TEXAS HIGHER EDUCATION
COORDINATING BOARD

P.O. Box 12788   Austin, Texas 78711

December 1, 2020

Dr. Harrison Keller
Commissioner of Higher Education
1200 E. Anderson Lane
Austin, TX 78752

Dear Dr. Keller,

I am attaching the final report of *A Review of Contract Administration at the Texas Higher Education Coordinating Board,* Report No. THECB-IA-WP-20-227. This report will be presented at the January 2021 Agency Operations Committee meeting.

The issues presented in this report resulted in a Category 2 Report Rating. These reports contain some observations. While the noted observations require management attention, if addressed timely they do not pose a significant risk for negative reputational or financial consequences.

If you have any questions or comments, please let me know.

Sincerely,

Mark A. Poehl, CPA, CIA, CISA, CFE
Assistant Commissioner, Internal Audit and Compliance

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EXECUTIVE SUMMARY

The contract administration process includes the life cycle of a grant and/or contract from start to finish and spans across multiple departments within the agency. The contract monitoring processes are generally effective in ensuring that contracts are administered in accordance with the Coordinating Board (CB) rules and related statutes. However, improvement is needed to reduce risk and strengthen controls, including:

- Divisional policies and procedures did not document step by step contract monitoring processes;
- Access to BMS was not current; and
- Content of the executed contract did not agree with the supporting documentation listed in the Agency's Business Management System (BMS).

We appreciate the assistance provided by College Readiness and Success (CRS) Division, and General Counsel staff members during this review.

Please see *Detailed Observations, Recommendations, and Management Responses* section for additional information.

Audit Objective, Scope and Methodologies

Our review objective was to review contract monitoring processes of CRS contracts.

The scope of our review included the current procurement and/or service contract monitoring processes according to:

1. The Coordinating Board policies and procedures
2. The State of Texas Contract Management Guide
3. Agency's Contract and Grant Policies, Chapter U-01, and
4. CRS internal controls procedures, which are the Division's Policies and Procedures for contract administration.

We interviewed appropriate CB staff, collected data, and performed testing to address the review objective.

We conducted this review in conformance with the *International Standards for the Professional Practice of Internal Auditing.* Additionally, we conducted this review in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our review objectives. We believe that the evidence obtained provides a

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reasonable basis for our findings and conclusions based on our review objectives. We further acknowledge that, as internal auditors, we are independent according to the requirements specified in Government Auditing Standards. Our consideration of internal control was for the compliance purposes described in the objective/scope section and was not designed to identify all deficiencies in internal control.

Background and Observations

A review of contract administration was included on the 2020 Internal Audit Plan. The contract administration process is centralized and automated with the use of the BMS which is an enterprise database system customized and administered by THECB.

Detailed Observations, Recommendations, and Management Responses

1. **Divisional procedures did not document step by step contract monitoring processes, and a recently developed agency-level monitoring document can be improved.**

   Divisional procedures did not document step by step contract monitoring processes, and a recently developed agency-level monitoring document can be improved.

   The internal controls document that CRS provided, had a brief section on monitoring, but was not comprehensive which reduced its usefulness. The document's monitoring section did not provide a detailed description and step by step procedures by contract types including grant contracts, service contracts, and procurement contracts. Detailed step by step procedures can improve usefulness and mitigate risks by promoting operational consistency and business continuity.

   Detailed monitoring procedures can address several things to make them more useful to employees, such as,

   - Checklists
   - Tutorials
   - Forms
   - Screenshots
   - Process maps

   An agency-level monitoring checklist that was recently developed can be improved to be completer and more useful.

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Checklists are tools used to better organize assignments and to easily verify important tasks. Well-designed checklists reduce errors and ensure consistency and completeness of the intended purpose. The agency-level checklist can be improved by:

- documenting steps in a question or statement form in sequential order, or based on significance,
- identifying expected outcomes of each step
- Addressing who should complete the checklist, and how the completion should be documented
- Establishing version control – when was the checklist most recently updated and how often is it reviewed?

The next observation further discusses that an attachment was referenced in an executed contract but was not attached to the contract and this error was overlooked by both CRS staff and the agency contract staff. A comprehensive and useful checklist may have prevented this error.

Recommendations:

1. Expand CRS written policies and procedures governing the monitoring of contracts.
2. Strengthen the agency-wide monitoring checklist to make it more comprehensive and useful for agency staff.

Management Response:

Management agrees with the recommendations.

The College Readiness and Success division will assign an internal control lead to improve the division monitoring document. Grants staff in the College Readiness and Success division will work with the Academic Quality and Workforce division and the Director of Grants and Contracts to review the checklist. They will share lessons learned and best practices in grant monitoring to help develop the checklist.

The Business Management System (BMS) is the THECB's contract routing and payment system. Prior to activation in the BMS system, all contracts and grants no matter the dollar threshold, follow a series of approval checkpoints, including "two or more officials" as noted in the Recommendations.

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Pre-Execution: A contract is electronically routed for approval beginning with the Division Manager, Division Supervisor, Division Assistant Commissioner, Contracts, Legal, Financial Services and lastly by a Deputy Commissioner. BMS approval workflows exceed the approval requirements outlined in THECB's 19 TAC Rule §1.16.

Implementation Date:

The lead role will be assigned by December 1 and the checklist will be completed and incorporated into division internal controls by March 2020.

Responsible Party (ies):

- Ray Martinez, Deputy Commissioner for Academic Quality and Workforce
- Jerel Booker, Assistant Commissioner for College Readiness and Success
- Linda Natal, Director Grants and Contracts, Office of General Counsel

2. **Content of the executed contract did not agree with the supporting documentation listed in BMS, and agency-wide approval chain requirements were not identified in written procedures.**

Content of the executed contract did not agree with the supporting documentation listed in BMS and agency-wide approval chain requirements were not identified in written procedures.

A service contract was executed within the contract period, and payment was made appropriately to the vendor. However, an attachment as referenced in the contract was not attached to the executed contract. A strengthened monitoring procedure by CRS (discussed in the prior observation and recommendation) and the contract coordinator would better position the agency to ensure that contract documentation in BMS is complete.

Additionally, according to the contract coordinator, each contract should be approved by at least two agency officials regardless of dollar thresholds. Though the contracts we reviewed were approved by two or more officials, this requirement was not stated in written procedures.

Recommendations:

1. Implement monitoring procedures to ensure contracts are monitored accurately, as described in the recommendation to the first observation, above.

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2. Expand agency-wide guidance to address the requirement that all contracts be approved by two or more agency officials.

Management Response:

Management for the Division of College Readiness and Success (CRS) agrees with the recommendation.

CRS will work closely with agency staff and the Director of Grants and Contracts to ensure contracts are monitored accurately. The division will also train all staff on the new processes and procedures.

The Business Management System (BMS) is the THECB's contract routing and payment system. Prior to activation in the BMS system, all contracts and grants no matter the dollar threshold, follow a series of approval checkpoints, including "two or more officials" as noted in the Recommendations.

Pre-Execution: A contract is electronically routed for approval beginning with the Division Manager, Division Supervisor, Division Assistant Commissioner, Contracts, Legal, Financial Services and lastly by a Deputy Commissioner. BMS approval workflows exceed the approval requirements outlined in THECB's 19 TAC Rule §1.16.

Obtaining Signatures: Contracts are currently approved by 7 agency officials, including Legal, Assistant Commissioner, and a Deputy Commissioner. Once approved by Deputy Commissioner, contract is ready to be signed both externally and internally. This process occurs outside the BMS system.

Post-Execution: Once a contract has been dually signed, division staff uploads the executed contract into BMS and escalates the BMS record in the workflow to "signed by contracted party" back to the Contracts team for final review and edit.

In response to the contract found to have the audit finding (#21664 for $5,000), as the contract was routing for approval, the Contracts team flagged and noted the following:

- The contract referenced a schedule, but it was missing on the contract
- Inquired about travel costs
- Asked clarification on the contracted party
- The record was sent back to staff for revising and the schedule was included with the contract as it re-routed in BMS for approval.

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The Contracts team did ensure the contract was dually signed before activating, completed vendor verifications, and after contract competition collected a Contract Close-out form, but overlooked the missing schedule on the executed contract. As noted in the audit report, the contract was executed within the contract period and payment was made appropriately to the vendor.

Implementation Date:

Completion of the monitoring checklist will be no later than March 2021, and the training will be provided to those staff taking on management responsibilities moving forward.

To prevent similar findings, the Contracts team has taken immediate action and implemented the following to their contract review checklist "referenced exhibits/schedules/attachments included in contract pre and post execution."

Responsible Party (ies):

- Ray Martinez, Deputy Commissioner for Academic Quality and Workforce
- Jerel Booker, Assistant Commissioner for College Readiness and Success
- Linda Natal, Director Grants and Contracts, Office of General Counsel

3. User access to BMS was not current.

User access to BMS was not current. Our review of the CRS quarterly access report provided by Information Solutions and Services (ISS) found two staff who left the agency and were still listed under the quarterly report. CRS did not review the quarterly report for the quarter we reviewed. ISS sent an email to CRS with a report review deadline and followed up once with CRS after the deadline but did not receive a response. ISS did not have a process to escalate the non-response to executive management to ensure that the review was performed. Additionally, ISS written procedures over the access review process were outdated and included a contract/distribution list with employees who were no longer with the agency when the report was sent to CRS and other divisions for review.

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Recommendations:

1. Respond to quarterly access review reports in a timely manner.
2. Ensure that ISS has a current contact list and strengthen the procedures to escalate non-responsive managers to executive management to ensure Divisions submit their reviewed quarterly report timely.

Management Response:

Management agrees with the recommendation.

A new lead staffer has been designated in the Division of College Readiness & Success to respond to the reports in a timely manner.

ISS has updated the Quarterly Review Instructions document. A new section "Escalation Process" has been added to the document to help ensure divisions submit their review responses timely.

Implementation Date:

This has been implemented.

Responsible Party (ies):

- Jerel Booker, Assistant Commissioner for College Readiness and Success
- Zhenzhen Sun, Assistant Commissioner for Information Solutions and Services/Chief Information Officer

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PERFORMED BY:

Mr. Aporajita Ahmed, CPA, CFE, CITP, CGMA, CICA, Certified Cybersecurity Professional, Internal Audit lead

cc:

THECB

Board Members

Commissioner's Office

Mr. Rey Rodriguez, Deputy Commissioner and Chief of Staff
Ms. Nicole Bunker-Henderson, General Counsel
Mr. Ray Martinez, Deputy Commissioner for Academic Quality and Workforce
Mr. Jerel Booker, Assistant Commissioner for College Readiness and Success
Ms. Zhenzhen Sun, Assistant Commissioner for Information Solutions and Services

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