



John Keel, CPA  
State Auditor

## A Report on Recent Contracting Audits

January 23, 2015

Members of the Legislative Audit Committee:

The State Auditor's Office regularly conducts audits of selected contracts at state entities for compliance with requirements in each of the four phases of the contract management process (see text box). Generally, the objectives of those audits are to determine whether state entities planned, procured, established, managed, and monitored selected contracts in accordance with applicable statutes, rules, and other requirements.

The State Auditor's Office selected the state entities audited based on factors that included the state entities' total contract expenditures, other audit coverage, and the types of contracts into which the state entities entered. The State Auditor's Office released 14 reports on audits of contracts at state entities from July 2012 through December 2014. Those reports discussed various strengths and weaknesses in the contract management processes that state entities used for the audited contracts.

### Contract Management Phases

- **Contract Planning** - Identify contracting objectives and contracting strategy.
- **Contract Procurement** - Fairly and objectively select the most qualified contractor(s).
- **Contract Formation** - Ensure that the contract contains provisions that hold the contractor(s) 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.
- **Contract Oversight** - Monitor and enforce the terms of the contract.

Source: *State of Texas Contract Management Guide*, Version 1.12.

Overall, of the 14 contracting audit reports released, 2 reports—on a design services contract and a construction contract audited at the Department of Transportation and on a marketing contract audited at the Texas Lottery Commission—concluded that the state entities' contract management processes for the contracts audited generally ensured compliance with all requirements in each of the contracting management phases. In contrast, the audit of the HealthSelect contract at the Employees Retirement System concluded that the state entity's contract management processes were not sufficient to ensure full compliance with the requirements for any of the contracting management phases. In addition, two audits of contracts valued at more than \$100 million—the audit of the student assessment services contract at the Texas Education Agency and the telecommunications managed services contract at the Health and Human Services Commission—identified significant weaknesses in the state entities' processes for procurement, formation, and oversight of the contract.

**Strengths: For the contracts audited, the state entities generally complied with contract planning and contract formation requirements.**

**Contract Planning.** The majority of state entities audited documented their planning efforts. That could include performing a needs assessment, performing a risk assessment, and/or developing a communication plan. In addition, for the audit reports that discussed the State's Contract Advisory Team, most of the state entities submitted the solicitations for the contracts audited to the Contract Advisory Team as required.

SAO Report No. 15-019

**Contract Formation.** Most state entities audited ensured that the contracts audited included provisions required by the *State of Texas Contract Management Guide*.

**Weaknesses: For the contracts audited, the state entities did not consistently comply with contract procurement and contract monitoring requirements.**

**Contract Procurement.** The majority of state entities audited did not consistently maintain documentation of their proposal evaluation processes and/or document their determinations of best value. In addition, of the reports that discussed conflicts of interest, the majority of the state entities did not adequately identify and/or document conflicts of interest for the contracts audited.

**Contract Oversight.** Auditors identified opportunities to improve contract oversight activities for all contracts audited. Oversight activities that should be strengthened included monitoring contractor performance and compliance with the terms of the contract, implementing corrective action, processing payments, amending contracts, and/or complying with certain reporting requirements.

Table 1 summarizes the overall strengths and weaknesses that auditors identified in the contract management processes for the contracts audited from July 2012 through December 2014. An overall strength or weakness was determined based on the number of audit reports in which auditors had identified a strength or a weakness in the state entities’ contracting process. (See Section 2 of the attachment to this report for descriptions of the processes and procedures reviewed during a contracting audit.) Please note that this is a summary of the information included in the published audit reports. The scope of the audit work conducted varied among the reports. As a result, auditors may not have reviewed an individual state entity’s processes in all of the contract management phases.

Table 1

Summary of State Entities’ Contract Management Process Strengths and Weaknesses for the Contracts Audited from July 2012 through December 2014		
Contract Management Phase	Process Strengths	Process Weaknesses
Planning	<ul style="list-style-type: none"> <li>▪ Contract Advisory Team</li> <li>▪ Contract Planning</li> <li>▪ Procurement Method</li> <li>▪ Research for Procurement</li> <li>▪ Statement of Work</li> </ul>	<ul style="list-style-type: none"> <li>▪ Contract Review/Approval Process</li> </ul>
Procurement	<ul style="list-style-type: none"> <li>▪ Advertising Solicitation</li> <li>▪ Historically Underutilized Business (HUB) Subcontracting Plans</li> <li>▪ Proposal Evaluations</li> <li>▪ Public Bid Opening</li> </ul>	<ul style="list-style-type: none"> <li>▪ Automated System Purchases</li> <li>▪ Best Value</li> <li>▪ Conflicts of Interest</li> <li>▪ Contractor Selection</li> </ul>
Formation	<ul style="list-style-type: none"> <li>▪ Contract Terms</li> <li>▪ Payment Methodology</li> </ul>	<ul style="list-style-type: none"> <li>▪ Benchmarking/Cost Estimate</li> </ul>
Oversight		<ul style="list-style-type: none"> <li>▪ Change Management Process</li> <li>▪ Contractor Compliance</li> <li>▪ Corrective Action</li> <li>▪ Fiscal Monitoring</li> <li>▪ Performance Monitoring</li> <li>▪ Performance Reporting</li> <li>▪ Subcontractor Monitoring</li> </ul>

In addition, state entities did not always ensure they had documented contract management processes or that contracting staff received adequate training. Specifically, more than half of the audit reports concluded that the state entities audited did not have adequately documented contract management policies and procedures. More than half of the audit reports also found that the state entities audited did not ensure that all contract managers and purchasers received statutorily required training. Having established and documented policies and procedures and trained contract management staff can help a state entity comply with statutes, rules, and other requirements in the *State of Texas Contract Management Guide* and protect the State's interests.

The attachment to this letter contains additional details on the results of the contracting audits.

Sincerely,

John Keel, CPA  
State Auditor

Attachment

cc: The Honorable Greg Abbott, Governor

**Objective, Scope, and Methodology**

The objective of this project was to analyze and summarize information reported in recent contract audits of state entities. The project scope included 14 reports on audits of contracts at state entities issued from July 2012 through December 2014. Auditors summarized the results of each audit report to identify strengths and weaknesses for each of the contract management phases defined in the *State of Texas Contract Management Guide*.

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

- Jennifer Wiederhold, CGAP (Project Manager)
- Michael Gieringer, MS, CFE
- Willie Hicks, MBA, CGAP
- Nicole Mclusky-Erskine
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Kelly Furgeson Linder, CIA, CGAP (Assistant State Auditor)



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# Attachment

Section 1

## ***Summary of Results of Contracting Audits Conducted at State Entities from July 2012 through December 2014***

Table 2 presents a summary of the State Auditor’s Office’s assessment of the contract management processes at state entities for contracts audited from July 2012 through December 2014. Please note that this is a summary of the information included in the published audit reports. Auditors classified an area as a weakness if the audit report discussed a finding in that area and had a related recommendation. The scope of the audit work conducted varied among the reports. As a result, auditors may not have reviewed an individual state entity’s processes in all of the contract management phases.

Table 2

Assessment of Contract Management Processes for Selected Contracts at Each State Entity Audited From July 2012 through December 2014					
State Entity	State Auditor’s Office Report	Type of Contract(s) Audited	Value of Contract(s) Audited	Strengths	Weaknesses
<b>Article I, General Government</b>					
Department of Information Resources	<i>An Audit Report on the Information and Communications Technology Cooperative Contracts Program at the Department of Information Resources</i> (Report No. 14-007, October 2013)	<ul style="list-style-type: none"> <li>▪ Information Resources Technology Products and Related Services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Not Applicable <sup>a</sup></li> </ul>	<u>Planning:</u> <ul style="list-style-type: none"> <li>▪ Contract Advisory Team</li> <li>▪ Contract Planning</li> </ul> <u>Procurement:</u> <ul style="list-style-type: none"> <li>▪ Advertising Solicitation</li> <li>▪ Proposal Evaluations</li> </ul> <u>Formation:</u> <ul style="list-style-type: none"> <li>▪ Contract Terms</li> </ul>	<u>Procurement:</u> <ul style="list-style-type: none"> <li>▪ Best Value</li> <li>▪ Contractor Selection</li> </ul> <u>Oversight:</u> <ul style="list-style-type: none"> <li>▪ Corrective Action</li> <li>▪ Fiscal Monitoring</li> <li>▪ Performance Monitoring</li> </ul>
Texas Facilities Commission	<i>An Audit Report on Selected Contracts at the Texas Facilities Commission</i> (Report No. 15-001, September 2014)	<ul style="list-style-type: none"> <li>▪ Property Management Services</li> <li>▪ Construction Manager-at-risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$5.2 million</li> <li>▪ \$5.1 million</li> </ul>	<u>Planning:</u> <ul style="list-style-type: none"> <li>▪ Contract Advisory Team</li> <li>▪ Procurement Method</li> </ul> <u>Procurement:</u> <ul style="list-style-type: none"> <li>▪ Advertising Solicitation</li> <li>▪ Contractor Selection</li> <li>▪ Proposal Evaluations</li> </ul> <u>Oversight:</u> <ul style="list-style-type: none"> <li>▪ Fiscal Monitoring</li> </ul>	<u>Planning:</u> <ul style="list-style-type: none"> <li>▪ Contract Planning</li> </ul> <u>Formation:</u> <ul style="list-style-type: none"> <li>▪ Benchmarking/Cost Estimate</li> <li>▪ Contract Terms</li> </ul> <u>Oversight:</u> <ul style="list-style-type: none"> <li>▪ Change Management Process</li> <li>▪ Contractor Compliance</li> <li>▪ Performance Monitoring</li> <li>▪ Subcontractor Monitoring</li> </ul>

**Assessment of Contract Management Processes for Selected Contracts at Each State Entity Audited  
From July 2012 through December 2014**

State Entity	State Auditor's Office Report	Type of Contract(s) Audited	Value of Contract(s) Audited	Strengths	Weaknesses
Employees Retirement System	<i>An Audit Report on the HealthSelect Contract at the Employees Retirement System</i> (Report No. 15-007, November 2014)	<ul style="list-style-type: none"> <li>▪ Health Insurance Plan Third-party Administrator</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$204.8 million</li> </ul>	<p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Contractor Compliance</li> <li>▪ Corrective Action</li> </ul>	<p><u>Planning:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Advisory Team</li> <li>▪ Contract Planning</li> <li>▪ Contract Review/Approval Process</li> <li>▪ Research for Procurement</li> <li>▪ Statement of Work</li> </ul> <p><u>Procurement:</u></p> <ul style="list-style-type: none"> <li>▪ Best Value</li> <li>▪ Contractor Selection</li> <li>▪ Proposal Evaluations</li> </ul> <p><u>Formation:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Terms</li> </ul> <p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Change Management Process</li> <li>▪ Fiscal Monitoring</li> <li>▪ Performance Monitoring</li> <li>▪ Performance Reporting</li> <li>▪ Subcontractor Monitoring</li> </ul>
<b>Article II, Health and Human Services</b>					
Health and Human Services Commission	<i>An Audit Report on Information and Communications Technology Cooperative Contracts at the Health and Human Services Commission</i> (Report No. 14-013, December 2013)	<ul style="list-style-type: none"> <li>▪ Deliverables-based Information Technology Services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Various</li> </ul>	<p><u>Planning:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Planning</li> <li>▪ Contract Review/Approval Process</li> <li>▪ Research for Procurement</li> </ul> <p><u>Formation:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Terms</li> </ul> <p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Change Management Process</li> <li>▪ Contract Closeout</li> </ul>	<p><u>Planning:</u></p> <ul style="list-style-type: none"> <li>▪ Statement of Work</li> </ul> <p><u>Procurement:</u></p> <ul style="list-style-type: none"> <li>▪ Automated System Purchases</li> <li>▪ Best Value</li> <li>▪ Conflicts of Interest</li> </ul> <p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Corrective Action</li> <li>▪ Fiscal Monitoring</li> <li>▪ Performance Monitoring</li> <li>▪ Performance Reporting</li> </ul>

**Assessment of Contract Management Processes for Selected Contracts at Each State Entity Audited  
From July 2012 through December 2014**

State Entity	State Auditor's Office Report	Type of Contract(s) Audited	Value of Contract(s) Audited	Strengths	Weaknesses
Health and Human Services Commission	<i>An Audit Report on Selected Contracts at the Health and Human Services Commission</i> (Report No. 14-035, June 2014)	<ul style="list-style-type: none"> <li>▪ Retailer Management Services</li> <li>▪ Call Center Services</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$43.4 million <sup>b</sup></li> <li>▪ \$35.3 million <sup>c</sup></li> </ul>	<p><u>Planning:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Advisory Team</li> <li>▪ Statement of Work</li> </ul> <p><u>Procurement:</u></p> <ul style="list-style-type: none"> <li>▪ Historically Underutilized Business (HUB) Subcontracting Plan</li> </ul> <p><u>Formation:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Terms</li> </ul> <p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Change Management Process</li> <li>▪ Contractor Compliance</li> <li>▪ Performance Monitoring</li> </ul>	<p><u>Planning:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Planning</li> </ul> <p><u>Procurement:</u></p> <ul style="list-style-type: none"> <li>▪ Advertising Solicitation</li> <li>▪ Best Value</li> <li>▪ Conflicts of Interest</li> <li>▪ Contractor Selection</li> <li>▪ Proposal Evaluations</li> </ul> <p><u>Formation:</u></p> <ul style="list-style-type: none"> <li>▪ Benchmarking/Cost Estimate</li> </ul> <p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Corrective Action</li> <li>▪ Fiscal Monitoring</li> <li>▪ Performance Reporting</li> </ul>
Health and Human Services Commission	<i>An Audit Report on the Telecommunications Managed Services Contract at the Health and Human Services Commission</i> (Report No. 15-017, December 2014)	<ul style="list-style-type: none"> <li>▪ Telecommunications Managed Services</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$105.0 million <sup>d</sup></li> </ul>	<p><u>Planning:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Advisory Team</li> <li>▪ Contract Planning</li> <li>▪ Contract Review/Approval Process</li> <li>▪ Procurement Method</li> </ul> <p><u>Procurement:</u></p> <ul style="list-style-type: none"> <li>▪ Advertising Solicitation</li> <li>▪ Best Value</li> <li>▪ Contractor Selection</li> <li>▪ Proposal Evaluations</li> </ul> <p><u>Formation:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Terms</li> </ul>	<p><u>Procurement:</u></p> <ul style="list-style-type: none"> <li>▪ Conflicts of Interest</li> <li>▪ HUB Subcontracting Plan</li> </ul> <p><u>Formation:</u></p> <ul style="list-style-type: none"> <li>▪ Benchmarking/Cost Estimate</li> </ul> <p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Change Management Process</li> <li>▪ Contractor Compliance</li> <li>▪ Corrective Action</li> <li>▪ Fiscal Monitoring</li> <li>▪ Performance Monitoring</li> <li>▪ Performance Reporting</li> </ul>

**Assessment of Contract Management Processes for Selected Contracts at Each State Entity Audited  
From July 2012 through December 2014**

State Entity	State Auditor's Office Report	Type of Contract(s) Audited	Value of Contract(s) Audited	Strengths	Weaknesses
<b>Article III, Education</b>					
Texas Education Agency	<i>An Audit Report on Selected State Contracts at the Texas Education Agency</i> (Report No. 13-042, July 2013)	<ul style="list-style-type: none"> <li>▪ Student Assessment Services</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$462.2 million<sup>e</sup></li> </ul>	<u>Planning:</u> <ul style="list-style-type: none"> <li>▪ Contract Advisory Team</li> <li>▪ Procurement Method</li> </ul> <u>Formation:</u> <ul style="list-style-type: none"> <li>▪ Contract Terms</li> </ul> <u>Oversight:</u> <ul style="list-style-type: none"> <li>▪ Fiscal Monitoring</li> </ul>	<u>Planning:</u> <ul style="list-style-type: none"> <li>▪ Contract Planning</li> </ul> <u>Procurement:</u> <ul style="list-style-type: none"> <li>▪ Conflicts of Interest</li> <li>▪ Proposal Evaluations</li> </ul> <u>Formation:</u> <ul style="list-style-type: none"> <li>▪ Benchmarking/Cost Estimate</li> </ul> <u>Oversight:</u> <ul style="list-style-type: none"> <li>▪ Change Management Process</li> <li>▪ Contractor Compliance</li> <li>▪ Corrective Action</li> <li>▪ Performance Monitoring</li> <li>▪ Performance Reporting</li> </ul>
<b>Article V, Public Safety and Criminal Justice</b>					
Department of Public Safety	<i>An Audit Report on Selected Contracts at the Department of Public Safety</i> (Report No. 13-038, June 2013)	<ul style="list-style-type: none"> <li>▪ Revenue Collection Services</li> <li>▪ Aircraft Engine Rebuild Services</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$7.9 million<sup>f</sup></li> <li>▪ \$326,115</li> </ul>	<u>Planning:</u> <ul style="list-style-type: none"> <li>▪ Contract Planning</li> <li>▪ Procurement Method</li> <li>▪ Statement of Work</li> </ul> <u>Procurement:</u> <ul style="list-style-type: none"> <li>▪ Advertising Solicitation</li> </ul> <u>Formation:</u> <ul style="list-style-type: none"> <li>▪ Benchmarking/Cost Estimates</li> <li>▪ Contract Terms</li> </ul> <u>Oversight:</u> <ul style="list-style-type: none"> <li>▪ Performance Monitoring</li> </ul>	<u>Planning:</u> <ul style="list-style-type: none"> <li>▪ Contract Review/Approval Process</li> </ul> <u>Procurement:</u> <ul style="list-style-type: none"> <li>▪ Automated System Purchases</li> <li>▪ Best Value</li> <li>▪ Contractor Selection</li> </ul> <u>Oversight:</u> <ul style="list-style-type: none"> <li>▪ Change Management Process</li> <li>▪ Corrective Action</li> <li>▪ Fiscal Monitoring</li> </ul>



**Assessment of Contract Management Processes for Selected Contracts at Each State Entity Audited  
From July 2012 through December 2014**

State Entity	State Auditor's Office Report	Type of Contract(s) Audited	Value of Contract(s) Audited	Strengths	Weaknesses
Department of Criminal Justice	<i>An Audit Report on Selected Contracts at the Department of Criminal Justice</i> (Report No. 14-019, February 2014)	<ul style="list-style-type: none"> <li>▪ Private Facilities' Operations</li> <li>▪ Statewide Fuel Services</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$210.5 million (total payments through fiscal year 2013)</li> <li>▪ \$13.0 million (total payments for fiscal year 2013)</li> </ul>	<p><u>Planning:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Planning</li> <li>▪ Research for Procurement</li> </ul> <p><u>Procurement:</u></p> <ul style="list-style-type: none"> <li>▪ Advertising Solicitation</li> <li>▪ Contractor Selection</li> <li>▪ HUB Subcontracting Plan</li> <li>▪ Proposal Evaluations</li> <li>▪ Public Bid Opening</li> </ul> <p><u>Formation:</u></p> <ul style="list-style-type: none"> <li>▪ Benchmarking/ Cost Estimate</li> <li>▪ Contract Terms</li> </ul> <p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Fiscal Monitoring</li> </ul>	<p><u>Planning:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Review/Approval Process</li> </ul> <p><u>Procurement:</u></p> <ul style="list-style-type: none"> <li>▪ Conflicts of Interest</li> </ul> <p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Contractor Compliance</li> <li>▪ Corrective Action</li> <li>▪ Performance Monitoring</li> </ul>
<b>Article VI, Natural Resources</b>					
Commission on Environmental Quality	<i>An Audit Report on Information and Communications Technology Cooperative Contracts at the Commission on Environmental Quality</i> (Report No. 14-012, December 2013)	<ul style="list-style-type: none"> <li>▪ Deliverables-based Information Technology Services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Various</li> </ul>	<p><u>Planning:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Review/Approval Process</li> </ul> <p><u>Formation:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Terms</li> </ul> <p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Change Management Process</li> </ul>	<p><u>Planning:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Planning</li> </ul> <p><u>Procurement:</u></p> <ul style="list-style-type: none"> <li>▪ Automated System Purchases</li> <li>▪ Best Value</li> <li>▪ Conflicts of Interest</li> <li>▪ Contractor Selection</li> <li>▪ Proposal Evaluations</li> </ul> <p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Closeout</li> <li>▪ Corrective Action</li> <li>▪ Fiscal Monitoring</li> <li>▪ Performance Monitoring</li> <li>▪ Performance Reporting</li> </ul>

**Assessment of Contract Management Processes for Selected Contracts at Each State Entity Audited  
From July 2012 through December 2014**

State Entity	State Auditor's Office Report	Type of Contract(s) Audited	Value of Contract(s) Audited	Strengths	Weaknesses
Parks and Wildlife Department	<i>An Audit Report on Selected Contracts at the Parks and Wildlife Department</i> (Report No. 14-042, August 2014)	<ul style="list-style-type: none"> <li>▪ Reservations and Property Management System</li> <li>▪ License Sales System</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$8.0 million</li> <li>▪ \$14.5 million</li> </ul>	<u>Planning:</u> <ul style="list-style-type: none"> <li>▪ Contract Advisory Team</li> <li>▪ Contract Planning</li> <li>▪ Statement of Work</li> </ul> <u>Procurement:</u> <ul style="list-style-type: none"> <li>▪ Advertising Solicitation</li> <li>▪ HUB Subcontracting Plan</li> </ul> <u>Formation:</u> <ul style="list-style-type: none"> <li>▪ Contract Terms</li> </ul> <u>Oversight:</u> <ul style="list-style-type: none"> <li>▪ Corrective Action</li> </ul>	<u>Planning:</u> <ul style="list-style-type: none"> <li>▪ Contract Review/Approval Process</li> <li>▪ Research for Procurement</li> </ul> <u>Procurement:</u> <ul style="list-style-type: none"> <li>▪ Automated System Purchases</li> <li>▪ Best Value</li> <li>▪ Conflicts of Interest</li> <li>▪ Contractor Selection</li> <li>▪ Proposal Evaluations</li> </ul> <u>Oversight:</u> <ul style="list-style-type: none"> <li>▪ Change Management Process</li> <li>▪ Contractor Compliance</li> <li>▪ Fiscal Monitoring</li> <li>▪ Performance Monitoring</li> <li>▪ Performance Reporting</li> </ul>
<b>Article VII, Business and Economic Development</b>					
Department of Motor Vehicles	<i>An Audit Report on Contract Management at the Department of Motor Vehicles</i> (Report No. 12-043, July 2012)	<ul style="list-style-type: none"> <li>▪ Various</li> </ul>	<ul style="list-style-type: none"> <li>▪ Various</li> </ul>	<u>Procurement:</u> <ul style="list-style-type: none"> <li>▪ Advertising Solicitation</li> <li>▪ Conflicts of Interest</li> <li>▪ Proposal Evaluations</li> </ul> <u>Formation:</u> <ul style="list-style-type: none"> <li>▪ Contract Terms</li> </ul>	<u>Planning:</u> <ul style="list-style-type: none"> <li>▪ Contract Planning</li> <li>▪ Contract Review/Approval Process</li> <li>▪ Procurement Method</li> </ul> <u>Procurement:</u> <ul style="list-style-type: none"> <li>▪ Best Value</li> <li>▪ Contractor Selection</li> </ul> <u>Oversight:</u> <ul style="list-style-type: none"> <li>▪ Fiscal Monitoring</li> </ul>

**Assessment of Contract Management Processes for Selected Contracts at Each State Entity Audited  
From July 2012 through December 2014**

State Entity	State Auditor's Office Report	Type of Contract(s) Audited	Value of Contract(s) Audited	Strengths	Weaknesses
Department of Transportation	<i>An Audit Report on Selected Contracts at the Department of Transportation</i> (Report No. 13-044, July 2013)	<ul style="list-style-type: none"> <li>▪ Design Services</li> <li>▪ Construction</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$1.7 million</li> <li>▪ \$25.6 million <sup>g</sup></li> </ul>	<p><u>Planning:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Planning</li> <li>▪ Procurement Method</li> <li>▪ Research for Procurement</li> </ul> <p><u>Procurement:</u></p> <ul style="list-style-type: none"> <li>▪ Advertising Solicitation</li> <li>▪ Contractor Selection</li> <li>▪ Proposal Evaluations</li> <li>▪ Public Bid Opening</li> </ul> <p><u>Formation:</u></p> <ul style="list-style-type: none"> <li>▪ Benchmarking/ Cost Estimate</li> <li>▪ Contract Terms</li> </ul> <p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Fiscal Monitoring</li> <li>▪ Performance Monitoring</li> </ul>	<p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Change Management Process</li> <li>▪ Contractor Compliance</li> </ul>

**Assessment of Contract Management Processes for Selected Contracts at Each State Entity Audited  
From July 2012 through December 2014**

State Entity	State Auditor's Office Report	Type of Contract(s) Audited	Value of Contract(s) Audited	Strengths	Weaknesses
Texas Lottery Commission	<i>An Audit Report on the LatinWorks Marketing Contract at the Texas Lottery Commission</i> (Report No. 14-036, June 2014)	<ul style="list-style-type: none"> <li>▪ Advertising Services</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$104.0 million</li> </ul>	<p><u>Planning</u></p> <ul style="list-style-type: none"> <li>▪ Contract Planning</li> <li>▪ Contract Review/Approval Process</li> <li>▪ Procurement Method</li> </ul> <p><u>Procurement:</u></p> <ul style="list-style-type: none"> <li>▪ Advertising Solicitation</li> <li>▪ Best Value</li> <li>▪ Contractor Selection</li> <li>▪ HUB Subcontracting Plan</li> <li>▪ Proposal Evaluations</li> <li>▪ Public Bid Opening</li> </ul> <p><u>Formation:</u></p> <ul style="list-style-type: none"> <li>▪ Contract Terms</li> <li>▪ Payment Methodology</li> </ul> <p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Change Management Process</li> <li>▪ Performance Monitoring</li> <li>▪ Performance Reporting</li> </ul>	<p><u>Procurement:</u></p> <ul style="list-style-type: none"> <li>▪ Conflicts of Interest</li> </ul> <p><u>Oversight:</u></p> <ul style="list-style-type: none"> <li>▪ Fiscal Monitoring</li> </ul>

<sup>a</sup> The Department of Information Resources contracts for information resources technology products and related services. Local governments, school districts, assistance organizations, and other state governments use those contracts to obtain discounts.

<sup>b</sup> Amount shown in the table is the total of payments as of December 2013. The initial contract amount was \$19.8 million.

<sup>c</sup> Amount shown in the table is the total of payments as of December 2013. The initial contract amount was \$21.7 million.

<sup>d</sup> Amount shown in the table is the amended contract amount. The initial contract amount was \$47.9 million.

<sup>e</sup> Amount shown in the table is the amended contract amount. The initial contract amount was \$462.4 million.

<sup>f</sup> Amount shown in the table is the fees collected under the contract from July 2010 through March 2013.

<sup>g</sup> Amount shown in the table is the amended contract amount. The initial contract amount was \$25.0 million.

## ***Selected Processes and Procedures Reviewed During a Contracting Audit***

Table 3 presents selected processes and procedures that the State Auditor's Office reviewed during its audits of contracts at state entities from July 2012 through December 2014. Texas Government Code, Chapters 2261 and 2262, offer state entities guidance and direction in four areas related to contracting: contractor selection, contract provisions, payment and reimbursement methods, and contractor oversight.<sup>1</sup> Please note that this is a summary of the information included in the published audit reports. The scope of the audit work conducted varied among the reports. As a result, auditors may not have reviewed an individual state entity's processes in all of the contract management phases.

Table 3

<b>Selected Processes and Procedures That the State Auditor's Office Reviews During a Contracting Audit</b>	
<b>Processes/Procedures Reviewed</b>	<b>Description</b>
<b>Planning</b>	
Contract Advisory Team	Review the process the state entity followed to obtain and, if applicable, consider recommendations that the State's Contract Advisory Team make to improve the solicitation. The State's Contract Advisory Team was created to assist agencies in improving contract management practices as specified by Texas Government Code, Section 2262.101.
Contract Planning	Review the state entity's initial planning activities, including its identification of concerns or risks, assumptions and constraints, and contract objectives.
Contract Review/Approval Process	Review the state entity's processes for reviewing and approving solicitations and contracts. The could include determining whether a state entity's legal and management personnel reviewed the solicitation and/or contract prior to contract execution.
Procurement Method	Review the decision process the state entity used to determine its procurement method.
Research for Procurement	Review the research activities the state entity performed for the contract, such as the activities that the <i>State of Texas Contract Management Guide</i> recommends. That includes state entities contacting and interviewing agency staff; reviewing Web sites; and checking with universities, trade associations, and professional organizations.
Statement of Work	Review the state entity's planning activities for developing a description of what is required of a contractor to satisfactorily perform the work.
<b>Procurement</b>	
Advertising Solicitation	Determine whether the state entity advertised the solicitation in compliance with state laws, administrative rules, and the state entity's policies and procedures.
Automated System Purchases	For procurements involving telecommunications or information systems, determine whether the state entity complied with applicable statutory requirements and administrative rules.
Best Value	Review the state entity's process for ensuring the evaluation criteria included the best value considerations that the state entity outlined in the statement of work.

<sup>1</sup> See each audit report for specific statutory requirements applicable to each contract audited.

**Selected Processes and Procedures That the State Auditor's Office Reviews During a Contracting Audit**

Processes/Procedures Reviewed	Description
Conflicts of Interest	Review the activities the state entity performed to determine whether vendors, members of the bid evaluation team, and contract management personnel disclosed conflicts of interest or affirmed that no conflicts exist.
Contractor Selection	Determine whether the state entity selected a vendor based on the scoring evaluations.
Historically Underutilized Business (HUB) Subcontracting Plan	(Only for contracts with values of more than \$100,000.) Review the state entity's processes for determining whether each bid, proposal, offer, or other applicable expression of interest for the contract included a HUB subcontracting plan for contracts that may involve subcontracting opportunities.
Proposal Evaluations	Review the state entity's process for determining whether the evaluation criteria for selecting the vendor reflect the essential qualities or performance requirements necessary to achieve the objectives of the contract.
Public Bid Opening	Review the state entity's process for disclosing the names of the bidders that responded to a bid solicitation and determining whether the bidders' prices were publicly read and recorded.
<b>Formation</b>	
Benchmarking/Cost Estimate	Review the state entity's process for determining the reasonableness of the final contract price.
Contract Terms	Determine whether the contract contained all essential clauses required by statute and the <i>State of Texas Contract Management Guide</i> .
Payment Methodology	Review the state entity's process for developing an appropriate, cost-effective payment methodology in accordance with the <i>State of Texas Contract Management Guide</i> . Payments should be structured to fairly compensate and encourage complete performance of work in a timely manner.
<b>Oversight</b>	
Change Management Process	Review the state entity's process for amending the contract terms and conditions.
Contract Closeout	Review the state entity's process for verifying that all parties have fulfilled their contractual obligations.
Contractor Compliance	Review the state entity's process for ensuring that the contractor complies with significant terms of the contract.
Corrective Action	Review the state entity's process for managing corrective action taken to bring a contractor into compliance with the contract.
Fiscal Monitoring	Determine whether the state entity's payment process ensures that the contractor is paid in accordance with the payment methodology. That includes reviewing for activities such as ensuring that the contractor's billings coincide with the contractor's progress and ensuring that state entity staff review invoices prior to approval of payment.
Performance Monitoring	Determine whether the state entity's monitoring process ensures that the contractor is performing according to the terms of the contract.
Performance Reporting	Review the state entity's process for ensuring contractor compliance with selected reporting requirements.
Subcontractor Monitoring	Review the state entity's process for ensuring that the contractor adequately monitors the subcontractors associated with the contract.