

Texas Department of Licensing and Regulation

IA# 2021-01 Internal Audit Report over Contract
Administration

Report Date: September 20, 2021

Issued: September 27, 2021

CONTENTS

| | Page |
|---|------|
| Internal Audit Report Transmittal Letter to the Commission..... | 1 |
| Background..... | 2 |
| Audit Objective and Scope | 3 |
| Executive Summary | 4 |
| Conclusion..... | 5 |
| Detailed Procedures Performed, Findings, Recommendations and Management Response..... | 7 |
| Objective A: Design of Internal Controls | 8 |
| Objective B: Effectiveness of Internal Controls..... | 10 |
| Objective C: PSI Contract Review | 11 |
| Appendix | 13 |



Commissioners of the
Texas Department of Licensing and Regulation
920 Colorado St.
Austin, TX 78701

This report presents the results of the internal audit procedures performed for Texas Department of Licensing and Regulation (TDLR) during the period December 4, 2020 through September 20, 2021, relating to the contract administration processes.

The objectives of this internal audit were to evaluate the design and effectiveness of TDLR's contract administration processes as follows:

- A. Determine whether internal controls over contract administration processes are designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.
- B. Verify that controls over selected critical processes within contract administration processes are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.
- C. Verify that controls over selected critical processes with the PSI contract processes are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.

Our procedures included performing interviews with key personnel responsible for the contract administration processes to gain an understanding of the current processes in place, examining existing supporting documentation, and evaluating the internal controls over the processes. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from September 1, 2020, through December 31, 2020.

The following report summarizes the findings identified, risks to TDLR, recommendations for improvement and management's responses.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Austin, Texas
September 20, 2021

Weaver and Tidwell, L.L.P.
1601 South MoPac Expressway, Suite D250 | Austin, Texas 78746
Main: 512.609.1900

CPAs AND ADVISORS | WEAVER.COM

Texas Department of Licensing and Regulation

IA# 2021-01 Internal Audit Report over Contract Administration
September 20, 2021
Issued: September 27, 2021

Background

Texas Department of Licensing and Regulation (TDLR or the agency) is the state agency responsible for licensing and regulating a broad range of occupations, businesses, facilities, and equipment. TDLR has several different types of contracts including, but not limited to: contracts for goods and services, Memorandums of Understanding (MOUs), and interagency contracts (IAC).

TDLR enters into contracts for goods and services of various dollar amounts, when the agency feels a contract is appropriate to execute a purchase. Many of TDLR's contracts for goods or services are related to various division resources within the agency or other professional services. MOUs and IACs are utilized by TDLR when an agreement is with another agency or governmental organization. These agreements can be for an exchange of goods or services between the two governmental entities when the agreements do not have financial consideration attached to the contract.

TDLR uses a template for its contracts that has been reviewed and approved by the Office of the General Counsel. This template is used to create contracts that the General Counsel then reviews. Once the review is complete and a contract has been awarded, following the required solicitation process, the contract is given to the contract manager to obtain the appropriate signatures to execute the contract with the third party.

To manage the agency's contracts, TDLR has deployed a centralized model to monitor its various contracts. TDLR uses the Centralized Accounting and Payroll/Personnel System (CAPPS) to manage the existing contracts with a financial component. CAPPS tracks the contract amount, contract beginning date, and contract end date. TDLR contract owners can be contract managers, who are responsible for ensuring compliance with the contract, monitoring contract expiration/renewal dates, and ensuring that goods or services have been received prior to authorizing invoices for payment. Contract owners and managers are independently responsible for ensuring compliance with the contract and for retaining supporting documentation for the compliance monitoring of the contract.

One of TDLR's primary contracts is with PSI Services LLC (PSI). PSI provides examination services and oversees the examinations for many of TDLR's various license types. PSI meets regularly with TDLR and subject matter experts to facilitate any exam changes that may be required. During the past year, PSI and TDLR worked together to provide remote based testing for license candidates versus the traditional testing center approach. PSI is required to report the number of test takers who do not show up for the exams, exams withheld, daily pass and fail figures, and ADA accommodations reports on a monthly basis.

Texas Department of Licensing and Regulation

IA# 2021-01 Internal Audit Report over Contract Administration
September 20, 2021
Issued: September 27, 2021

Audit Objective and Scope

The audit focused on the Texas Department of Licensing and Regulation contract administration processes in place for the various contract types (e.g., MOUs, purchase contracts, and IACs) within the divisions of the Department that have responsibilities to administer contracts for the agency. We reviewed the procedures in place for appropriate risk and regulatory coverage and compliance to ensure efficient and effective processes related to contract administration. Key functions and sub-processes within the contract administration process reviewed included:

- Contract Development
- Contract Compliance
- Contract Management
- Contract Renewals
- Contract Closeout
- Professional Services Reporting

Our procedures were designed to ensure relevant risks were covered and verify the following:

Contract Development

- Contract terms and conditions are identified and documented for different contract types
- Contract terms and delivery dates are clearly identified
- Contracts are authorized and executed by appropriate individuals based on contract type

Contract Management

- Changes, renewals, modifications, and/or amendments to existing contracts are appropriately addressed by authorized individuals
- Contract modifications are appropriately reviewed and approved
- Contract listings are complete
- Contract managers have adequate training to maintain certification

Contract Compliance

- Contract invoices are reviewed for compliance with contract terms
- Contract performance is monitored or managed to ensure timely delivery of services, compliance with contract terms, and performed as agreed
- Contract performance terms are defined
- Contract budgets are monitored
- Contract elements are in compliance with state requirements

Contract Renewals

- Contract dates and duration are monitored
- Contracts that are set to renew are renewed timely and appropriately
- Extensions and renewals are appropriately identified and approved

Contract Closeout

- Contract expiration dates are monitored
- Contract terms and conditions are verified and documented as complete
- Key documents for the various contract types are retained according to agency requirements

Texas Department of Licensing and Regulation
IA# 2021-01 Internal Audit Report over Contract Administration
September 20, 2021
Issued: September 27, 2021

Professional Services Reporting

- Contractor performance evaluations are completed and reported
- Reporting to cooperatives and or state tracking systems are timely
- Reporting professional services results to appropriate management

The scope of this audit did not include procurement processes.

The objectives of this internal audit were as follows:

- A. Determine whether internal controls over contract administration processes are designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.
- B. Verify that controls over selected critical processes within contract administration processes are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.
- C. Verify that controls over selected critical processes with the PSI contract processes are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.

Our procedures included interviewing key personnel within the within the Department that have responsibilities in contract administration to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from September 1, 2020, through December 31, 2020.

Executive Summary

Through our interviews, evaluation of internal control design and testing of transactions we identified two findings. The listing of findings include those items that have been identified and are considered to be non-compliance issues with documented TDLR policies and procedures, rules and regulations required by law, or where there is a lack of procedures or internal controls in place to cover risks to TDLR. These issues could have significant financial or operational implications.

A summary of our results, by audit objective, is provided in the table below. See *the Appendix for an overview of the Assessment and Risk Ratings*.

Texas Department of Licensing and Regulation
 IA# 2021-01 Internal Audit Report over Contract Administration
 September 20, 2021
 Issued: September 27, 2021

| | |
|---------------------------|---------------------|
| OVERALL ASSESSMENT | SATISFACTORY |
|---------------------------|---------------------|

| SCOPE AREA | RESULT | RATING |
|---|---|---------------------|
| <p>Objective A: Determine whether internal controls over contract administration processes are designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.</p> | <p>We identified 18 controls to be in place in the process. However, we identified opportunities to improve the process and control environment, including:</p> <ul style="list-style-type: none"> • Identifying and documenting all contracts including MOUs and IACs for a complete contract listing • Monitoring training requirements for Certified Texas Contract Managers | SATISFACTORY |
| <p>Objective B: Verify that controls over selected critical processes within contract administration processes are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.</p> | <p>Controls are in place and appear to be consistently executed.</p> | STRONG |
| <p>Objective C: Verify that controls over selected critical processes with the PSI contract processes are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.</p> | <p>Controls are in place and appear to be consistently executed.</p> | STRONG |

Conclusion

Based on our evaluation, TDLR has limited procedures, practices, and controls to mitigate risks within the significant contract administration processes. We identified opportunities to strengthen the processes, formalize the procedures performed, and improve the effectiveness of controls within the divisions of the Department that have responsibilities to administer contracts for the agency.

Texas Department of Licensing and Regulation

IA# 2021-01 Internal Audit Report over Contract Administration

September 20, 2021

Issued: September 27, 2021

TDLR should work on maintaining a master inventory of all contract types and their associated information. Next, TDLR should develop a Certified Texas Contract Manager (CTCM) training tracking system to ensure compliance with state training requirements.

Follow-up procedures will be performed in Fiscal Year 2022 to evaluate the effectiveness of remediation efforts taken to address the findings.

**Detailed Procedures Performed, Findings,
Recommendations and Management
Response**

Texas Department of Licensing and Regulation
IA# 2021-01 Internal Audit Report over Contract Administration
September 20, 2021
Issued: September 27, 2021

Detailed Procedures Performed, Findings, Recommendations and Management Response

Our procedures included interviewing key personnel within the divisions of the Department that have responsibilities in managing and/or monitoring contract administration to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from September 1, 2020, through December 31, 2020.

Objective A: Design of Internal Controls

Determine whether internal controls over contract administration processes are designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.

Procedures Performed: We conducted interviews with key personnel within the divisions of the Department that have responsibilities in managing and/or monitoring contract administration to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. We documented our understanding of the processes and identified internal controls over the following sub processes:

- Contract Development
- Contract Compliance
- Contract Management
- Contract Renewals
- Contract Closeout
- Professional Services Reporting

We evaluated the controls identified against expected controls to determine whether the identified reoccurring contract administration processes and internal controls are sufficiently designed to mitigate the critical risks associated with the contract administration sub-processes. We identified any unacceptable risk exposures due to gaps in the existing control structure as well as opportunities to strengthen the effectiveness and efficiency of the existing procedures.

Texas Department of Licensing and Regulation
 IA# 2021-01 Internal Audit Report over Contract Administration
 September 20, 2021
 Issued: September 27, 2021

Results: We identified 18 controls in place over the significant activities within the contract administration processes. We also identified four findings where improvements in the process can be made.

| Process Area | Control Coverage | Findings |
|---------------------------------|------------------|--------------------------------------|
| Contract Development | 4 | |
| Contract Management | 8 | Finding-1 Finding-2 |
| Contract Compliance | 2 | Finding-1 |
| Contract Renewals | 3 | Finding-1 |
| Contract Closeout | 2 | Finding-1 |
| Professional Services Reporting | 2 | |
| Total: | 21* | 2 |

***Duplicate Control:** The total number of identified controls is 18. However, based on their design, controls address risks in multiple processes. We have mapped the 18 unique controls to the 21 instances within the processes where the controls mitigate the risks within the processes.

Finding 1 – Moderate – Complete Contract Listing

TDLR does not have a complete detailed listing of all contracts, including MOU's and IAC's. Currently, TDLR uses CAPPs for their contract listings that have a direct financial impact; however, the contract listing does not include the MOU's or IAC's without a financial component.

Recommendation: TDLR should identify and document all MOU's and IAC's within CAPPs to help ensure that all contracts are tracked. CAPPs should capture the key contract information including termination date, approvals and contract type so the agency can easily track all open contracts.

Management Response:

Responsible Party:

Implementation Date:

Finding 2 – Moderate – Monitoring of CTCM Training

TDLR relies on the Texas Comptroller of Public Accounts (CPA) Certified Texas Contract Manager (CTCM) certification system to track and monitor their compliance with the ongoing training requirements. The agency does not have a monitoring system in place to ensure that the certified Contract Managers maintain compliance with the CPA training requirements.

Texas Department of Licensing and Regulation
IA# 2021-01 Internal Audit Report over Contract Administration
September 20, 2021
Issued: September 27, 2021

Recommendation: TDLR should utilize a centralized training tracking system to ensure that contract managers are in compliance with the required CTCM training and ensure training is recorded and documented for TDLR records.

Management Response: Management concurs. TDLR currently has a human resources database that allows the agency to track various data regarding its employees. The agency is already using a feature of the database which alerts employees when required periodic training is due, such as ethics, diversity and non-discrimination, and cybersecurity. The database also has a feature that allows the agency to enter any licenses, certifications, or credentials an employee must hold to be employed in a particular position, such as the requirement to hold various boiler inspector certifications and credentials to be employed as a boiler inspector. This feature will then notify Human Resources and the employee when any license, certification or credential is due to expire and must be renewed. TDLR will enter all license, certification, and credential information for all relevant employees and then will have the database start sending notifications to those employees, including who are required to hold contract management certification.

Responsible Party: Human Resources Division Director
Implementation Date: December 1, 2021

Objective B: Effectiveness of Controls

Verify that controls in place over selected critical processes within contract administration processes are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring. The testing of controls was limited to the following sub-processes where controls were identified to be in place and operating.

Contract Development

Procedure Performed: We selected 20 of 55 procurement contracts and obtained supporting documentation to verify that contract terms and conditions, including delivery dates, were clearly identified and documented.

Results: No findings identified.

Contract Management

Procedure Performed: We selected 20 of 55 procurement contracts and obtained supporting documentation to verify that contracts, contract changes, renewals, modifications, and/or amendments were authorized and executed by appropriate and authorized individuals.

Results: No findings identified

Texas Department of Licensing and Regulation
IA# 2021-01 Internal Audit Report over Contract Administration
September 20, 2021
Issued: September 27, 2021

Contract Close-out

Procedure Performed: We selected all three procurement contracts that went through the close-out process within the scope of the audit. We obtained supporting documentation to verify that contracts contract terms and conditions are verified and documented as complete and that key documents for the various contract types are retained according to agency requirements.

Results: No findings identified

Professional Services Reporting

Procedure Performed: We selected 7 of 68 procurement contracts with maximum amounts in excess of \$25,000 and requested supporting documentation to verify that contractor performance evaluations were completed and reported to the state of Texas' Vendor Performance Tracking System in a timely manner. The selected sample were determined to be interagency contracts, Interlocal agreements, or memoranda of understanding and not required to be reported.

Results: The selected procurement contracts were MOUs or IACs that do not require vendor performance to be reported to the Texas Vendor Performance Tracking System. The contract listing that was provided did not identify a contract type field to help identify the contracts requiring vndor performance reporting.

Finding 1 – Moderate – Complete Contract Listing

Objective C: Effectiveness of Controls for the PSI Contract

Verify that controls over selected critical processes with the PSI Contract processes are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.

Contract Development

Procedure Performed: We reviewed the PSI contract and amendment. We obtained supporting documentation to verify that contract terms and conditions, including delivery dates, were clearly identified and documented.

Results: No findings identified.

Contract Management

Procedure Performed: We reviewed the PSI contract and amendment. We obtained supporting documentation to verify that contracts, contract changes, renewals, modifications, and/or amendments were authorized and executed by appropriate and authorized individuals.

Results: No findings identified

Texas Department of Licensing and Regulation

IA# 2021-01 Internal Audit Report over Contract Administration

September 20, 2021

Issued: September 27, 2021

Contract Renewal

Procedure Performed: We reviewed the PSI contract and amendment. We obtained supporting documentation to verify that contract dates and duration are monitored, renewed timely and appropriately, and are appropriately identified and approved.

Results: No findings identified

Professional Services Reporting

Procedure Performed: We selected the PSI contract and amendment. We obtained supporting documentation to verify that contractor performance evaluations were completed and reported to the state of Texas' Vendor Performance Tracking System in a timely manner.

Results: No findings identified.

Appendix

Texas Department of Licensing and Regulation
IA# 2021-01 Internal Audit Report over Contract Administration
September 20, 2021
Issued: September 27, 2021

The appendix defines the approach and classifications utilized by Internal Audit to assess the residual risk of the area under review, the priority of the findings identified, and the overall assessment of the procedures performed.

Report Ratings

The report rating encompasses the entire scope of the engagement and expresses the aggregate impact of the exceptions identified during our test work on one or more of the following objectives:

- Operating or program objectives and goals conform with those of TDLR
- TDLR objectives and goals are being met
- The activity under review is functioning in a manner which ensures:
 - Reliability and integrity of financial and operational information
 - Effectiveness and efficiency of operations and programs
 - Safeguarding of assets
 - Compliance with laws, regulations, policies, procedures and contracts

The following ratings are used to articulate the overall magnitude of the impact on the established criteria:

Strong

The area under review meets the expected level. No high risk rated findings and only a few moderate or low findings were identified.

Satisfactory

The area under review does not consistently meet the expected level. Several findings were identified and require routine efforts to correct, but do not significantly impair the control environment.

Unsatisfactory

The area under review is weak and frequently falls below expected levels. Numerous findings were identified that require substantial effort to correct.

Texas Department of Licensing and Regulation

IA# 2021-01 Internal Audit Report over Contract Administration
September 20, 2021
Issued: September 27, 2021

Risk Ratings

Residual risk is the risk derived from the environment after considering the mitigating effect of internal controls. The area under audit has been assessed from a residual risk level utilizing the following risk management classification system.

High

High risk findings have qualitative factors that include, but are not limited to:

- Events that threaten the TDLR's achievement of strategic objectives or continued existence
- Impact of the finding could be felt outside of TDLR or beyond a single function or department
- Potential material impact to operations or the TDLR's finances
- Remediation requires significant involvement from TDLR management

Moderate

Moderate risk findings have qualitative factors that include, but are not limited to:

- Events that could threaten financial or operational objectives of TDLR
- Impact could be felt outside of the TDLR or across more than one function of the agency
- Noticeable and possibly material impact to the operations or finances of TDLR
- Remediation efforts that will require the direct involvement of functional leader(s)
- May require senior TDLR management to be updated

Low

Low risk findings have qualitative factors that include, but are not limited to:

- Events that do not directly threaten the TDLR's strategic priorities
- Impact is limited to a single function within TDLR
- Minimal financial or operational impact to TDLR
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk