



# Scoring and Evaluation of Selected Procurements at the Health and Human Services Commission

July 13, 2018

Members of the Legislative Audit Committee:

Issues Rating:

Priority <sup>1</sup>

The Health and Human Services Commission (Commission) did not establish the controls necessary to ensure that its evaluation processes to review and score vendor proposals for major contract and grant procurements provided reliable, accurate, and complete information. Without adequate controls, the Commission cannot ensure that its award decisions are sufficiently supported. Auditors identified errors in the evaluations performed for all 28 procurements that were tested, which included the Commission's cancelled procurement for the Children's Health Insurance Program Rural Service Area. The 28 procurements selected have an estimated award value of \$4.6 billion.

For 5 (18 percent) of the 28 procurements, with an estimated value of \$3.4 billion, auditors identified significant evaluation scoring errors and missing documentation. As a result, auditors could not determine whether the evaluation scores that supported the award recommendations for those five procurements were accurate. Of those five procurements:

- Three procurements had executed contracts with an estimated value of more than \$3.0 billion.
- One procurement, with an estimated value of \$45.7 million, did not have an executed contract as of May 2018.
- One procurement was cancelled that had an estimated value of \$350.0 million.

For the remaining 23 procurements (82 percent), the errors identified did not have a significant effect on the award recommendations. Those 23 procurements had awards totaling an estimated \$1.2 billion.

## Background

In response to an April 6, 2018, request from the Office of the Governor, the **State Auditor's Office conducted** a targeted audit of the evaluation tools used for selected procurements that the Health and Human Services Commission (Commission) reported. This audit is part of a continuing audit of the **Commission's contract management** processes.

Auditors used a risk-based approach to select 28 procurements the Commission awarded and considered for award from January 1, 2015, through March 31, 2018, that totaled an estimated \$4.6 billion. The selected procurements represent approximately 69 percent of **the Commission's \$6.7 billion** in contracts that were awarded and considered during that time period, as reported by (1) **the Commission's** System of Contract Operation and Reporting database and (2) the Legislative Budget Board. The risk-based approach that auditors used considered the contract dollar amounts, contract types, award dates, and recent audit coverage. (See Section 3 in the attachment to this letter for more information about the procurements selected for audit.)

Sources: The Commission and the Legislative Budget Board.

<sup>1</sup> Auditors used professional judgement and rated the audit findings identified in this report. The issues identified in this report were rated, overall, as "Priority" because the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity. See Section 6 in the attachment to this letter for more information about the issue rating classifications.

The errors identified for all 28 procurements included formula errors such as omitted scores, incorrect scores, and inappropriate application of best value weights. (See Section 1 of the attachment to this letter for more details about the errors identified.)

In addition, the Commission lacked supporting documentation needed to verify that all scores were correctly entered into its evaluation tool. Specifically, 15 (75 percent) of 20 applicable<sup>2</sup> procurements did not have sufficient documentation to support the appropriateness of revisions made to evaluator scores, and 3 (11 percent) of 27 applicable procurements were missing evaluator score sheets.

Auditors also identified inconsistencies in the Commission's management of certain contract procurement processes; those inconsistencies weakened the accuracy, transparency, and objectivity of the evaluation process for the procurements reviewed. For example, 14 (78 percent) of 18 applicable procurements did not use the standardized evaluation tool. Additionally, 2 (7 percent) of 27 applicable procurements used more than one method to document evaluation scores: (1) one procurement used two different evaluation forms, and (2) one procurement allowed an evaluator to provide evaluation scores verbally during a conference call with a purchaser.

The attachment to this letter contains additional details on issues auditors identified, recommendations, and related State Auditor's Office work. Section 4 of the attachment lists issues that were previously reported in prior audits of selected Commission contracts that are similar to the issues identified in this report.

The Commission generally agreed with the recommendations in this report. It asserted that it has made changes to its procurement processes and implemented new controls. For example, those include creating a compliance and quality control team, developing and implementing compliance checklists, implementing new policies and procedures, and retraining staff on applicable state requirements. In addition, the Commission stated that it will engage a consultant to review and make recommendations to improve its procurement processes. Management responses are presented in Section 2 of the attachment.

Auditors communicated other, less significant issues to Commission management separately in writing.

The State Auditor's Office is conducting additional audit work at the Commission on selected contracts that were determined to be high risk based on the results of this audit. After completing that audit, we plan to issue a report on its results.

Sincerely,

Lisa R. Collier, CPA, CFE, CIDA  
First Assistant State Auditor

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<sup>2</sup> The term "applicable" is used to indicate that the testing result described was based on certain criteria that did not apply to all procurements tested.



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Members of the Legislative Audit Committee

July 13, 2018

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Attachment

cc: The Honorable Greg Abbott, Governor

Ms. Cecile Young, Acting Executive Commissioner, Health and Human Services Commission



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# Attachment

Section 1

## Summary of Audit Findings and Recommendations

Auditors identified errors in the Health and Human Services Commission’s (Commission) calculations of evaluation scores and weaknesses in its management of the evaluation processes used to review and score vendor proposals for 28 major contract and grant procurements.

Auditors tested 28 procurements the Commission awarded and considered for award from January 1, 2015, through March 31, 2018, that totaled \$4.6 billion. Table 1 summarizes the errors, weaknesses, and recommendations related to the Commission’s scoring and evaluation of the 28 selected procurements.

Table 1

Summary of Errors, Weaknesses, and Recommendations Related to the Commission’s Scoring and Evaluation of 28 Selected Procurements	
Description of Errors <sup>a</sup>	Recommendations
<p>For 5 (18 percent) of the 28 procurements audited, with an estimated value of \$3.4 billion, auditors identified significant evaluation scoring errors and missing documentation. As a result, auditors could not determine whether evaluation scores that supported the award recommendations for those five procurements were accurate. Those five procurements included:</p> <ul style="list-style-type: none"> <li>▪ Three procurements that had an estimated value of more than \$3.0 billion:               <ul style="list-style-type: none"> <li>○ The executed contracts for the STAR Kids procurement, which had an estimated value of \$3.0 billion.</li> <li>○ The executed contract for Business Process Redesign procurement, which had an estimated value of \$17.5 million.</li> <li>○ The executed contract for Protecting People in Regulated Facilities/Regulatory Services Systems Modernization Project procurement, which had an estimated value of \$6.1 million.</li> </ul> </li> <li>▪ The Provider Management and Enrollment Services procurement, which did not have an executed contract as of May 2018; the estimated value for the procurement was \$45.7 million.</li> <li>▪ The CHIP Rural Service Area procurement, which the Commission cancelled in April 2018. That procurement had an estimated value of \$350.0 million.</li> </ul> <p>(See Section 3 of this attachment for more information about the procurements.)</p>	<p>The Commission should ensure that scoring is accurate and consistent for future procurements.</p>

**Summary of Errors, Weaknesses, and Recommendations Related to the  
Commission's Scoring and Evaluation of 28 Selected Procurements**

Description of Errors <sup>a</sup>	Recommendations
<p>The Commission did not ensure that its evaluations correctly recorded and calculated evaluator scores for the procurements audited. Auditors identified the following types of errors in the evaluation tools the Commission used to calculate final evaluation scores for the vendor proposals tested:</p> <ul style="list-style-type: none"> <li>▪ Seven (30 percent) of 23 applicable procurements had incorrect evaluation scores entered in the evaluation tool for certain vendors.</li> <li>▪ Three (13 percent) of 23 applicable procurements included incorrect vendor scores in the final evaluation calculations.</li> <li>▪ Six (23 percent) of 26 applicable procurements used the wrong weighted averages to calculate the final evaluation scores for certain vendors.</li> <li>▪ Five (19 percent) of 27 applicable procurements did not record all evaluator score sheets in the evaluation tool.</li> <li>▪ Four (16 percent) of 25 applicable procurements did not use all evaluation scores recorded in the evaluation tool to calculate the final evaluation score.</li> <li>▪ Three (13 percent) of 23 applicable procurements used inaccurate mathematical formulas, which resulted in incorrect evaluation scores.</li> </ul>	<p>The Commission should perform a reconciliation of its evaluation tool before calculating evaluation results to verify that (1) all scores recorded in the evaluation tool match evaluator score sheets and (2) the correct weighted averages were used to calculate final evaluation scores.</p>
<p>The Commission did not enforce its proposal evaluation guide that established procedures for (1) resolving outlier scores (scores that differ significantly from the other scores) and (2) defining the rating scale to be used to evaluate the vendor proposals. The proposal evaluation guide was dated June 2016. Auditors identified the following instances in which the procurements did not comply with the proposal evaluation guide:</p> <ul style="list-style-type: none"> <li>▪ Eight (31 percent) of the 26 applicable procurements did not ensure that outlier scores were identified and revised as needed.</li> <li>▪ Fourteen (50 percent) of the 28 procurements did not use a rating scale of 1 to 10 as required. The various rating scales used included a 0 to 10 scale; a 2 to 10 tiered scale; a 0 to 5 scale; a 1 to 5 scale; a 1 to 7 scale; multiple scales in a single evaluation; and a scale based on percentages assigned to evaluation criteria defined in the solicitation.</li> </ul>	<p>The Commission should ensure that its purchasing staff complies with its established procedures for resolving outlier scores and scoring vendor proposals.</p>
<p>The Commission did not maintain complete records of evaluator score sheets for <b>initial evaluators' scores and changes made to outlier scores</b>. Specifically, the Commission did not have the following documents in its procurement records:</p> <ul style="list-style-type: none"> <li>▪ Fifteen (75 percent) of 20 applicable procurements were missing documentation that explained the differences between the evaluator score sheets and the evaluation tool for some evaluation scores.</li> <li>▪ Three (11 percent) of 27 applicable procurements were missing evaluator score sheets.</li> </ul>	<p>The Commission should ensure that it retains all documentation for each procurement.</p>
<p>The Commission did not consistently perform certain required activities that help to ensure the accuracy of evaluation scores. Auditors identified the following weaknesses in the <b>Commission's</b> evaluation process for the procurements tested:</p> <ul style="list-style-type: none"> <li>▪ Fourteen (78 percent) of 18 applicable procurements did not use the standardized evaluation tool. The Commission reported that the standardized evaluation tool was effective December 2016; however, it did not have a written policy specifying the required use of the standardized evaluation tool.</li> <li>▪ Thirteen (46 percent) of the 28 procurements did not define the weights assigned to the best value criteria in procurements as required.</li> <li>▪ For 5 (22 percent) of 23 applicable procurements, the evaluator scores were manually entered in the score tabulation section of the evaluation tool. The evaluation tool has a control that automatically copies evaluator scores from the evaluator score sheets into the tabulation section through the formulas programmed into the evaluation tool.</li> <li>▪ For 11 (41 percent) of 27 applicable procurements, evaluators did not score all applicable criteria as required.</li> </ul>	<p>The Commission should:</p> <ul style="list-style-type: none"> <li>▪ Develop a written policy specifying the required use of the standardized evaluation tool, including its effective date.</li> <li>▪ Ensure that the procurements define the weights for calculating best value criteria as required.</li> <li>▪ Implement automated controls in its evaluation tool to prevent manual entries in the tabulation section.</li> <li>▪ Verify that evaluators have scored all criteria before scores are entered in the evaluation tool.</li> </ul>

**Summary of Errors, Weaknesses, and Recommendations Related to the  
Commission's Scoring and Evaluation of 28 Selected Procurements**

Description of Errors <sup>a</sup>	Recommendations
<p>The Commission did not consistently perform certain management activities that help to ensure the transparency and objectivity of the evaluation process. Auditors identified the following weaknesses in <b>the Commission's management of the</b> evaluation process for the procurements tested:</p> <ul style="list-style-type: none"> <li>▪ Ten (38 percent) of 26 applicable procurements were missing required documentation of the award recommendations submitted to management.</li> <li>▪ Eight (35 percent) of 23 applicable procurements did not include the evaluation results of <b>vendors'</b> oral presentations and demonstrations in the award recommendations to executive management.</li> <li>▪ Sixteen (67 percent) of 24 applicable procurements did not have evaluator comments when required. The Commission required evaluators to leave comments on evaluation score sheets for high and low scores given for certain procurements. The Commission uses evaluator comments to identify the strengths and weaknesses of vendors that are described in the award recommendations provided to executive management.</li> <li>▪ Two (7 percent) of 27 applicable procurements allowed evaluation teams to use more than one method to document evaluation scores. Evaluators for one procurement tested used two different evaluation forms. For one procurement, evaluators used one version of the evaluation form that itemized each of the criteria to be scored, and another group of evaluators used a version of the evaluation form that grouped the criteria into different categories to be scored. For one procurement, an evaluator was allowed to provide evaluation scores verbally during a conference call with the purchaser.</li> </ul>	<p>The Commission should ensure that its management activities over its evaluation process include verifying that:</p> <ul style="list-style-type: none"> <li>▪ All documentation of its award recommendations was retained in <b>the Commission's</b> procurement records.</li> <li>▪ The evaluation results of oral presentations and vendor demonstrations were included in its award recommendations.</li> <li>▪ Evaluators provided comments when required.</li> <li>▪ All evaluators used the same type of evaluation form to score vendor proposals.</li> <li>▪ Evaluators documented their scores on applicable score sheets.</li> </ul>
<p><sup>a</sup> The procurements tested may have more than one error reported in this table. As a result, the errors listed in this table should not be summed.</p>	



## Management's Responses



**TEXAS**  
Health and Human  
Services

Texas Health and Human Services Commission

### HHSC's Management Responses

#### ***An Audit Report on Scoring and Evaluation of Selected Procurements at the Health and Human Services Commission***

The Health and Human Services Commission (hereinafter referred to as "HHSC") appreciates the resources allocated by the State Auditor's Office (SAO) to further detail issues in HHSC's Procurement and Contracting Services Division (PCS), specifically issues related to the evaluation of our most complex solicitations. The errors and recommendations in the report are in line with and encompassed by those identified through various forms of rigorous internal review, and current PCS management has either taken steps to address the recommendations included in your report or set deadlines for remediating issues related to those recommendations.

Since May 2018, PCS has taken steps to review current solicitations to ensure they are compliant with state law and have reviewed the evaluations completed for such solicitations to confirm that the resulting contract awards were compliant. Both the HHSC Internal Audit team as well as PCS management have reviewed the large solicitations that were currently in various states of the process and identified deficiencies that could be corrected to ensure a fair, legal, and defensible outcome.

PCS management recognizes both the inconsistent application of policies and procedures and the absence of certain governance tools that ensure best practices. All PCS policies, procedures, and checklists have been reviewed and are being updated, rewritten and/or created to ensure compliance with state law and the *State of Texas Procurement and Contract Management Guide*. In May 2018, the *PCS 160 – HHS Solicitation Checklist – request for proposals (RFPs), request for applications (RFAs), request for qualifications (RFQs), and request for offers (RFOs)* was updated, in coordination with attorneys from HHS System Contracting and staff from the Department of Information Resources and the Office of the Comptroller of Public Accounts (hereinafter referred to as "CPA"), to include all steps and legal requirements to be completed for large procurements. In addition, PCS has created a *Legal Entity Required Screening Guide* that includes instructions and web addresses to use to complete the required vendor checks, outlined on the *PCS 160 – HHS Solicitation Checklist – RFPs, RFAs, RFQs, and RFOs*. PCS has also implemented updated proprietary and emergency purchase procedures to comply with the Texas Government Code and new CPA procedures as well as new bid room procedures to ensure the integrity of the process. Operating procedures for large procurements are being completed by the end of July 2018, and PCS management will retrain staff on the applicable state requirements required for each type of solicitation. PCS management believes that the implementation of operating procedures for each type of procurement as well as the newly developed associated

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checklists that include all requirements to be completed during a solicitation and documented in the associated procurement file should be an effective tool for staff to use to ensure compliance with agency procedures, state law, and the State of Texas Procurement and Contract Management Guide. The new operating procedures and checklist will also assist PCS managers in ensuring that the purchaser has been compliant, as both will be required to sign and certify the final checklist.

In May 2018, HHSC created a Compliance and Quality Control (CQC) team, a function that reports to the Chief Operating Officer, to review various stages of the solicitation process for on-going procurements, manage the evaluation tool and scoring process, and review, revise and create, where necessary, processes and procedures to ensure compliance with state law and the *State of Texas Procurement and Contract Management Guide*. CQC has taken steps to ensure the scored evaluation phase is more effective, accurate and consistent and will assist purchasers and program personnel in developing scored criteria and will aggregate the scores once evaluations are finalized. CQC adopted operating procedures in June 2018 for PCS staff to follow when processing a solicitation that requires CQC review, including that all RFPs, RFAs, RFOs, RFQs, and RFIs be submitted to CQC for review and approval prior to posting the solicitation; that all solicitations with scored evaluations be submitted to CQC financial analysts for review and approval of the evaluation tool and scored evaluation criteria; and that the compilation and final scoring for solicitations with scored evaluations be completed by CQC financial analysts. A financial analyst will review, customize and approve the evaluation tool, review and approve the draft evaluator score sheet, review the completed evaluator score sheets for inconsistencies, aggregate the score sheets after evaluation using the evaluation tool, review rescoring, if applicable, and provide the final master score sheet to the purchaser. This allows PCS to match skill sets with job duties, provides internal resources to purchasers, and establishes consistency across procurement projects. In addition, HHSC will add transparency to the evaluation phase by including sub-criteria and weights in all solicitation documents, and the standard language for oral presentations or interviews in certain solicitation documents will be clarified if the evaluation intends on utilizing such oral presentation or interview as a strong determining factor.

Finally, HHSC has engaged a consultant whose work will culminate in a redesign of the PCS procurement operation. This will ensure that best practices and compliance are consistently embedded in policies, procedures, and IT system design; that best practices and compliance are communicated through an effective training program; and that purchasers execute and document according to best practices. Upon receipt of recommendations by the consultant, HHSC will revise operations and procedures accordingly.

**Recommendation:**

The Commission should ensure that scoring is accurate and consistent for future procurements.

**Management Response**

HHSC PCS took steps to ensure the scored evaluation phase is more effective, accurate, and consistent. HHSC established a CQC team as referenced above. CQC adopted operating procedures in June 2018. The procedures require the analysis, reconciliation, and validation of all score sheets; aggregation of final scores sheets into the final evaluation tool; and documentation of all CQC actions in the appropriate procurement file. The operating procedures address oversight of scoring activities within CQC by requiring an internal review of all work products including score sheets, outlier analysis, and final evaluation tools.

HHSC is currently engaging a consultant to complete an assessment of the current procurement and contracting practice and assist with a redesign, as necessary. At that time, operating procedures, processes, and manuals will be revised accordingly.

**Implementation Date:**

Completed.

Any relevant contractor deliverables related to redesign are expected by September 30, 2018, and HHSC will implement applicable contractor recommendations by December 31, 2018.

**Responsible Party:**

Deputy Executive Commissioner, Procurement and Contracting Services

**Recommendation:**

The Commission should perform a reconciliation of its evaluation tool before calculating evaluation results to verify that (1) all scores recorded in the evaluation tool match evaluator score sheets and (2) the correct weighted averages were used to calculate final evaluation scores.

**Management Response**

During the months of March 2018 and June 2018, HHSC PCS took steps to ensure reconciliation and validation of score sheets, final evaluation tools, and the transfer of information between the two. HHSC established a CQC team as referenced in the above and adopted operating procedures in June 2018. The operating procedures require that evaluator score sheets not allow scores outside of the rating scale; that the final evaluation tool be designed to maximize consistent use of formulas and links; and that outliers be identified and analyzed. The operating procedures address oversight of scoring activities within CQC by requiring an internal review of all work products including score sheets, outlier analysis, and final evaluation tools.

HHSC is currently engaging a consultant to complete an assessment of the current procurement and contracting practice and assist with a redesign, as necessary. At that time, operating procedures, processes, and manuals will be revised accordingly.

**Implementation Date:**

Completed.

Any relevant contractor deliverables related to redesign are expected by September 30, 2018, and HHSC will implement applicable contractor recommendations by December 31, 2018.

**Responsible Party:**

Deputy Executive Commissioner, Procurement and Contracting Services

**Recommendation:**

The Commission should ensure that its purchasing staff comply with its established procedures for resolving outlier scores and scoring vendor proposals.

**Management Response**

HHSC PCS took steps to ensure purchasing staff comply with procedures for resolving outlier scores and scoring vendor proposals. HHSC established a CQC team as referenced above and adopted operating procedures in June 2018. The operating procedures require that evaluator score sheets not allow scores outside of the rating scale; that score sheets are designed such that evaluators can only edit applicable fields; and that outliers be identified, analyzed, and documented. The operating procedures address oversight of scoring activities

within CQC by requiring an internal review of all work products including score sheets, outlier analysis, and final evaluation tools.

HHSC is currently engaging a consultant to complete an assessment of the current procurement and contracting practice and assist with a redesign, as necessary. At that time, operating procedures, processes, and manuals will be revised accordingly.

**Implementation Date:**

Completed.

Any relevant contractor deliverables related to redesign are expected by September 30, 2018, and HHSC will implement applicable contractor recommendations by December 31, 2018.

**Responsible Party:**

Deputy Executive Commissioner, Procurement and Contracting Services

**Recommendation:**

The Commission should ensure that it retains all documentation for each procurement.

**Management Response**

As stated above, the *PCS 160 – HHS Solicitation Checklist – RFPs, RFAs, RFQs, and RFOs* was updated, in coordination with attorneys from HHS System Contracting and staff from the Department of Information Resources and the CPA, to include all requirements to be completed for large procurements. At the end of the procurement, the purchaser, as well as the purchaser's manager, is required to sign and certify that all actions have been completed and included in the procurement file. In addition, the CQC team will be sample reviewing at different stages of the procurement process to ensure that staff is complying with policies and procedures, including properly documenting the procurement file. The sample review process is included in CQC operating procedures effective June 2018.

**Implementation Date:**

Completed.

**Responsible Party:**

Deputy Executive Commissioner, Procurement and Contracting Services

**Recommendation:**

The Commission should:

- Develop a written policy specifying the required use of the standardized evaluation tool, including its effective date.
- Ensure that the procurements define the weights for calculating best value criteria as required.
- Implement automated controls in its evaluation tool to prevent manual entries in the tabulation section.
- Verify that all criteria are scored by evaluators before entering scores into the evaluation tool.

**Management Response**

The CQC operating procedures effective June 2018 require all RFPs, RFAs, RFOs, RFQs, and RFIs be submitted to CQC for review and approval prior to posting the solicitation; that all solicitations with scored evaluations be submitted to CQC for review and approval of the proposed scored criteria, evaluator score sheets, and final evaluation tool; and that the compilation and final scoring for solicitations with scored evaluations be completed by CQC.

The operating procedures require that evaluator score sheets not allow scores outside of the rating scale; that the final evaluation tool be designed to maximize consistent use formulas and links; and that outliers be identified, analyzed, and documented.

CQC operating procedures also require procurement managers and/or individual purchasers provide supporting documentation demonstrating all requirements have been met including requirement to have evaluator score sheets, scored criteria, and final evaluation tool reviewed and approved by CQC.

PCS management believes that leveraging the newly established CQC function to ensure consistency and accuracy in the evaluation process provides greater value to

the HHSC procurement process than the implementation of standard template scores sheets or final evaluation tools.

HHSC is currently engaging a consultant to complete an assessment of the current procurement and contracting practice and assist with a redesign, as necessary. At that time, operating procedures, processes and manuals will be revised accordingly.

**Implementation Date:**

Completed.

Any relevant contractor deliverables related to redesign are expected by September 30, 2018, and HHSC will implement applicable contractor recommendations by December 31, 2018.

**Responsible Party:**

Deputy Executive Commissioner, Procurement and Contracting Services

**Recommendation:**

The Commission should ensure that its management activities over its evaluation process include verifying that:

- All documentation of its award recommendations was retained in the Commission's procurement records.
- The evaluation results of oral presentations and vendor demonstrations were included in its award recommendations.
- Evaluators provided comments when required.
- All evaluators used the same type of evaluation form to score vendor proposals.
- Evaluators documented their scores on applicable score sheets.

**Management Response**

As stated above, the *PCS 160 – HHS Solicitation Checklist – RFPs, RFAs, RFQs, and RFOs* was updated, in coordination with attorneys from HHS System Contracting and staff from DIR and the CPA, to include all requirements to be completed for large procurements. At the end of the procurement, the purchaser, as well as the purchaser's manager, is required to sign and certify that all actions have been completed and included in the procurement file. In addition, CQC will be sample reviewing at different stages of the procurement process to ensure that staff is complying with policies and procedures, including properly documenting the procurement file.

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As previously stated, CQC operating procedures require all RFPs, RFAs, RFOs, RFQs, and RFIs be submitted to CQC for review and approval prior to posting the solicitation; that all solicitations with scored evaluations be submitted to CQC for review and approval of the proposed scored criteria, evaluator score sheets, and final evaluation tool; and that the compilation and final scoring for solicitations with scored evaluations be completed by CQC.

The operating procedures require that evaluator score sheets not allow scores outside of the rating scale; that the final evaluation tool be designed to maximize consistent use formulas and links; and that outliers be identified, analyzed, and documented.

CQC operating procedures also require procurement managers and/or individual purchasers provide supporting documentation demonstrating all requirements have been met including requirement to have evaluator score sheets, scored criteria, and final evaluation tool reviewed and approved by CQC.

HHSC is currently engaging a consultant to complete an assessment of the current procurement and contracting practice and assist with a redesign, as necessary. At that time, operating procedures, processes, and manuals will be revised accordingly.

**Implementation Date:**

Completed.

Any relevant contractor deliverables related to redesign are expected September 30, 2018, and HHSC will implement applicable contractor recommendations by December 31, 2018.

**Responsible Party:**

Deputy Executive Commissioner, Procurement and Contracting Services



## Summary of 28 Selected Procurements Audited

Table 2 lists each of the procurements that auditors tested. The procurements are listed according to the type of good or service and are listed in chronological order in each section starting with the most recent date. The Health and Human Services Commission (Commission) either awarded or considered an award for these procurements between January 1, 2015, and March 31, 2018.

Table 2

Health and Human Services Commission Procurements Tested During This Audit				
Item No.	Solicitation Date	Procurement Name	Number of Awards Associated with Procurement	Total Amount <sup>a</sup>
General Services				
1	June 9, 2017	HIV State Pharmacy Assistance Program	1	\$ 10,000,000
2	February 21, 2017	Children's Health Insurance Program Rural Service Area	3 <sup>b</sup>	350,000,000
3	November 1, 2016	Texas Veterans + Family Alliance Grant Program Phase II B	20 <sup>c</sup>	18,917,541
4	November 10, 2015	Alternatives to Abortion	1	18,767,616
5	September 29, 2015	Data Broker Services	1	73,056,699
6	January 23, 2015	Business Process Redesign	1	17,450,777
7	December 22, 2014 <sup>d</sup>	Eligibility Support Services	1	535,818,803
8	July 17, 2014 <sup>d</sup>	STAR Kids	10	3,010,762,468
Subtotal				\$4,034,773,904
Information Technology				
9	August 7, 2017	State Unit on Aging Information Management System	1	\$ 1,800,000
10	April 3, 2017	Independent Verification and Validation Services	1	6,328,952

Health and Human Services Commission Procurements Tested During This Audit				
Item No.	Solicitation Date	Procurement Name	Number of Awards Associated with Procurement	Total Amount <sup>a</sup>
11	March 17, 2017	Asset Tracking and Management Solution	1	5,000,000
12	January 3, 2017	Protecting People in Regulated Facilities / Regulatory Services Systems Modernization Project	1	6,066,000
13	March 4, 2016	Child-Care Licensing Automation Support System Upgrade	1	6,600,000
14	July 2, 2015	Information Technology Service Desk and Desk-side Support Services	1	6,160,840
15	May 11, 2015	Seat Management Services <sup>e</sup>	1	40,000,000
16	March 23, 2015	Hardware Acquisition and Leasing	1	68,430,456
Subtotal				\$140,386,248
Professional Services				
17	November 29, 2016	Supplemental Nutrition Assistance Program Education	1	\$7,457,550
Subtotal				\$7,457,550
Staff Augmentation				
18	November 17, 2015	Online Information Management Protecting Adults and Children of Texas Modernization Phase 2	1	\$22,274,918
Subtotal				\$22,274,918
Category Not Assigned as of March 31, 2018				
19	December 8, 2017	Community Mental Health Grant Program	To Be Determined <sup>f</sup>	\$30,000,000 <sup>g</sup>
20	October 18, 2017	Community Based Care (Region 2)	To Be Determined <sup>f</sup>	39,000,000 <sup>g</sup>

Health and Human Services Commission Procurements Tested During This Audit				
Item No.	Solicitation Date	Procurement Name	Number of Awards Associated with Procurement	Total Amount <sup>a</sup>
21	October 13, 2017	Texas Veterans + Family Alliance Grant Program	20 <sup>c</sup>	10,000,000 <sup>g</sup>
22	October 3, 2017	Conference Planning and Coordination Services	3 <sup>h</sup>	15,000,000 <sup>i</sup>
23	February 17, 2017	Provider Management and Enrollment System	To Be Determined <sup>f</sup>	45,737,140 <sup>g</sup>
24	February 10, 2017	Vendor Drug Program Pharmacy Benefit Services	1 <sup>j</sup>	28,538,040 <sup>g</sup>
25	September 13, 2016	Programs of All-Inclusive Care for the Elderly	1	75,652,550
26	March 16, 2015	Nurse Family Partnership Program Services	14 <sup>c</sup>	43,619,779
27	December 31, 2014 <sup>d</sup>	Texas Home Visiting Program	6 <sup>c</sup>	25,043,220
28	October 20, 2014 <sup>d</sup>	Voice Communication Services	1	48,169,929
Subtotal				\$ 360,760,658
Total for All Procurements				\$4,565,653,278
<p><sup>a</sup> The total amount is based on information that the Commission reported in its System of Contract Operation and Reporting database or to the Legislative Budget Board.</p> <p><sup>b</sup> The Commission reported that it cancelled the associated contracts on April 6, 2018.</p> <p><sup>c</sup> <b>The number of awards reported is based on the Commission's award recommendations presented to executive management.</b></p> <p><sup>d</sup> The evaluation scoring for this procurement occurred after January 1, 2015.</p> <p><sup>e</sup> For the purposes of this procurement, seat management includes account management, repair services, installation/de-installation services, equipment moves, return services, and other services as needed to statewide Commission locations. This included desktop computers, laptop computers, tablets, and other equivalent personal computing devices, along with extended warranty options.</p> <p><sup>f</sup> The Commission had not recommended any vendors for an award as of May 31, 2018.</p> <p><sup>g</sup> This total amount is an estimated amount reported by the Commission.</p> <p><sup>h</sup> The Commission reported that it cancelled the contracts associated with this procurement on May 30, 2018.</p> <p><sup>i</sup> The total amount is based on the award recommendations associated with this procurement.</p> <p><sup>j</sup> The Commission reported that it cancelled this procurement on May 30, 2018, before a contract was executed with the awarded vendor.</p>				

Sources: The Commission and the Legislative Budget Board.

## Related State Auditor's Office Work

The findings and recommendations presented in this report are similar to findings and recommendations previously reported to the Health and Human Services Commission (Commission) from prior audits of the Commission's contracts. The contracts that were previously audited were not reviewed for this audit. Table 3 lists those prior audits, including the name of the contract audited, a summary of the findings, and recommendations related to the issues in this report.

Table 3

Related State Auditor's Office Work		
Number	Product Name	Release Date
18-025	An Audit Report on a Selected Contract at the Department of State Health Services	April 2018
<p>Contract Audited Texas Electronic Vital Events Registrar System</p> <p>Summary of Related Finding <b>The Commission's award recommendation to the Department was based</b> on an erroneous compilation and calculation of evaluation scores.</p> <p>Recommendation The Commission should require a secondary review to verify that the mathematical formulas and evaluation scores calculated with the evaluation tool are accurate, consistent, and complete.</p>		
16-031	An Audit Report on a Selected Contract at the Department of State Health Services	June 2016
<p>Contract Audited Pharmaceutical Wholesaler</p> <p>Summary of Related Finding The Commission did not ensure that the proposal evaluation forms were complete and accurate.</p> <p>Recommendations The Commission should:</p> <ul style="list-style-type: none"> <li>▪ Ensure that each member of the evaluation team provides an evaluation score for each solicitation criterion.</li> <li>▪ Conduct and document a secondary review of individual evaluations and the combined evaluation matrix to verify completeness and accuracy.</li> </ul>		
15-030	An Audit Report on Procurement for Terrell State Hospital Operations at the Health and Human Services Commission and the Department of State Health Services	March 2015
<p>Contract Audited Management Operations at Terrell State Hospital</p> <p>Summary of Related Finding The Commission did not correctly compile and accurately calculate the overall evaluation score for the proposal submitted by the vendor to which it tentatively awarded a contract.</p> <p>Recommendations The Commission should:</p> <ul style="list-style-type: none"> <li>▪ Ensure that each member of an evaluation team provides a single evaluation score for each solicitation requirement that a member reviews.</li> <li>▪ Accurately calculate overall evaluation scores according to the evaluation scores provided by all members of an evaluation team.</li> <li>▪ The Commission should allow members of the evaluation team to meet and discuss variances in evaluation scores to assist with ensuring that they all have the same understanding of the solicitation requirements and access to information available for evaluating proposals.</li> </ul>		

## **Objective, Scope, and Methodology**

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### Objective

The objective of this audit was to determine whether the Health and Human Services Commission's (Commission) contract procurement processes accurately calculated the evaluation scores that it used to support its award decisions for major contracts.

### Scope

The scope of this audit covered evaluations of vendor proposals for selected procurements the Commission conducted from January 1, 2015, through March 31, 2018.

### Methodology

The audit methodology consisted of collecting and reviewing procurement documentation related to the evaluation scoring for the selected procurements; conducting interviews with Commission staff; and reviewing Commission policies and procedures.

### Data Reliability and Completeness

Auditors used contract data in the Commission's System of Contract Operation and Reporting (SCOR) database to identify the population of the Commission's procurements and select a sample. Auditors also reviewed parameters the Commission used to extract data from the SCOR database.

Auditors noted inaccuracies in the data provided and could not verify whether all of the Commission's contracts were included in the SCOR database. As a result, auditors determined that the data entered in that database was of undetermined reliability for the purposes of this audit. However, it was the most complete information available, and auditors used it for the purposes of this audit.

### Sampling Methodology

Auditors selected a sample of procurements that the Commission processed between January 1, 2015, and March 31, 2018. The sample was selected using a risk-based approach that considered the contract dollar amounts, type, and award dates along with recent audit coverage based on information from (1) SCOR, (2) contract-related information the Commission reported to the Legislative Budget Board, and (3) pending procurement information the Commission provided.

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:

- Commission procurement records, including evaluation scoring documentation for selected procurements.
- Commission policies and procedures related to evaluation scoring.
- Information on Commission contracts and pending procurements from the Commission, SCOR, and the Legislative Budget Board's contract database.

Procedures and tests conducted included the following:

- Interviewed Commission management and staff.
- Reviewed Commission procurement policies and procedures.
- Tested whether evaluation scoring was completed and documented accurately for selected procurements.

Criteria used included the following:

- *State of Texas Contract Management Guide* (Version 1.14, September 2015; Version 1.15, March 2016; and Version 1.16, September 2016).
- *State of Texas Procurement Manual* (2012 and 2017).
- *Health and Human Services System Contract Management Handbook*.
- *Health and Human Services Procurement Manual*.
- Commission policies and procedures.

## Project Information

Audit fieldwork was conducted from April 2018 through June 2018. 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:

- Willie J. Hicks, MBA, CGAP (Project Manager)
- Tammie Wells, MBA, CIA, CFE (Assistant Project Manager)
- Kirstin Adamcik, MBA
- Ileana Barboza, MBA, CGAP
- Mohammad Ali Bawany, MS
- Ryan Marshall Belcik, MBA
- Michael Bennett
- Rachel Berryhill
- Kelly Bratton, CFSA, CRMA, MBA
- James Collins
- Rebecca Franklin, CISA, CGAP, CFE
- Jennifer Fries, MS
- Shahpar Michelle Hernandez, CPA, M/SBT, CISA
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- Link Wilson
- Michael Yokie, CISA
- Julia Youssefnia, CPA
- Brenda Zamarripa, CGAP
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- John Young, MPAff (Audit Manager)



## Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. 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; violation of 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 4 provides a description of the issue ratings.

Table 4

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.