million

^a The initial contract term was effective September 1, 2020, through August 31, 2022.

^b The contract value as of August 31, 2022, was not to exceed \$38.8 million. With the execution of Amendment 5, the total contract value through August 31, 2025, was not to exceed \$101.9 million.

Source: The Department.

Recommendation

The Department should verify the adequacy for all services provided prior to issuing a payment.

Management's Response

Action Plan

The Department agrees to verify service invoices, in accordance with respective requirements.

The Department retrained Laboratory Business Operations Unit staff regarding invoice review procedures in September 2025, including obtaining written approval from subject matter experts for recurring services. The issuance of payment prior to the end of the quarter, as noted during the scope of this audit, was permitted by Comptroller policy but in conflict with the contract. According to HHS Legal, the contract renewal, which began September 1, 2025, contains language that allows DSHS to approve advance payments in accordance with Comptroller policy.

Responsible Manager

Deputy Commissioner, Public Health Laboratory Division

Target Implementation Date:

September 2026



Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Department of State Health Services (Department) administers selected contract management functions in accordance with applicable requirements.

Scope

The scope of this audit includes the Department's processes for monitoring and amending its contract with Revvity Health Sciences Inc. (Contractor) for laboratory services and supplies that support the Newborn Screening Program administered by the Public Health Laboratory from September 2022 through March 2025.

The scope also included a review of significant internal control components related to the Department's contract management processes.

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



- Anca Pinchas, CPA, CISA, CIDA, MACy, MS (Project Manager)
- Armando Sanchez, MBA, CFE (Assistant Project Manager)
- Robert H. Bollinger, CPA, CGMA, CFE
- Nicholas de Sanctis
- Matthew Rodriguez, MPAff
- Michele Yonkeu
- Robert G. Kiker, CFE, CGAP (Quality Control Reviewer)
- Willie Hicks, CIA, CISA, MBA, CGAP (Audit Manager)

Methodology

We conducted this performance audit from March 2025 through September 2025 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to Department management for consideration.

Addressing the Audit Objective

During the audit, we determined whether the Department had adequate controls over contract monitoring to ensure compliance with the *State of Texas Procurement and Contract Management Guide*, version 3.0; the Department's policies, procedures, and Health and Human Services' *Procurement and Contract Management Handbook*, version 1.5; and the Newborn Screening Program contract with the Contractor. This included:

- Interviewing Department staff to gain an understanding of contract monitoring activities, including internal controls and information that support those processes.
- Reviewing the design of the Department's contract monitoring plan, risk assessment, and contract amendments.
- Testing all annual desk reviews to determine whether they were performed as required.
- Testing samples of receiving reports, supporting documents, and internal controls identified to determine whether laboratory services and supplies were received as required.
- Testing samples of payments to the Contractor to determine whether they were supported, accurate, and processed in accordance with applicable requirements.

- Testing samples of enhanced contract monitoring activities and controls identified to determine whether they were working as intended, and to verify that (1) monitoring was occurring according to requirements and (2) the Contractor was meeting requirements.

Figure 3 provides details about the populations and samples selected for testing.

Figure 3

Population and Samples Selected

Population Description	Population Size	Sample Size	Sampling Size and Methodology ^a
Provider Meetings	8	4	Selected a targeted sample of 4 meetings to address specific risk factors identified in the population.
Billing Validations	12	5	Selected a targeted sample of 5 validations to address specific risk factors identified in the population.
Payments	91	11	Selected a sample of 11 invoices, including 9 random and 2 targeted, to address identified risk factors within the population.
Equipment	15	3	Selected a targeted sample of 3 equipment items to address specific risk factors identified in the population.
^a All samples were nonstatistical and chosen to ensure coverage of specific characteristics identified in the population that were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.			

Data Reliability and Completeness

Auditors relied on a prior State Auditor's Office review of the Centralized Accounting and Payroll/Personnel System (CAPPS) and determined that CAPPS payment data was sufficiently reliable for the purposes of the audit. Auditors observed the export of payment data, verified totals and key fields, and tested for duplicates and missing values. In addition, auditors tested a sample of transactions against source documentation to confirm accuracy.

Report Ratings

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



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The Honorable Dustin Burrows, Speaker of the House, Joint Chair

The Honorable Joan Huffman, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Greg Bonnen, House Appropriations Committee

The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Health and Human Services Commission

Ms. Cecile Erwin Young, Executive Commissioner

Department of State Health Services

Dr. Jennifer A. Shuford, Commissioner

Ms. Imelda M. Garcia, Chief Deputy Commissioner



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