



# TEXAS HIGHER EDUCATION COORDINATING BOARD

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October 23, 2019

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

Dear Dr. Keller:

I am attaching the final report for the *Review of Contract Management at the Texas Higher Education Coordinating Board*, Report No. THECB-IA-WP-19-214. This report will be presented at the January 2020 Agency Operations Committee meeting.

The issues presented in this report resulted in a Category 1 Report Rating. These reports contain no or minimal reportable 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,

A handwritten signature in black ink that reads "Mark A. Poehl".

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

## EXECUTIVE SUMMARY

Current practices with regard to competitive grant selection meet current statutes, rules, and policies. Additional evaluation of risks and controls over competitive grants are needed to ensure that potential reputational risks to the Coordinating Board are appropriately identified and mitigated.

The Coordinating Board should review its current policies and controls for grantee selection with regard to the risks and best practices, and revise policies and controls as necessary to adequately address potential reputational risks including bias in the selection process.

### Review Objective, Scope and Methodologies

The project objective was to review certain aspects of contract management for compliance, effectiveness, and efficiency. Based on risk, our scope was refined to review current processes in the selection process for competitive grants. The audit included reviewing relevant documentation related to the review area, performing various testing to address the review objectives, and interviewing appropriate THECB staff.

We conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Additionally, 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.

### Background

Contract administration is the subject of ongoing review by Internal Audit, given the continuing interest of stakeholders to ensure that inherent risks are adequately controlled. This review focused on an employee complaint that questioned, among other items, the current Coordinating Board practices for grantee selection for competitive grants. The complaint alleged that the selection practices for a specific grant originating in the College Readiness and Success division were not appropriate because the grantee selection process did not follow the same process as vendor selection for contracts. However, there are less stringent requirements for competitive grants than for vendor contracts. The Coordinating Board's current policies and procedures meet the less stringent requirements for competitive grants.

Even though the current competitive grant practice meets requirements, the less restrictive policies and procedures allowed the program manager, in this instance, significantly more latitude in grantee selection, leaving a greater potential for bias in the selection process. The primary restriction on the grantee selection process is that the selection process is disclosed in the grant application materials and often includes a selection committee that scores applications on a predetermined rubric.

Unlike competitive grants, the current process for contract vendor selection is more restrictive. Vendor selection must follow state procurement statutes and rules that include specific rules requiring vendor selection committees and their operation, such as limiting communication between members of the selection committee and vendors. These additional restrictions limit potential bias in the selection process.

In addition to the differences between contracts and grants, there are also differences in grant management depending on the division and the grant. For example, some grants use a grantee selection process that is very similar to contracts, while others are much less restrictive. Although this provides flexibility, it introduces risk for potential bias in the selection process at the agency level. Two other Texas state agencies that we reviewed provide agency-wide policies that are more restrictive. Both Texas Education Agency and the Texas Health and Human Services Commission manage competitive grants the same as contracts.

The audit team greatly appreciates the efforts of program staff and assistance during this project.

## Detailed Observation, Recommendation, and Management Response

### **1. Coordinating Board policies and procedures for competitive grant selection need review with regard to the risks and best practices, and revision of policies and controls as necessary to adequately address bias risk and limit reputational harm.**

Coordinating Board policies and procedures for competitive grant selection need review with regard to the risks and best practices, and revision of policies and controls as necessary to adequately address bias risk and limit reputational harm.

Effective internal controls include identifying and analyzing risks and selecting and deploying appropriate controls through policies and procedures. (COSO Internal Control principles 7 and 12). The Coordinating Board manages a broad range of grant types, from formulaic to competitive in nature. Our review disclosed that structure and guidance for competitive grant administration at the Coordinating Board appears less restrictive than how some other state agencies administer grants. Guidance over competitive grants administered by the Coordinating Board should be evaluated and expanded in the context of bias risks and how to appropriately mitigate such risks. For example, current guidance does not explicitly address competitive grant manager/reviewer discussions regarding applications that are intended to unduly influence a fellow reviewer, nor does it address the propriety of adding additional reviewers, after the review process is well under way, simply to achieve the grant manager's desired outcome.

Examples of potential bias risk include the ability of program managers or others to a) influence reviewers of applications in discussions separate from the application review process, b) influence reviewers to change scores, c) choose, add, or replace reviewers that are favorable to the program manager's choices, and d) override the preferred choice of the reviewers.

A risk assessment of the competitive grant process would provide an opportunity to identify and analyze these bias risks. As part of the Coordinating Board's updated risk management policy, risk assessments are required to be completed by each division and department by November 1, 2020.

**Recommendations:**

- A. Conduct a current risk assessment of the competitive grants selection process.
- B. Review and revise policies and procedures with regard to competitive grants to address bias risk.

**Management Response:**

Management acknowledges that a risk assessment will be performed regarding the competitive grants selection process. Based on the results of the risk assessment, policies and procedures will be modified as appropriate.

**Implementation Date:**

A risk assessment and any resulting changes to policies and procedures will be performed by January 31, 2020.

**Responsible Party (ies):**

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

**PERFORMED BY:**

Mr. Paul Maeyaert, JD, MBA, CIA, CGAP, CFE, Assistant Director, Internal Audit and Compliance

cc:

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