



A Report on Recent Contracting Audits

Background

- 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:
 - Contract Planning.
 - Contract Procurement.
 - Contract Formation.
 - Contract Oversight.
- 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.

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Overall Conclusion:

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

- **Contract Planning:** The majority of state entities documented their planning efforts. For the audit reports that discussed the State's Contract Advisory Team, most state entities had submitted the solicitations for the contracts audited as required.
- **Contract Formation:** Most state entities audited ensured that the contracts audited included provisions required by the *State of Texas Contract Management Guide*.

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Overall Conclusion (continued):

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

- **Contract Procurement:**

- State entities did not consistently maintain documentation of proposal evaluation processes and/or document their determinations of best value.
- Of the reports that discussed conflicts of interest, the majority did not adequately identify and/or document conflicts of interest.

- **Contract Oversight:** Auditors identified opportunities to improve contract oversight activities for all contracts audited in the following areas:

- Monitoring contractor performance and compliance with the contract terms.
- Implementing corrective action.
- Processing payments.
- Amending contracts.
- Complying with certain reporting requirements.

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Summary of Audit Results:

- Of the 14 contracting audit reports released, 2 reports 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. Those contracts were:
 - A design services contract and a construction contract at the Department of Transportation.
 - A marketing contract at the Texas Lottery Commission.
- Of the 14 contracting audit reports released, one report—the audit of the HealthSelect contract at the Employees Retirement System—identified weaknesses in all contract management phases.
- In addition, 2 reports on contracts valued at more than \$100 million identified significant weaknesses in the state entities' processes for procurement, formation, and oversight of the contract. Those contracts were:
 - A student assessment services contract at the Texas Education Agency.
 - A telecommunications managed services contract at the Health and Human Services Commission.