Texas Department of Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

Procurement and Contract Management Audit Report
19-10

Internal Audit Division
July 2019

Texas Department *of* Motor Vehicles

Procurement and Contract Management, 19-10
Executive Summary

BACKGROUND

The Purchasing Section is responsible for overseeing, coordinating, facilitating, and managing procurement and contract related activities for all TxDMV offices. Purchasing staff are available to assist TxDMV employees with procurement and contract related questions. Purchasing's efforts are focused on procurement and contracting activities to obtain the best value for the agency.

Contract management activities include administering and monitoring contracts/purchase orders after the award and during implementation. The Department manages contracts by measuring completed work, computing and approving payments, monitoring contract performance, incorporating necessary changes and modifications to the contract, and actively interacting with contractors to achieve the contract objectives.

The objectives of the audit were to determine the following:

- To determine whether the procurement process is achieving desired outcomes.

- To determine whether the contract management process is achieving desired outcomes.

RECOMMENDATIONS

The Internal Audit Division (IAD) made eight audit recommendations to purchasing and contract management processes. Six of these recommendations were rated HIGH.

RESULTS

IAD found that the purchasing and contract management processes are at a level 2 maturity rating, where a process is repeatable but intuitive. The function developed a process where similar procedures are followed by several employees, but the results may not be consistent. The process is not completely documented and has not been sufficiently evaluated to address risk.

While purchasing and contract monitoring processes have been established to provide oversight, facilitation, and management of activities, these processes have not been fully effective due to how the processes were designed. These processes, also, do not ensure full compliance with applicable laws and regulations or allow for effective monitoring of procurement and contract.

MANAGEMENT RESPONSE

Management agrees with all the audit recommendations and has begun implementing several of these recommendations. Most of these recommendations will be implemented by September 1, 2019. The latest implementation date is December 31, 2020 for an audit recommendation that requires all agency staff that monitors contracts to be certified.

Contents

Overall Conclusion

Maturity Assessment Rating

2: <u>Repeatable but intuitive process level</u> - The function developed a process where similar procedures are followed by several employees, but the results may not be consistent. The process is not completely documented and has not been sufficiently evaluated to address risk.

Other possible ratings and definitions can be found in Appendix 1, under Maturity Assessment Rating Definition.

Strengths

+ Prior to the commencement of the audit, Finance and Administrative Services (FAS) Division management identified a need for purchasing and contract management process improvements and began taking action. The actions included reorganizing to create staff solely dedicated to developing and monitoring contracts and complex procurements.

+ The Department purchases items in a timely manner. On average, 92% of Department purchases were dispatched within 18 days. Other state agencies take an average 74 days to purchase goods and services.

Improvement

Historically, the Department focused on quickly processing purchasing requests. This approach has led to inconsistent purchasing processes throughout the Department and led to a reactive approach to contract management. Below are the audit results that further expand on these areas (click on the links to go directly to the result and recommendations).

- **Audit Result #1: <u>The purchasing process has focused on obtaining goods and services quickly, but not purchasing goods and services efficiently</u>**.

   o <u>Recommendation #1:</u> The Finance and Administrative Services Division should develop and document a process for how to assign requisitions to Purchasing Section staff. **(HIGH)**

   o <u>Recommendation #2:</u> The Finance and Administrative Services Division should develop purchasing strategies that include specific purchasing timeframes to consolidate certain high volume, low-dollar transactions. (**HIGH**)

   o <u>Recommendation #3:</u> The Finance and Administrative Services Division and the Office of General Counsel should create a risk-based process to determine which purchases or contracts (including solicitations) should go through an OGC review prior to execution. (**HIGH**)

- **Audit Result #2:** <u>The Peer Review process does not always ensure compliance with applicable laws and regulations.</u>

    o <u>Recommendation #1:</u> The Finance and Administrative Services Division should revise the Peer Review Checklist to include all relevant requirements of the Comptroller Procurement and Contract Management Guide, including a conflict of interest disclosure and review of vendor franchise tax standing. (**LOW**)

    o <u>Recommendation #2</u>: The Finance and Administrative Services Division should develop a monitoring process to ensure the peer review process is consistently applied and completed timely. (**HIGH**)

- **Audit Result #3:** <u>Contract monitoring practices do not ensure contracts meet the needs of the Department.</u>

    o <u>Recommendation #1:</u> The Department should create a monitoring process for contract management that includes information on deliverables, reporting time frames, and contract manager oversight of the contract monitoring. The monitoring process should also include information and procedures on how to handle follow-up action, corrective action monitoring, site visits, and status/activity reports. (**HIGH**)

    o <u>Recommendation #2:</u> The Department should ensure that staff obtain required contract manager certification if they are managing contracts with a combined value exceeding $5,000,000. (**HIGH**)

- **Audit Result #4:** <u>The Department is mostly in compliance with the Legislative Budget Board contract reporting requirements.</u>

    o <u>Recommendation #1:</u> The Finance and Administrative Services Division should develop and implement a reconciliation or review process to ensure all required purchase orders are reported to the LBB. (**LOW**)

The detailed audit results can be found under the Audit Results section of this report (begins on page 7).

Observations

- The Department uses the Centralized Accounting and Payroll/Personnel System (CAPPS) for processing purchases. CAPPS is administered by the Texas Comptroller of Public Accounts (Comptroller). Changes to CAPPS, including any reports, require a service request submission to the Comptroller CAPPS Help Desk. The Comptroller prioritizes the service requests and informs agencies on when and if the service request will be completed. Since TxDMV does not control CAPPs, financial reports cannot be easily updated.

  The CAPPS financial reports available are not formatted correctly and key procurement information is scattered throughout several reports. The report formats have limited the Department's ability to fully monitor the procurement process. During the audit testing, the

Internal Audit Division (IAD) had to take five CAPPS financial reports and modify them to obtain information related to purchasing timelines, workforce assignments, and purchasing process duration. While all data was available in CAPPS, significant time was spent modifying the data to obtain the necessary information.

- IAD could not find two of five Purchase Order files selected for testing because the Department has inadvertently archived these active files. These files were later located, but the Department needs to ensure that files for active procurements are readily available to ensure the procurements are properly monitored.

Background

Purchasing Function

During fiscal year (FY) 2018 through February 2019, the Department procured $79,381,542 of goods and services for Department use. These goods and services were procured through the Purchasing Section of the Department.

The Purchasing Section is within the Finance and Administrative Services (FAS) Division. The Purchasing Section is responsible for procuring all the Department's goods and services throughout the state. The Purchasing Section also provides contract activity oversight and coordinates the Historically Underutilized Business Program.

The Purchasing Section reports through the Assistant Chief Financial Officer and has eight Full-Time Equivalents (FTEs):

- Purchasing Director/Historically Underutilized Business (HUB) Coordinator

- Assistant HUB Coordinator

- Contract Specialist V

- Purchaser VI

- Purchaser III

- Purchaser II

- Purchaser II

- Purchaser I

These eight FTEs assist, review, recommend, approve, and record procurements of goods and/or services in accordance with statute, regulations and internal policies.

Purchasing Process

After a division identifies a need for a good or service, the divisional staff submit a requisition in the Centralized Accounting and Payroll/Personnel System (CAPPS). Requisitions are approved by divisional management and FAS Division Budget staff prior to being sent to the Purchasing Section for processing. Once the requisition is sent to the Purchasing Section, the Purchasing Director reviews and assigns requisitions to Purchasing Section FTEs. The assignment is based on the requisition's complexity, cost, and workload. Typically, a Purchaser with a higher classification level (e.g., Purchaser VI) would be assigned the more complex and higher price requisitions. For example, a Purchaser I would be mostly assigned office supply requisitions while a Purchaser VI would be mostly assigned to enterprise-wide purchases.

Additional purchasing responsibilities at each level include the following:

- Purchasers II – VI are responsible for open market solicitations.

- Purchaser III is responsible for developing Invitations for Bids (IFBs).

- Purchaser VI is responsible for developing Requests for Proposals (RFPs) and Requests for Offers (RFOs) for goods and services worth more than $100,000.

- Contract Specialist V is responsible for open market solicitations and IT acquisitions.

Once a requisition is assigned to a Purchasing Section FTE, they manually source the requisition and prepare and dispatch (e.g., buy) a purchase order to the selected supplier(s) within CAPPS. They also use Texas SmartBuy, the Comptroller website, and various vendor websites to complete the purchase. Purchasing Section FTEs analyze requirements related to needed terms and conditions, preferences and prohibitions on various types of goods and services, and documentation requirements to ensure compliance with applicable laws and regulations.

After dispatching purchase orders, Purchasing Section FTEs utilize a Peer Review process to ensure the purchase met the requirements defined by the Comptroller Procurement and Contract Management Guide and that all required documents are part of the Purchase Order file. Purchasing Section FTEs document the review through the Peer Review Checklist. The checklist is kept with the Purchase Order file.

Contract Management Process

Contract management activities include the following: measuring completed work, computing and approving payments, monitoring contract performance, incorporating necessary changes and modifications to the contract, and actively interacting with contractors to achieve the contract objectives.

The Department developed the Texas Department of Motor Vehicles (TxDMV) Contract Management Handbook to establish consistent contract management policies and procedures for TxDMV employees involved in contract management activities. The handbook standardized the Department's approach to managing contracts.

The handbook states all contracts/purchase orders are formally monitored through a contract monitor and contract administrator. The contract monitor is from the requesting division while the contract administrator is from the Purchasing Section and have the following roles and responsibilities:

- Contract monitors manage the day-to day of the performance of the purchase order/contract and report progress of to ensure contract terms are met.

- Contract administrators facilitate procurement and contract management processes to ensure compliance with all applicable state law, policies, and guidelines. Contract administrators oversee the management of the purchase/order and provide guidance and support to contract monitors as well as facilitate communication with vendors on any contract issues.

The contract monitor and the division are responsible for developing a process to monitor each contract/purchase order. The monitoring process does not have to be approved or reviewed by the contract administrator.

Currently, the Department manages 119 contracts with a total contract value of $129,956,016.

Audit Engagement Team

The audit was performed by Jacob Geray (Internal Auditor), Jason E. Gonzalez (Senior Internal Auditor), and Sandra Menjivar-Suddeath (Internal Audit Director).

Audit Results

The purchasing process has focused on obtaining goods and services quickly, but not purchasing goods and services efficiently.

Current State (Condition)

The Department has focused on obtaining goods and services quickly without considering the efficiency of the process. During the 18-month analysis, the Department purchased most goods and services within a 19-day timeframe. To achieve this, staff were assigned requisitions as they were received instead of being assigned by purchasing complexity and responsibility.

Further, the Department has allowed divisions to enter multiple requisitions each month for similar items, such as office supplies. Monthly, divisions submitted an average of 29 requisitions just for office supplies.

Impact (Effect)

Purchasing Section staff have spent their time on repetitive and low-value line items instead of focusing on key responsibilities, such as appropriate procurement requisition and contract monitoring. IAD estimates that the Department expends $72,142 in salary to purchase $87,404 in office supplies each year.

This has also lead to unclear Purchasing Section staff responsibilities. During the analysis, the contract specialist FTE, who is responsible for monitoring and developing Department contracts, processed an average 25 requisitions a month while the remaining purchasing staff processed an average 17 requisitions each.

Since the contract specialist was more focused on processing requisitions, it may have led to the contract monitoring issues discussed in audit result 3 and to the lack of involvement from the Office of General Counsel in reviewing highly complex or costly purchase orders/contracts. In a sample of five purchase orders that had a value over $1 million, IAD could not find any evidence that the Office of General Counsel reviewed the purchase orders to ensure terms could be met prior to execution.

Cause

The Department has not developed purchasing strategies and may not have the necessary resources to efficiently and effectively meet purchasing objectives. Currently, only one staff member from the Office of General Counsel (OGC) is assigned to review all major Department contracts or purchase orders. To address the resource limitation, the Procurement Manual allows the Purchasing Section staff to determine which purchase orders/contracts should go to the OGC for review. The TxDMV Procurement Manual also does not have measures or criteria establishing risk thresholds to ensure high risk purchase orders/contracts are reviewed by the OGC.

Expected State (Criteria)

The Department's Strategic Plan has established a goal of being performance-driven, evidenced by providing services in an effective and efficient manner that is consistent with best practices. To achieve this strategic goal, processes should be established that ensure efficiencies while conducting Department functions.

The Purchasing Section has set up expectations, through its job descriptions, that purchasing responsibilities and procurement complexity should strategically increase from the Purchaser II through the Contract Specialist V.

Evidence

- IAD reviewed all 1,842 requisitions, which included 6,215 individual line items, for goods and services submitted during an 18-month period to identify the following results:

  - Requisitions were processed within 18.78 days of being submitted.

  - The Department expends significant resources to purchase office supplies:

    - 1,962 of the 6,215 (32%) of requisition line items were for office supplies.

    - Divisions submitted an average of 29 office supply requisitions per month.

    - To process the office supply requisitions, the Department expends $72,142 to purchase $87,404.

  - Purchasing Section Staff assignments vary in average cost, total amount purchased and the amounts of requisitions processed on a monthly basis:

Buyer Level	Requisitions per Month	Average Requisition Cost	Max Requisition Cost	Total Requisition Cost
Purchaser I	22.00	$707.42	$11,761.54	$202,322.00
Purchaser II	17.70	$6,812.70	$208,000.00	$2,656,952.87
Purchaser III	18.00	$25,605.47	$1,272,403.00	$10,165,372.61
Purchaser VI	10.10	$15,598.36	$225,000.00	$2,667,319.78
Contract Specialist V	25.30	$130,164.25	$15,060,685.50	$59,224,734.64

- IAD selected five purchase orders that had a value of over one million dollars to determine if Office of General Counsel reviewed the terms of the purchase orders.

  - 5 of 5 (100%) purchase orders contained no evidence that the Office of General Counsel conducted a review prior to purchase order execution.

Recommendations

1.1 The Finance and Administrative Services Division should develop and document a process for how to assign requisitions to Purchasing Section staff. **(HIGH)**

1.2 The Finance and Administrative Services Division should develop purchasing strategies that include specific purchasing timeframes to consolidate certain high volume, low-dollar transactions. (**HIGH**)

1.3 The Finance and Administrative Services Division and the Office of General Counsel should create a risk-based process to determine which purchases or contracts (including solicitations) should go through an OGC review prior to execution. (**HIGH**)

Management Response and Action Plan

Management Response & Action Plan 1.1
Management agrees with the recommendation. The Purchasing Director will establish written procurement assignments based on categories of goods and services and dollar thresholds on an annual basis.

Management Action Plan Owner:
Debra Rosas, Director of Purchasing

Anticipated Completion Date:
September 1, 2019

Management Response & Action Plan 1.2
Management agrees with the recommendation. The FAS will develop written procurements criteria to effectively utilize bulk purchases or scheduled purchasing timelines.

Management Action Plan Owner:
Debra Rosas, FAS Division, Director of Purchasing

Anticipated Completion Date:
December 31, 2019

Management Response & Action Plan 1.3
Management agrees with the recommendation. The State of Texas Comptroller Procurement Manual does not provide guidance for legal review. The TxDMV FAS Purchasing and the Office of General Counsel (OGC) will develop a process for contracts that require legal review. The

Office of General Counsel will review whether additional resources are needed under the new process once the factors for OGC review are determined.

Management Action Plan Owners:
Debra Rosas, FAS Division, Director of Purchasing
Tracey Beaver, OGC, General Counsel

Anticipated Completion Date:
December 31, 2019

The Peer Review process does not always ensure full and consistent compliance with applicable laws and regulations.

Current State (Condition)

Purchase order files do not have the necessary documentation to verify that the purchase orders were procured in compliance with applicable purchasing laws and regulations. The key control to ensure compliance is the Peer Review process checklist. While the Peer Review checklist encompassed most of the applicable purchasing laws and regulations requirements, the checklist is missing two key requirements. In addition, the checklist is not applied consistently or timely.

The 86th Texas Legislature passed Senate Bill 65. This bill will impact the Peer Review process as it will require all contract files to be certified by the Purchasing Director. As part of the bill implementation, the Peer Review process will have to be altered. The Purchasing Section has begun developing the new process and new checklist as the bill becomes effective on September 1, 2019.

Impact (Effect)

The Department may not be purchasing goods and services in compliance with applicable purchasing laws and regulations. The checklist is missing two key compliance requirements and the checklist is not required for all purchase orders. Further, the Peer Review occurs too late to identify any issues with the purchase order. The peer review process occurs an average of six days after purchase orders are dispatched.

Cause

The Division has not developed a monitoring process to ensure the peer review process and the checklist is properly documented and timely completed for all purchase orders.

Expected State (Criteria)

The Comptroller Procurement and Contract Management Guide outlines the key requirements that must be checked for any procurement. These key requirements include reviewing conflict of interest and Franchise Tax issues prior to a procurement. The TxDMV Procurement Manual states that all Purchase Order files must have a Peer Review to ensure compliance with applicable state law and regulations.

Evidence

The Internal Audit Division selected 33 Purchase Order files to evaluate if the Peer Review occurred and if it encompassed all key compliance requirements:

- 17 of 33 (52%) Purchase Order files did not have all required information and documentation.

    - 3 of the 17 (18%) Purchase Order files had missing documentation from the file even though the checklist showed that all documentation and requirements were done.

- 4 of 33 (12%) Purchase Order files did not have evidence that a Peer Review was performed.

    - These four Purchase Order files were for Procurement Card purchases. The Procurement Card purchases have the same procurement compliance requirements as any other purchase, however, FAS Division does not subject them to a Peer Review Process.

- Peer Reviews occurred, on average, 6 days after the purchase order has been finalized.

- The Peer Review checklist was missing conflict of interest and Franchise Tax requirements.

Recommendations

2.1 The Finance and Administrative Services Division should revise the Peer Review Checklist to include all relevant requirements of the Comptroller Procurement and Contract Management Guide, including a conflict of interest disclosure and review of vendor franchise tax standing. (**LOW**)

2.2 The Finance and Administrative Services Division should develop a monitoring process to ensure the peer review process is consistently applied and completed timely. (**HIGH**)

Management Response and Action Plan

Management Response & Action Plan 2.1
Management agrees with the recommendation. The PO/Contract File Checklist will be updated to reflect the Comptroller Procurement and Contract Management Guide and 86th legislative changes.

Management Action Plan Owner(s):
Debra Rosas, FAS Division, Director of Purchasing

Anticipated Completion Date:
September 1, 2019

Management Response & Action Plan 2.2

Management agrees with the recommendation. The Purchasing Director will ensure that staff consistently perform a peer review utilizing the Department's Purchase Order file Peer Review checklist prior to dispatching a purchase order. Quarterly monitoring will be conducted by the Purchasing Director to ensure compliance.

Management Action Plan Owner(s):

Debra Rosas, FAS Division, Director of Purchasing

Anticipated Completion Date:

December 31, 2019

Contract monitoring practices do not ensure contracts meet the needs of the Department.

Current State (Condition)

Contract monitoring processes conducted by the Department do not ensure contract deliverables are appropriate or have been received and follow contract terms. In addition, the Department has staff monitoring $5 million contracts who are not certified to monitor contracts and do not have contract administrator oversight.

Impact (Effect)

The Department has reported 119 contracts with a total contract value of $129 million in FY 2018. These 119 contracts may not be sufficiently monitored to ensure contract requirements are met or delivered. IAD reviewed 10 contracts, with a combined value of $36 million, and found that these contracts had not been monitored to ensure reporting requirements had been done.

Cause

The Department designed the requirements for the contract monitoring to occur at the divisional level and does not require the contract monitor to be certified. The Department, instead, assigns a Purchasing Section FTE to be the contract administrators (e.g., staff responsible for assisting in contract monitoring) for several contracts. The contract administrators are responsible for assisting the contract monitor with any contract/purchase order issues. The contract monitors are responsible for monitoring the daily activities for the entire life of the contract/purchase order. The Department outlined their process in the TxDMV Contract Management Handbook.

TxDMV Contract Management Handbook, however, does not encompass some key practices and requirements to ensure contract deliverables are met. Specifically, the contract management manual is missing four key elements:

- Guidance or processes for defined follow-up actions;

- Methods for contract management monitoring to ensure corrective actions have been taken, identify common problem areas that might require training, and improve contract requirements for future contracts methods;

- Guidance on when to conduct site visits for higher risk or complex contracts; and

- Guidance on how to use status reports and activity reports to ensure contract deliverables are met.

Expected State (Criteria)

The Comptroller Procurement and Contract Management Guide states that agencies should implement a monitoring program that has well-defined follow-up actions and a periodic review of monitoring efforts completed by the Contract Manager.

The Comptroller also requires that a state agency employee must be certified as a Certified Texas Contract Manager to engage in contract management functions on behalf of a state agency. The Comptroller defines a contract manager as an employee who has the job title of "contract manager" or "contract administration manager" or "contract technician"; performs contract management activities as fifty percent (50%) or more of their job activities; or manages any contract in excess of $5,000,000.

Evidence

IAD selected a sample of 10 active contracts, with a combined value of over $36 million, to review contract development and monitoring processes and identified the following:

- Contract administrators were not aware that they were responsible for ensuring contract deliverables were met and did not monitor the work of the contract monitors. While contract administrators were not aware of their responsibilities related to individual contracts, the Purchasing section collectively understood that staff were responsible for assisting contract monitors and ensuring contract deliverables were met.

- No evidence existed that the contracts were monitored to ensure reporting requirements (activity reports, status reports, and financial reports) were being provided as required by the TxDMV Contract Management Handbook.

- 2 of 4 (50%) contract monitors monitored contracts valued in excess of $5,000,000 without being certified as a Certified Texas Contract Manager.

Recommendations

3.1 The Department should create a monitoring process for contract management that includes information on deliverables, reporting time frames, and contract manager oversight of the contract monitoring. The monitoring process should also include information and procedures on how to handle follow-up action, corrective action monitoring, site visits, and status/activity reports. (**HIGH**)

3.2 The Department should ensure that staff obtain required contract manager certification if they are managing contracts with a combined value exceeding $5,000,000. (**HIGH**)

Management Response and Action Plan

Management Response & Action Plan 3.1
Management agrees with the recommendation. Purchasing has developed a Contract Monitoring training module and conducted Department training on June 25, 2019. The division has also developed two templates to assist program areas with contract monitoring: Contract Monitoring Schedule and Contract Findings Report

Management Action Plan Owner:
Debra Rosas, FAS Division, Director of Purchasing

Anticipated Completion Date:
September 30, 2019

Management Response & Action Plan 3.2
Management agrees with the recommendation. Purchasing Contract staff will be required to be a Certified Texas Contract Manager (CTCM) within a year of employment with TxDMV. In addition, program monitors will be required to participate in Comptroller contract monitoring training. Requiring program monitors to participate in Comptroller contract monitoring training will require coordination with program areas.

Management Action Plan Owner:
Debra Rosas, FAS Division, Director of Purchasing

Anticipated Completion Date:
December 31, 2020

The Department is mostly in compliance with the Legislative Budget Board contract reporting requirements.

Current State (Condition)

The Department has not posted all required purchase orders on the Texas Legislative Budget Board (LBB) website. The Department, however, has made improvements to ensure compliance with reporting requirements since the Texas State Auditor's Office's FY 2019 Audit Report on "Selected Contracts at the Department of Motor Vehicles". IAD only found 6 (5%) contracts missing from the Legislative Budget Board's website that should have been posted.

Impact (Effect)

Inconsistent or non-reporting of purchase orders/contracts to the LBB could impact the Department's reputation and compliance with state law. Reputation impacts can affect LBB budget and policy recommendations for legislative appropriation.

Cause

A monitoring process has not been developed to ensure all required contracts are reported to the LBB.

Expected State (Criteria)

State law requires that all contracts in excess of $50,000 must be reported to the LBB within 30 days of award or notification.

Evidence

IAD reviewed all contracts/purchase order that should have been posted to the LBB website in FY 2018 and FY2019 and found the following:

- 6 of 122 purchase orders/contracts (5%) were not reported or correctly posted on the LBB website as required.

    - 3 of 6 purchase orders/contracts were subsequently found on the LBB website, however, the purchase order/contracts had the incorrect number.

Recommendations

4.1 The Finance and Administrative Services Division should develop and implement a reconciliation or review process to ensure all required purchase orders are reported to the LBB. (**LOW**)

Management Response and Action Plan

Management Response & Action Plan 4.1

Management agrees with the recommendation. Purchasing staff are utilizing Legislative Budget Board's instructions for reporting appropriate contracts in ABEST. Overview of Contract Reporting Requirements 2018-19, LBB Detailed Contract Reporting Requirements, and LBB Contracts Database New Interface User Guide. In addition, quarterly monitoring is conducted by another FAS department to ensure accurate reporting

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Management Action Plan Owners:

Debra Rosas, FAS Division, Director of Purchasing

Sergio Rey, FAS Division, Assistant Chief Financial Officer (CFO)

Anticipated Completion Date:

September 1, 2019

Appendix 1: Objectives, Scope, Methodology, and Rating Information

Objectives

The audit objectives were the following:

- To determine whether the procurement process is achieving desired outcomes

- To determine whether the contract management process is achieving desired outcomes.

Scope and Methodology

The scope of the audit included review of purchasing processes, strategies, assignments and trends and transactions that occurred from September 1, 2017 to February 2019.

Information and documents reviewed in the audit included the following:

- Comptroller Purchasing and Contract Management Guide

- TxDMV Contract Management Handbook

- Interviews with TxDMV Purchasing Section management and staff

- Interviews with Division Contract Monitors

- Interviews with Contract Managers

- TxDMV Procurement Manual

- Texas State Auditor's Office Audit Report "Selected Contract at the Department of Motor Vehicles" February 2019

- FY 2018 and 2019 Purchase Orders

- TxDMV FY 2019 Annual Strategic Plan

- Texas Legislative Budget Board Contract Reporting Guide

- Purchasing Staff Job Descriptions

- Texas Legislative Budget Board TxDMV Reported Contracts

This audit was included in the FY 2019 Audit Plan. The Internal Audit Division conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the Internal Standards for the Professional Practice of Internal Auditing. Those standards require that IAD 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. IAD believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Report Distribution

In accordance with the Texas Internal Auditing Act, this report is distributed to the Board of the Texas Department of Motor Vehicles, Governor's Office of Budget, Planning, and Policy, Legislative Budget Board. State Auditor's Office, and the Sunset Advisory Commission. The report was also distributed to the Department's executive management team.

Ratings Information

IAD derived the maturity assessment ratings and definitions from the Control Objectives of Information and Related Technologies (COBIT) 5 IT Governance Framework and Maturity Model and the Enterprise Risk Management (ERM) Maturity Model. The model was adapted for the TxDMV assurance audit purposes and does not provide a guarantee against reporting misstatement and reliability, non-compliance, or operational impacts. The ratings and definitions are provided in Table 1.

Table 1. Audit Rating Definitions

Rating	Name	Definition
0	Non-existent	The function used no process since a standardized process is not defined or being used.
1	Initial and Ad hoc	The function used an ad hoc approach when issues arise because a standardized process is not defined.
2	Repeatable but Intuitive	The function developed a process where similar procedures are followed by several employees, but the results may not be consistent. The process is not completely documented and has not been sufficiently evaluated to address risks.
3	Defined	The function followed a standardized, documented, and communicated process. The process, however, may not detect any deviation due to the process not being sufficiently evaluated to address risks.
4	Managed and Measurable	The function followed a standardized, documented, and communicated process that is monitored and measured for compliance. The function evaluated the process for constant improvement and provides good practice. The process could be improved with the use of more information technology to help automate the workflow and improve quality and effectiveness.
5	Refined	The function followed a standardized, documented, and communicated process defined as having a good process that results from continuous improvement and the use of technology. Information technology was used in an integrated way to automate workflow and to improve quality and effectiveness of the process.

Recommendation Rating Criteria

The IAD rates audit recommendation's priority (i.e., HIGH or LOW) to help the TxDMV board and executive management identify the importance of the recommendation (see Table 1 below).

Table 1. Recommendation Criteria

Priority	Criteria
Low	- Requires only a written policy or procedure update - Exception rates are within the acceptable risk tolerance range of the division - External audit recommendations identified that are not a reoccurring or regulatory issue
High	- Request by TxDMV board or executive management - Exception rates higher than the acceptable risk tolerance range of the division - Requires developing new process or procedures to address recommendations - Audit recommendations identified as a reoccurring or regulatory issue