



An Audit Report on

**Contracting Processes in the  
Parks and Wildlife Department's  
Infrastructure Division**

December 2017

Report No. 18-008



# Contracting Processes in the **Parks and Wildlife Department's** Infrastructure Division

## Overall Conclusion

**The Parks and Wildlife Department's** (Department) Infrastructure Division (Division) had processes and related controls for capital construction projects and associated design and construction contracts to help ensure that:

- It performed required planning to identify project needs and develop a plan to meet those needs.
- For design contracts, it appropriately solicited proposals in accordance with requirements, received and documented vendor responses, notified contracting staff of the recommendation to award, and reviewed and approved the contracts.
- For construction contracts, it issued appropriate solicitations; obtained, reviewed, and approved vendor responses; evaluated and scored responses using consistent evaluation criteria; and appropriately documented its contractor selection.
- It administered and monitored design and construction contracts.
- It closed out design and construction contracts in accordance with its processes.

In addition, the Department analyzed and reorganized its capital construction project delivery processes to help ensure that it encumbered and spent funds in a timely manner.

However, the Department should ensure that the Division consistently (1) maintains its vendor evaluations, (2) requires staff to complete nondisclosure agreements and conflict of interest forms, (3) documents its contractor selection, and (4) includes all essential clauses in contracts. The Department also should strengthen access controls to help ensure the integrity of critical information in its financial accounting system.

### Background Information

**The Parks and Wildlife Department's** (Department) Infrastructure Division (Division) administers the Department's Capital Construction Program. Through the Division, the Department contracts for construction and professional service projects statewide. The contract values range from less than \$25,000 to multi-million dollar contracts.

The projects include major repairs and new construction of buildings; utilities; site work; and restorations at various state parks, fisheries, wildlife management areas, field offices, and other facilities across the state. The Division also is responsible for all professional design projects for the Department.

The Division has six branches: finance/administration, contracting, field operations, project management, design, and support services.

For fiscal years 2016 and 2017, the Department received approximately \$601 million in appropriations from General Revenue and General Revenue Dedicated.

Source: The Department.

Auditors communicated other, less significant issues to the Department separately in writing.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating <sup>a</sup>
1	The Division Performed Required Planning for the Capital Construction Projects Tested	Low
2	The Division Procured and Formed the Contracts Tested in Accordance with Most of Its Processes, But It Should Consistently Document Its Evaluations, Require Staff to Complete Nondisclosure Agreements and Conflict of Interest Forms, and Include All Essential Clauses in Contracts	High
3	The Division Administered and Monitored the Design and Construction Contracts Tested in Accordance with Its Processes	Low
4	The Division Closed Out the Design and Construction Contracts Tested in Accordance with Its Closeout Processes	Low
5	The Department Analyzed and Modified Its Processes to Help Ensure That It Encumbered and Spent Funds for Capital Construction Projects in a Timely Manner	Low
6	<b>Most of the Department's Information Technology General Controls Aligned with the Department's Security Policies, But the Department Should Address Certain Access Control Weaknesses</b>	High
<p><sup>a</sup> A chapter is rated Priority if the issues identified present risks or effects that if not addressed could critically <b>affect the audited entity's ability to effectively administer the program(s)/function(s) audited</b>. Immediate action is required to address the noted concern and reduce risks to the audited entity.</p> <p>A chapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect <b>the audited entity's ability to effectively administer the program(s)/function(s) audited</b>. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A chapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately <b>affect the audited entity's</b> ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A chapter is rated Low if <b>the audit identified strengths that support the audited entity's</b> ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would <b>negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited</b>.</p>		

## Summary of **Management's Response**

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The Department agreed with the recommendations in this report.

## *Audit Objectives and Scope*

The objectives of the audit were to:

- Determine whether the Department has processes and related controls to help ensure that it administers contracts associated with construction and repair projects in accordance with applicable requirements.
- **Assess the Department's** processes for ensuring the timely encumbrance and expenditure of funds associated with construction and repair projects.

The audit scope included capital construction projects the Division managed and that were active or closed from September 1, 2015, through May 31, 2017.

# Contents

## *Detailed Results*

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Chapter 1	
The Division Performed Required Planning for the Capital Construction Projects Tested .....	1
Chapter 2	
The Division Procured and Formed the Contracts Tested in Accordance with Most of Its Processes, But It Should Consistently Document Its Evaluations, Require Staff to Complete Nondisclosure Agreements and Conflict of Interest Forms, and Include All Essential Clauses in Contracts .....	2
Chapter 3	
The Division Administered and Monitored the Design and Construction Contracts Tested in Accordance with Its Processes .....	8
Chapter 4	
The Division Closed Out the Design and Construction Contracts Tested in Accordance with Its Closeout Processes .....	11
Chapter 5	
The Department Analyzed and Modified Its Processes to Help Ensure That It Encumbered and Spent Funds for Capital Construction Projects in a Timely Manner .....	13
Chapter 6	
<b>Most of the Department’s Information Technology General Controls Aligned with the Department’s Security Policies, But the Department Should Address Certain Access Control Weaknesses .....</b>	<b>15</b>

## *Appendices*

---

Appendix 1	
Objectives, Scope, and Methodology .....	17
Appendix 2	
Issue Rating Classifications and Descriptions .....	21

Appendix 3  
Capital Construction Expenditures Categories ..... 22

Appendix 4  
Encumbrances and Expenditures for Capital  
Construction Projects That the Division Managed with  
Funds It Received from Appropriation Years 2009  
through 2017 ..... 23

# Detailed Results

Chapter 1

## The Division Performed Required Planning for the Capital Construction Projects Tested

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Chapter 1  
Rating:  
Low <sup>1</sup>

For the 23 capital construction projects tested, the Parks and Wildlife Department's (Department) Infrastructure Division (Division) performed required planning necessary to identify each project's needs and develop a plan to meet those needs.

### The Division's Process to Identify Project Need

The Division performs the following to identify project need:

- Infrastructure regional program managers communicate and **coordinate with each division's** regional director to identify an initial proposed project list of **each region's top project** needs.
- A program manager and a design manager make a site visit to gather information on existing features of the proposed site.
- A design manager and a project manager develop a preliminary scope, cost estimate, project schedule, and concept.
- After division management approve the scope, cost estimate, project schedule, and concept, the infrastructure regional program manager prepares a project estimate and charter, which helps to justify the project.
- The Department ranks proposed projects and subsequently adds them to its legislative appropriations request.

Source: The Department.

The Division followed its process to identify substantial need for the 23 capital construction projects tested by identifying project objectives, assumptions, constraints, cost estimates, and deliverables.

In conducting planning, the Division followed its policies and procedures, which were consistent with selected requirements in the *State of Texas Contract Management Guide* related to (1) identifying project need (see text box for additional details), (2) involving appropriate project sponsors, and (3) developing a cost estimate.

### Management's Response

*Management agrees.*

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<sup>1</sup> Chapter 1 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

*The Division Procured and Formed the Contracts Tested in Accordance with Most of Its Processes, But It Should Consistently Document Its Evaluations, Require Staff to Complete Nondisclosure Agreements and Conflict of Interest Forms, and Include All Essential Clauses in Contracts*

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Chapter 2  
Rating:  
High <sup>2</sup>

The Division had processes and related controls to help ensure that it procured 24 design contracts and 12 construction contracts associated with 23 capital construction projects tested in accordance with applicable requirements (see text box for information on the phases of capital construction projects). However, the Division should ensure that it consistently (1) maintains its vendor evaluations, (2) requires staff to complete nondisclosure agreements and conflict of interest forms, (3) documents its contractor selection, and (4) includes all essential clauses in contracts.

Design Contracts Policies and Procedures

The Division had policies and procedures for design contracts that addressed the following key areas from the *State of Texas Contract Management Guide*: (1) determining the appropriate procurement method, (2) forming evaluation teams, (3) using a scoring matrix, (4) communicating with vendors, (5) involving relevant parties, (6) using nondisclosure agreements and conflicts of interest statements, and (7) reviewing and approving contracts.

The Division uses a request for qualifications process to solicit the professional services of an architect or engineer (including testing services) and landscape engineer. After it receives responses, the Division convenes an evaluation committee, which will score each vendor's response using standard criteria consistent with the solicitation. After scores have been compiled, the highest ranking vendors (typically three to five vendors) are deemed the "most qualified" vendors and are awarded a blanket contract for that type of service. The Division then selects vendors from those blanket contracts to engage on specific projects through task orders.

Design and Construction Phases of Capital Construction Projects

Design contracts: The Division evaluates, selects, and enters into professional service agreements for the architects and engineers that develop the construction documents necessary to construct a project. That process occurs during the design phase and can take 6 to 12 months.

Construction contracts: After the design phase is completed and approved and construction documents have been produced, the Division solicits bids for the construction of the project.

For some projects, the Division issues an invitation for bid; for other projects, the Division requests bids through competitive sealed proposals.

Source: The Department.

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<sup>2</sup> Chapter 2 is rated High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.



For the 24 design contracts tested, the Division followed its processes to appropriately solicit design proposals in accordance with requirements, receive and document vendor responses, notify contracting staff of the recommendation to award, and properly review and approve each contract.

However, the Division should ensure that it consistently (1) documents evaluation scoring sheets and (2) requires staff to complete nondisclosure agreements and conflict of interest statements.

#### Design Contract Evaluation Scoring Sheets

The Division maintained the scoring sheets for the vendors it selected for 21 (88 percent) of the 24 design contracts tested. For one of the remaining three contracts tested, the Division issued a sole source contract that it properly justified and documented. However, for the remaining two vendors selected, the Division did not maintain all scoring sheets; therefore, auditors were unable to determine whether the vendors selected for those two contracts were qualified.

Auditors performed additional procedures to recalculate the scores for 55 vendors who were deemed the highest ranking vendor(s) for 21 design contracts. In addition to the two vendors with missing scoring sheets discussed above, auditors identified an additional vendor (from the sample of 55) for which the Division did not maintain all scoring sheets. As a result, auditors were unable to recalculate the scores for that vendor.

As discussed above, after the Division evaluates and scores responses to design contract proposals, it uses those results to award blanket contracts to vendors it deems qualified. From the pool of vendors with blanket contracts, the Division selects certain vendors for procurement opportunities on specific projects. For 19 of the 24 design contracts tested, the Division did not have documentation to show why it selected certain qualified contractors with blanket contracts to work on specific projects. While the Division used a standard memo to document its contractor selection, those memos did not always provide information to explain why the Division selected the specific contractors it chose.

The *State of Texas Contract Management Guide* requires evaluation team members to document their judgments concisely and clearly and requires agencies to maintain contract administration files, including evaluation determinations, for the life of the contract.

#### Construction Contracts Policies and Procedures

The Division had policies and procedures for construction contracts that addressed the following key areas from the *State of Texas Contract*

*Management Guide:* (1) determining the appropriate procurement method, (2) forming evaluation teams, (3) using a scoring matrix, (4) communicating with vendors, (5) involving relevant parties, (6) using nondisclosure agreements and conflicts of interest statements, and (7) reviewing and approving contracts.

For the 12 construction contracts tested, the Division followed its processes to issue an appropriate solicitation; obtain, review, and approve vendor responses; evaluate and score responses using consistent evaluation criteria; and appropriately document its contractor selection.

#### Construction Contract Evaluation Scoring Sheets

In a sample of 12 construction contracts, the Division solicited 2 using a method that required vendors to be evaluated using scoring criteria. The Division retained all the scoring sheets for the vendors it selected related to those two procurements, and auditors determined that the Division calculated the scores correctly.

#### Nondisclosure Agreements and Conflict of Interest Statements

The Division provided documentation showing that:

- Design contracts. Twenty-five (25 percent) of the 99 employees involved in the preparation of the solicitation or the evaluation of the proposals for the 24 design contracts tested did not complete and sign required nondisclosure and conflicts of interest forms. Those staff included contract managers and other members of the evaluation team.
- Construction contracts. Seventeen (55 percent) of the 31 employees involved in the preparation of the solicitation or the evaluation of the proposals for the construction contracts tested did not complete and sign required nondisclosure and conflicts of interest forms. Those staff included contract managers, project managers, and contract specialists.

In addition, none of the 26 design managers and 14 inspectors associated with the design and construction contracts tested signed an annual conflict of interest form. Those individuals were responsible for monitoring contract activities, such as performing onsite visits and approving invoices.

The *State of Texas Procurement Manual* states that a state employee may not participate in any work on a contract knowing that the employee, or member of that employee's immediate family has an actual or potential financial interest in the contact.

Not ensuring compliance with nondisclosure and conflict of interest requirements increases the risk that potential conflicts of interest could go

undetected. Auditors performed limited audit procedures to detect conflicts of interest and did not identify any potential conflicts.

#### Contract Clauses

The Division did not consistently include in its design and construction contracts all applicable essential and recommended clauses in the *State of Texas Contract Management Guide*. Specifically:

- Design contracts. Nineteen (79 percent) of the 24 design contracts tested contained all of the applicable essential and recommended clauses. However, two design contracts tested did not include the essential antitrust clause, and one of those contracts also did not include the essential force majeure clause (see text box for additional details). The remaining three design contracts tested did not include the recommended clauses for notice (to specify how written notices for the contract will be handled) and order precedence (which is helpful if conflicts or inconsistencies arise between the contract and its exhibits or attachments).

#### Selected Essential Contract Clauses

Antitrust clause: An assertion that antitrust laws of the State of Texas under Texas Business and Commerce Code, Chapter 15, or federal antitrust laws have not been violated.

Force majeure clause: A clause related to acts of God, war, fires, explosions, hurricanes, floods, failure of transportation, or other causes that are beyond the reasonable control of either party and that by exercise of due foresight such party could not reasonably have been expected to avoid, and which, by the exercise of all reasonable due diligence, such party is unable to overcome.

Source: *State of Texas Contract Management Guide*.

- Construction contracts. Ten (91 percent) of the 11 construction contracts tested contained all of the applicable essential and recommended clauses. However, one construction contract tested did not include the essential force majeure clause.

The Division omitted those clauses from the contracts due to an oversight or an interpretation by the Division that those clauses did not apply. Not ensuring that contracts include the applicable essential and recommended clauses increases the risk that certain contract requirements may be unenforceable.

#### Recommendations

The Department should:

- Ensure that the Division consistently maintains scoring sheets it uses to evaluate vendor responses.
- Ensure that the standard memos the Division uses to document its vendor selection from its pool of existing blanket contracts for work on

specific design projects include information to explain why the Division selected the vendor.

- Ensure that the Division consistently requires employees to sign required nondisclosure agreements and conflicts of interest forms, and that the Division maintains those forms.
- Consistently include applicable essential and recommended clauses into its design and construction contracts.

### **Management's Response**

*The Department should:*

*a) Ensure that the Division consistently maintains scoring sheets it uses to evaluate vendor responses.*

#### **Management's Response**

*Management agrees and will emphasize to staff the importance of consistently maintaining scoring sheets in the file. **Responsible staff: Contracting Branch Manager. Deadline: December 31, 2017.***

*b) Ensure that the standard memos the Division uses to document its vendor selection from its pool of existing blanket contracts for work on specific design projects include information to explain why the Division selected the vendor.*

#### **Management's Response**

*Management agrees that, in addition to our current practice of maintaining justification documentation for vendors selected and awarded blanket contracts, staff should also consistently document information explaining why a blanket contract vendor is selected to work on a task order. Management will enhance the task order award process by revising the task order approval memo so that staff will more fully document reasons for vendor selection. **Responsible staff: Contracting Branch Manager. Deadline: January 31, 2018.***

*c) Ensure that the Division consistently requires employees to sign required nondisclosure agreements and conflicts of interest forms, and that the Division maintains those forms.*

#### **Management's Response**

*Management agrees that, in addition to continuing our current practice of requiring annual conflict of Interest forms from division contracting and purchasing staff, it will also require annual forms*

*from remaining division staff. Management has already begun collecting the annual forms from the remaining division staff and will maintain those forms accordingly. **Responsible staff: Contracting Branch Manager. Deadline: February 28, 2018***

*Management agrees that, in addition to continuing our current practice of requiring project-specific nondisclosure agreements from all staff participating on an evaluation committee, it will consistently require all division staff to annually sign a general nondisclosure agreement. Management will maintain those forms accordingly. **Responsible staff: Contracting Branch Manager. Deadline: February 28, 2018***

*d) Consistently include applicable essential and recommended clauses into its design and construction contracts.*

***Management's Response***

*Management agrees that applicable essential and recommended clauses should be included in our design and construction contracts. Management confirms that although some clauses were not found in past contracts, applicable clauses are in all of our current contracts.*

***COMPLETED***

## *The Division Administered and Monitored the Design and Construction Contracts Tested in Accordance with Its Processes*

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Chapter 3  
Rating:  
Low <sup>3</sup>

The Division had processes and related controls to help ensure that it administered and monitored the design and construction contracts tested in accordance with applicable requirements.

### Design Contract Reviews

The Division's policy required the project team to perform a review when the contract was at least 95 percent complete. The Division had documentation showing that it appropriately reviewed all 15 of the 24 design contracts tested for which that review was required. Nine (38 percent) of the 24 design contracts tested did not require a review because of the nature of work was simple or the contracts had not yet progressed to the point at which they required a review.

The Division's policy also required review for final acceptance of plans and specifications. The Division complied with that requirement for all 17 of the 24 design contracts tested for which that requirement was applicable. Seven (29 percent) of the 24 design contracts tested did not yet require that review because the contracts were not yet in the final phase or the contract deliverable did not require plans or specifications.

### Construction Contract Change Orders

Eight of 13 construction contracts tested had a total of 27 change orders. All 27 of those change orders were submitted to the Division, justified, and approved in accordance with policies and procedures.

However, auditors noted that 1 of those 27 change orders extended the contract by 500 calendar days and, because the Division's policy did not consider a time extension to be a material change, the Department's executive director was not required to sign that change order.

Although it does not apply to professional services and construction contracts, statute regarding contracts for goods and services offers an example of how time extensions could be incorporated into a policy related to material changes. Specifically, Texas Government Code, Section 2155.088(b), states that a material contract change for goods and services includes (1) extending the length of or postponing the completion of a contract for six months or more or (2) increasing the total consideration to

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<sup>3</sup> Chapter 3 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

be paid under a contract by at least 10 percent. Including time extensions as part of the Department's policy related to material changes could help the Department ensure that contracts are completed within agreed-upon time frames.

#### Design Manager and Inspector Qualifications

All 26 design managers assigned to the contracts tested met the qualifications to maintain current licensure qualifications. In addition, all of the 14 inspectors assigned to the contracts tested met the appropriate licensure qualifications (for example, they had required electrician or plumber licenses).

#### Payments to Contractors

Twenty-four (96 percent) of a random sample of 25 payment vouchers tested were allowable; appropriately supported with the submission of required deliverables, if applicable; reviewed; approved; and paid in a timely manner. The Department did not have the required signature from its design branch for the remaining payment voucher tested. The 25 payment vouchers totaled \$60,749 (less than 1 percent of the \$29,293,733 in total vouchers the Division had paid on construction and repair projects between September 1, 2015, and May 31, 2017). (See Appendix 3 for more information related to capital construction expenditures.)

All five of a risk-based sample of payment vouchers tested were allowable; appropriately supported with the submission of required deliverables, if applicable; reviewed; approved; and paid in a timely manner. Those 5 payment vouchers totaled \$2,660,607 (9 percent of the \$29,293,733 in total vouchers the Division had paid on construction and repair projects between September 1, 2015, and May 31, 2017).

#### Recommendations

##### The Department should:

- Consider including time extensions as part of its policy related to material changes to contracts.
- Ensure that the Division consistently obtains required signatures for payment vouchers.

## Management's Response

*The Department should:*

*a) Consider including time extensions as part of its policy related to material changes to contracts.*

### ***Management's Response***

*Management agrees and will consider including time extensions as part of its policy related to material changes to contracts.*

*Management will review internal policies regarding significant time extensions and, if deemed appropriate, will adjust policy accordingly.*

***Responsible staff: Contracting Branch Manager. Deadline: March 31, 2018***

*b) Ensure that the Division consistently obtains required signatures for payment vouchers.*

### ***Management's Response***

*Management agrees that there was one instance where a Design Manager was the only project team member who did not sign off on an invoice, despite having signed all invoices prior to and after that particular invoice. Management agrees it should emphasize to staff the importance of consistently obtaining required signatures for payment vouchers.*

***Responsible staff: Contracting Branch Manager. Deadline: January 31, 2018***



## The Division Closed Out the Design and Construction Contracts Tested in Accordance with Its Closeout Processes

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Chapter 4  
Rating:  
Low <sup>4</sup>

The Division had policies and procedures that addressed the key areas from the *State of Texas Contract Management Guide* related to contract closeout and liquidated damages. (See the text box for additional information on contract and project closeout.)

### Contract Closeout

Seven of the 23 projects tested were closed, and the Division obtained the required closeout review and approvals for 6 of those projects; the remaining closed project did not require project closeout documentation because the vendor did not provide design or construction related services.

In addition, auditors tested the 11 construction and design contracts associated with the 7 closed projects to determine whether the Division maintained documentation showing that it followed its contract closeout process. Auditors determined that:

- The Division maintained applicable documentation (such as the final invoice, contract closeout routing slip, and certificate of final completion) for all four of the six design contracts tested for which that requirement was applicable. For the remaining two design contracts tested, that documentation was not applicable because of the limited scope of services provided.
- For 4 (80 percent) of the 5 construction contracts tested, the Division maintained all documentation (final invoice, performance summary report, contract closeout routing slip, and certificate of final completion) necessary to support the final payment voucher. The Division did not have documentation for its submission of the certificate of final completion for the remaining construction contract.

### Contract and Project Closeout

Contract closeout is required for all construction contracts. Some Division projects may have more than one construction contract; therefore, more than one contract closeout may exist for a single project.

Contract closeout occurs when obligations set forth in a contract have been completed and final payment has been made to the vendor.

After the objectives of a project have been achieved, the project is closed. Project closeout focuses on receiving and distributing information required for future maintenance of the newly constructed work, as well as closing the contract and financial records.

Source: The Department.

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<sup>4</sup> Chapter 4 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

## Liquidated Damages

For the five construction contracts discussed above, the Division had documentation showing that the contracts were completed within agreed-upon time frames. Therefore, the Division did not need to assess liquidated damages.

## Recommendation

The Department should ensure that the Division consistently obtains certificates of final completion when required.

## Management's Response

*a) The Department should ensure that the Division consistently obtains certificates of final completion when required.*

### ***Management's Response***

*Management agrees and will emphasize to staff the importance of consistently obtaining certificates of final completion (as required), confirming the certificates are received, and maintaining required certificates in the file. Management has already implemented an improved process for file documentation review. **Responsible staff: Contracting Branch Manager. Deadline: January 31, 2018***

*The Department Analyzed and Modified Its Processes to Help Ensure That It Encumbered and Spent Funds for Capital Construction Projects in a Timely Manner*

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Chapter 5  
Rating:  
Low <sup>5</sup>

Since 2009, the Department has managed its capital construction appropriations by either fully using funds or using its unexpended and unobligated balance authority to carry forward unexpended appropriations to subsequent fiscal years. In addition, since appropriation year 2014, the Department has reorganized and made significant adjustments to its capital construction project delivery processes to address an increase in General Revenue funds it received for capital construction and a decrease in funds it received from bonds.

Auditors requested financial information for capital construction projects that the Division managed and that were active or closed from September 1, 2015, through May 31, 2017. As of May 31, 2017, the Department had used funding received during appropriation years 2009 through 2017 for those projects. The following conclusions are limited to the activity related to those projects (see Appendix 4 for more information on the Division's encumbrance and expenditure of funds).

The 84th Legislature appropriated to the Department approximately \$201 million in General Revenue and approximately \$400 million in General Revenue Dedicated for the 2016-2017 biennium. The Division budgeted \$106,379,707 of that amount for capital construction projects. As of May 31, 2017, the Department had significant unexpended funds for fiscal years 2016 and 2017. The Department had expended or encumbered 51 percent (or \$54,723,691) of the capital construction funds appropriated for fiscal years 2016 and 2017.

However, based on the Department's self-reported information, as of August 31, 2017, the Division's capital construction project budget for the 2016-2017 biennium increased to \$107,288,198; the Department had encumbered 98 percent (approximately \$105 million) of the capital construction funds appropriated for the 2016-2017 biennium; and approximately 2 percent (or \$2 million) remained unobligated. The Department anticipates a portion of those funds will lapse after it has allocated the funds toward capital construction expenditures, such as salaries and pending invoices.

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<sup>5</sup> Chapter 5 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

The Division budgeted \$70,839,782 of its fiscal year 2016 appropriations to capital construction projects. The method of finance for those appropriations included funds from General Revenue Dedicated (98 percent), Sporting Goods Sales Tax (less than 2 percent), and General Obligation Bonds (less than 1 percent). As of May 31, 2017, 67 percent of the fiscal year 2016 funds (or \$47,448,507) had been encumbered or expended, and 33 percent of the fiscal year 2016 funds (or \$23,391,275) had not been encumbered or expended. The method of finance for the unencumbered or unexpended funds included funds from General Revenue Dedicated (97 percent), Sporting Goods Sales Tax (less than 3 percent), and General Obligation Bonds (less than 1 percent).

The Division budgeted \$35,539,925 of its fiscal year 2017 appropriations to capital construction projects. The method of finance for those appropriations included funds from General Revenue Dedicated (90 percent) and the Sporting Goods Sales Tax (10 percent). As of May 31, 2017, 20 percent of the fiscal year 2017 funds had been encumbered or expended (or \$7,275,184), and 80 percent of the funds appropriated for fiscal year 2017 (or \$28,264,741) had not been encumbered or expended. The method of finance for the unencumbered or unexpended funds included funds from General Revenue Dedicated (88 percent) and the Sporting Goods Sales Tax (12 percent).

### **Recommendation**

The Department should continue to analyze and make adjustments to effectively manage its contracting, encumbrance, and expenditure processes for capital construction projects and minimize the amount of unexpended funds.

### **Management's Response**

*a) The Department should continue to analyze and make adjustments to effectively manage its contracting, encumbrance, and expenditure processes for capital construction projects and minimize the amount of unexpended funds.*

#### ***Management's Response:***

*Management agrees and will continue to analyze and make adjustments to effectively manage its contracting, encumbrance, and expenditure processes for capital construction projects and minimize the amount of unexpended funds. **COMPLETED***

***Most of the Department's Information Technology General Controls Aligned with the Department's Security Policies, But the Department Should Address Certain Access Control Weaknesses***

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Chapter 6  
Rating:  
High <sup>6</sup>

The Department established, reviewed, and approved policies that helped to ensure that its password controls, change management, incident management, backup and recovery, and disaster recovery planning provided adequate guidance for the overall direction and implementation of its information technology security. However, auditors identified certain weaknesses in access controls for the Business Information System (BIS), which the Department used as its financial accounting system. Specifically:

- While the Department had policies and procedures for performing periodic review of user access for high-profile and administrative accounts for its network, it did not require periodic review of user access to BIS. As a result, the Department was unable to provide authorization forms associated with 27 (45 percent) of 60 randomly selected BIS users. For 16 of the remaining users, the Department did not always appropriately approve the authorization forms as required or was unable to provide complete support. For example, some users had grandfathered access roles (from a prior system) that were not documented. For other users tested, the Department was able to provide support for only a portion of the users' roles in BIS.
- The Department was unable to provide authorization forms associated with 12 (92 percent) of 13 high-profile BIS users selected in a separate, risk-based sample. It was unable to provide complete support for the responsibilities assigned to the remaining high-profile BIS user tested.
- Auditors identified 745 BIS users who were assigned to 121 user access roles, but the Department did not have documentation that defined those roles. Therefore, auditors could not determine whether those users' access was limited to only the access necessary to fulfill their responsibilities.

Not having documented procedures, not performing periodic access reviews, and not effectively managing user access could compromise the integrity of critical information.

Although auditors identified the weaknesses discussed above, BIS had sufficient application controls to ensure that data related to the budgets for

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<sup>6</sup> Chapter 6 is rated High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

capital construction projects and the associated purchase orders and invoice information were valid and accurate.

#### Recommendation

The Department should strengthen controls to help ensure that users' levels of access are appropriate for their responsibilities. Specifically, the Department should develop and implement security policies and procedures that (1) require periodic user access reviews for BIS and (2) require the Department to maintain information that clearly defines users' roles and responsibilities.

#### Management's Response

*a) The Department should strengthen controls to help ensure that users' levels of access are appropriate for their responsibilities. Specifically, the Department should develop and implement security policies and procedures that (1) require periodic user access reviews for BIS and (2) require the Department to maintain information that clearly defines users' roles and responsibilities.*

#### **Management's Response:**

##### **(1) Require periodic user access reviews for BIS**

*Management agrees and will write and implement a security policy and procedure to periodically review user access to the BIS application.*

**Responsible staff: Information Technology Division Deputy Director.**

**Deadline: June 29, 2018.**

##### **(2) Require the Department to maintain information that clearly defines users' roles and responsibilities.**

*Management agrees and will develop documentation to define user roles and responsibilities.* **Responsible staff: Information Technology Division Deputy**

**Director. Deadline: June 29, 2018.**

# Appendices

Appendix 1

## Objectives, Scope, and Methodology

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### Objectives

The objectives of this audit were to:

- Determine whether the Parks and Wildlife Department (Department) has processes and related controls to help ensure that it administers contracts associated with construction and repair projects in accordance with applicable requirements.
- Assess the Department's processes for ensuring the timely encumbrance and expenditure of funds associated with construction and repair projects.

### Scope

The audit scope included capital construction projects the Department's Infrastructure Division managed and that were active or closed from September 1, 2015, through May 31, 2017.

### Methodology

The audit methodology consisted of conducting interviews, collecting and reviewing contract information, performing tests and procedures against predetermined criteria, and analyzing certain information.

### Data Reliability and Completeness

Auditors used project information from the Division's MS Projects database and related financial data from the Division's Business Information System (BIS). Auditors reviewed the project information from MS Projects for completeness by tracing hard-copy project files to the MS Projects database. Auditors reviewed the related financial data for validity and completeness by (1) reviewing user access, (2) reviewing data query language, (3) performing high-level review of data fields and their contents for appropriateness, and (4) performing data analysis to determine the completeness of the data. Auditors determined that the data was reliable for the purposes of this audit.

### Sampling Methodology

To determine whether the Division had processes and related controls to help ensure that it planned, solicited and awarded, monitored, and administered design and construction contracts in accordance with

requirements, auditors selected nonstatistical samples of active or closed projects (and the associated design and construction contracts) primarily through random selection. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

To determine whether the Division had processes and related controls to help ensure that it expended funds in accordance with requirements, auditors selected a nonstatistical sample of capital construction-related expenditures primarily through random selection. In some cases, auditors selected additional capital construction-related expenditures for testing based on risk. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

To test for appropriate user access to the BIS application, auditors selected a nonstatistical sample of BIS users primarily through random selection. In some cases, auditors selected additional high profile BIS users for testing based on risk. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- Financial data from the Division's financial accounting system related to capital construction projects that were active or closed from September 1, 2015, through May 31, 2017.
- The Division's solicitation documentation, evaluation criteria and documentation, and related supporting documentation for selected contracts.
- The Division's contract procurement documentation, including planning documentation, approvals, and other supporting documentation for selected contracts.
- The Division's contracts with selected design and construction vendors.
- Division policies and procedures, including draft policies and procedures.

Procedures and tests conducted included the following:

- Conducted interviews with Division management and employees.
- Reviewed the Division's infrastructure contracting policies and procedures for compliance with applicable state requirements.



- Tested selected Division planning, procurement, formation, and monitoring processes for compliance with the *State of Texas Contract Management Guide*, the *State of Texas Procurement Manual*, Division policies and procedures, and applicable statutes and rules.
- Reviewed applicable conflict of interest and nondisclosure documents.
- Reviewed licenses of applicable staff involved in procurement for compliance with Department requirements.
- Tested contractor invoices and the Division's contractor payments for the contracts tested to determine whether those payments were properly supported, accurate, reviewed and authorized prior to payment, processed in a timely manner, and allowable.

Criteria used included the following:

- *State of Texas Contract Management Guide*, versions 1.7 through 1.16.
- *State of Texas Procurement Manual*.
- Division policies and procedures.
- Department of Information Resources' *Security Control Standards Catalog*, version 1.3.
- Texas Government Code, Chapter 2155.

#### Project Information

Audit fieldwork was conducted from May 2017 through October 2017. 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.

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

- Courtney Ambres-Wade, CGAP (Project Manager)
- Joseph T. Fredrick, CPA (Assistant Project Manager)
- Brady Bennett, MBA, CFE
- Pamela A. Bradley, CPA

- Krista L. Steele, MBA, CPA, CFE, CIA, CGAP
- Dana Musgrave, MBA (Quality Control Reviewer)
- James Timberlake CIA, CFE (Audit Manager)

## Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

## Capital Construction Expenditures Categories

For capital construction projects that were active or closed from September 1, 2015, through May 31, 2017, the Parks and Wildlife Department's (Department) Infrastructure Division (Division) made capital construction expenditures totaling \$29,293,732.66. Those expenditures included categories such as construction improvements, travel, and fuel. The Division's largest expenditure was for "Construction/Improvements," which represented payments to vendors to provide services for various projects within the Department, such as fisheries, wildlife, and state parks.

Table 3 summarizes the Division's capital construction expenditures by budget category from September 1, 2015, through May 31, 2017.

Table 3

The Division's Capital Construction Expenditures by Budget Category September 1, 2015, through May 31, 2017		
Budget Category	Dollars Expended by Category as a Percent of Total Expenditures	Dollars Expended by Budget Category
Construction/Improvements		
Construction/Improvements	41%	\$ 11,990,958.09
Subtotals	41%	\$ 11,990,958.09
Capitalized Equipment and Other Assets		
Real Property Expenditures	36%	\$ 10,468,178.76
Capital Equipment	0%	61,437.13
Subtotals	36%	\$ 10,529,615.89
Operating		
Maintenance and Repair	11%	\$ 3,228,295.50
Professional Fees and Services	9%	2,814,733.38
In-state Travel	1%	294,368.55
Other <sup>a</sup>	1%	254,544.17
Miscellaneous Supplies	1%	181,217.08
Subtotals	23%	\$ 6,773,158.68
Totals	100%	\$29,293,732.66
<sup>a</sup> Examples of the budget category "Other" included items such as the purchase of non-capitalized equipment, telecommunications, fuels and lubricants, and contracted services.		

Source: The Department.

*Encumbrances and Expenditures for Capital Construction Projects That the Division Managed with Funds It Received from Appropriation Years 2009 through 2017*

Since 2009, the Parks and Wildlife Department (Department) has managed its capital construction appropriations by either fully using funds or using its unexpended and unobligated balance authority to carry forward unexpended appropriations to subsequent fiscal years.

Table 4 summarizes encumbrances and expenditures for capital construction projects that the Department’s Infrastructure Division (Division) managed with funds it received from appropriation years 2009 through 2017. In Table 4, for the amounts not used, the Department was given the ability to carry those funds to the subsequent years using its unexpended balance authority. However, for fiscal years 2018 and 2019, the Department did not receive unexpended balance authority for General Revenue funds. As a result, based on self-reported information as of August 31, 2017, the Department anticipated that funds not used would lapse.

Table 4

Summary of Encumbrances and Expenditures for Capital Construction Projects That the Division Managed Appropriation Years 2009 through 2017 As of May 31, 2017 <sup>a</sup>							
Fiscal Year	Amount Budgeted to Capital Construction Projects	Amount Encumbered	Amount Expended	Amount Not Used	Amount Encumbered as a Percent of Total Amount Budgeted	Amount Expended as a Percent of Total Amount Budgeted	Amount Not Used as a Percent of Total Amount Budgeted
Original Appropriation Year 2009							
2010	\$ 26,855.33	\$0.00	\$ 26,855.33	\$ 0.00			
2011	6,014,067.41	0.04	5,977,365.51	36,701.86			
2012	5,975.17	0.00	5,975.17	0.00			
2013	12,478.75	0.00	12,478.75	0.00			
Totals	\$6,059,376.66	\$0.04	\$6,022,674.76	\$36,701.86	0.0%	99.4%	0.6%
Original Appropriation Year 2010							
2010	\$ 5,575.46	\$ 0.00	\$ 5,575.46	\$ 0.00			
2011	1,098,619.63	0.00	1,098,619.63	0.00			
2012	350,858.59	0.00	350,858.59	0.00			
2013	5,481,518.63	109,074.63	5,372,444.00	0.00			
2014	5,031,034.36	2,884.02	5,028,150.34	0.00	2.0%	91.0%	7.0%

Summary of Encumbrances and Expenditures for Capital Construction Projects That the Division Managed  
 Appropriation Years 2009 through 2017  
 As of May 31, 2017 <sup>a</sup>

Fiscal Year	Amount Budgeted to Capital Construction Projects	Amount Encumbered	Amount Expended	Amount Not Used	Amount Encumbered as a Percent of Total Amount Budgeted	Amount Expended as a Percent of Total Amount Budgeted	Amount Not Used as a Percent of Total Amount Budgeted
2015	3,492,868.92	16,859.44	3,476,009.48	0.00			
2016	837,006.76	28,011.18	808,745.53	250.05			
2017	1,689,029.14	205,512.19	221,461.27	1,262,055.68			
Totals	\$17,986,511.49	\$362,341.46	\$16,361,864.30	\$1,262,305.73			
Original Appropriation Year 2011							
2012	\$ 0.00	\$0.00	\$ 0.00	\$0.00			
2013	96,135.35	0.00	96,135.35	0.00			
Totals	\$96,135.35	\$0.00	\$96,135.35	\$0.00	0.0%	100.0%	0.0%
Original Appropriation Year 2012							
2012	\$ 172,457.45	\$ 0.00	\$ 172,457.45	\$ 0.00			
2013	365,406.79	8,140.00	357,266.79	0.00			
2014	2,973,821.67	162,818.01	2,811,003.66	0.00			
2015	4,441,139.89	183,730.69	4,257,409.20	0.00			
2016	6,231,158.67	675,791.87	5,555,366.80	0.00			
2017	15,532,873.43	4,764,706.68	1,237,448.48	9,530,718.27			
Totals	\$29,716,857.90	\$5,795,187.25	14,390,952.38	\$9,530,718.27	19.5%	48.4%	32.1%
Original Appropriation Year 2013							
2013	\$ 14,569.45	\$ 0.00	\$ 14,569.45	\$0.00			
2014	1,358,638.62	112,959.24	1,245,679.38	0.00			
2015	3,432,497.95	520,363.00	2,912,134.95	0.00			
Totals	\$4,805,706.02	\$633,322.24	\$4,172,383.78	\$0.00	13.2%	86.8%	0.0%
Original Appropriation Year 2014							
2014	\$ 2,472,311.53	\$113,748.13	\$2,358,563.40	\$ 0.00			
2015	3,582,345.35	18,721.28	3,560,201.17	3,422.90			
2016	1,181,605.15	260,442.34	921,162.81	0.00			
2017	7,804,603.23	459,648.39	828,723.54	6,516,231.30			
Totals	\$15,040,865.26	\$852,560.14	\$7,668,650.92	\$6,519,654.20	5.7%	51.0%	43.3%

Summary of Encumbrances and Expenditures for Capital Construction Projects That the Division Managed  
Appropriation Years 2009 through 2017  
As of May 31, 2017 <sup>a</sup>

Fiscal Year	Amount Budgeted to Capital Construction Projects	Amount Encumbered	Amount Expended	Amount Not Used	Amount Encumbered as a Percent of Total Amount Budgeted	Amount Expended as a Percent of Total Amount Budgeted	Amount Not Used as a Percent of Total Amount Budgeted
Original Appropriation Year 2015							
2015	\$4,675,784.86	\$39,903.93	\$4,635,880.93	\$ 0.00			
2016	22,047.39	0.00	22,047.39	0.00			
2017	50,076.48	16,286.69	15,394.09	18,395.70			
Totals	\$4,747,908.73	\$56,190.62	\$4,673,322.41	\$18,395.70	1.2%	98.4%	0.4%
Original Appropriation Year 2016							
2016	\$17,089,649.08	\$ 7,083,096.00	\$10,006,553.08	\$ 0.00			
2017	53,750,133.57	24,877,948.17	5,480,909.91	23,391,275.49			
Totals	\$70,839,782.65	\$31,961,044.17	\$15,487,462.99	\$23,391,275.49	45.1%	21.9%	33.0%
Original Appropriation Year 2017							
2017	\$35,539,924.50	\$6,474,659.10	\$800,524.83	\$28,264,740.57			
Totals	\$35,539,924.50	\$6,474,659.10	\$800,524.83	\$28,264,740.57	18.2%	2.3%	79.5%
<sup>a</sup> Auditors requested financial information for capital construction projects that the Division managed and that were active or closed between September 1, 2015, and May 31, 2017. Conclusions were limited to activity related to those projects.							

Source: The Department.

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