

TxDOT Internal Audit
Travel Division Operations Audit (1405-1)
Department-wide Report

Introduction

This report has been prepared for the Transportation Commission, TxDOT Administration and Management. The report presents the results of the Travel Division (TRV) Operations Audit which was conducted as part of the Fiscal Year 2007 Audit Plan. The objectives of the audit were to determine whether the TRV's system of contract management is effective and administered in compliance with related contract specifications; and, to evaluate TRV's oversight and control activities of the Travel Information Centers (TICs) to ensure they provide reasonable assurance that the information centers are in compliance with applicable state laws, departmental policies, procedures and regulations.

Scope

Audit team members included Augustine Nwoko and Maria Alvarado with Paula Bishir-Jensen providing oversight for the audit. The audit work was conducted during the period of April through May 2007. All work was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors. Audit work included interviews with various management personnel, a review of a sample of administrative documents (e.g. the division's employee performance plans, travel expense records, procurement card activity, etc.) and a sample review of contracts and supporting documentation at both the division level and the at the TICs.

Opinion

Overall TRVs system of contract management is effective and ensures compliance with related contract specifications; and, TRVs oversight and control activities of the TICs provide reasonable assurance that the TICs are in compliance with applicable state laws, departmental policies, procedures and regulations. However several opportunities for improvement were identified and are noted in the Observations section below. Several best practices were also identified and are also noted below.

There were two issues that were not in compliance with department policy and procedures in the areas of Historically Underutilized Businesses (HUB) Subcontracting Plan and State Use contracting requirements. These issues are discussed in the Finding section below. It should be noted that both these issues are broader than TRVs authority to completely address the issues. The HUB Subcontracting Plan issue was a previous finding on another contracting audit, so it may need corrective actions by the OPRs (General Services Division, GSD, & Business Opportunities Office, BOP) as well as TRV. The State Use issue was also a previous finding on another contracting audit, so it also may need corrective actions by its OPR (Maintenance Division, MNT.)

Best Practices

The Anthony TIC has surpassed the required 4 safety meetings per Fiscal Year and several of the TICs have developed very useful checklists to monitor the Purchase of Service contracts and State Use Contracts.

Observations

No. 1: Though TRV's system of contract management seems to be effective and administered in compliance with related contract specifications, there are opportunities for improvement in the following areas:

- Ensuring there are written agreements with the freelance writers/photographers
- Establishing minimum contract file requirements. A few contracts lacked standard contract monitoring documents such as the specifications and terms and conditions
- Establishing minimum contract documentation requirements. A few contracts lacked evidence that the specification/PO requirements were being monitored (e.g. current licenses, required wage being paid, MSDS sheets) and that the required services were being performed (e.g. vendor log book, checklist for conducting inspections, inspection from vendor upon completion of services.)
- Ensuring invoices have evidence (initials) of who compared the invoice to the documentation/support of work performed
- Training project managers in contract administration

TRV Response and Action Plan:

TRV management concurs we should ensure there are written agreements with the freelance writers and photographers. As a result of this audit, the Travel Division has put in place a process which ensures that written agreements will be secured from both freelance writers and photographers. Once a verbal agreement has been made, the editorial assistant will send a written agreement form to be signed by the freelancer and TxDOT. This process will be monitored monthly by both the editor and managing editor of Texas Highways magazine through a separate reporting process which will then be reviewed by the publisher on a quarterly basis.

TRV management concurs that the contract files should contain both the specifications and the terms and conditions. The record copy holder of all Austin TRV contracts is the Administrative Services office. Due to their location and contracting assistance from the districts, the Travel Information Centers (TICs) are the record copy holder for the contracts unique to their location. However, copies of all TIC contracts are being kept in the Administrative Services office and are reviewed by the Division Administrative Manager (DAM). All files will contain the standard monitoring documents. Both the Austin contract managers and TIC contract managers will be informed on who the record copy holder is and will receive a listing of minimum contract file requirements. These minimum contract file requirements will be included in the TRV Administrative Reference Guide that is currently being updated.

TRV management concurs. As a result of this audit, all contract managers who review invoices for payment are to sign their name, instead of just providing initials, indicating the invoice has

been compared to the documentation in support of work performed. The responsibility of ensuring the invoice is ready for payment is placed on the person who reviews the invoice against the contract requirements and not on the person who signs the payment stamp and who is actually on the signature authority list for the Travel Division.

TRV management concurs that the project managers should complete the contract administration training. The Travel Division DAM will ensure all contract managers attend the Contract Management for Service Procurement training class offered by the department as availability allows.

No. 2: Though TRV's oversight and control activities of the TICs are adequate, there are opportunities for improvement in the following areas:

- The annual TIC inspections would be a more effective oversight control if items inspected included more administrative items, the inspections were less subjective, and there was a more formal follow-up process to ensure any problem/issues are addressed.
- Based on the topics listed on the Table of Contents, the draft Supervisor's Guide will enhance the oversight and control activities once complete, as long as the level of detail is sufficient enough. Also, it should include information about inviting district maintenance staff to assist in the building inspections, safety meetings including inviting the assistance by OCC, fire extinguisher requirements, guidance on State Use contracts, and guidance and best practices on contract administration requirements for all types of service contracts.
- The supervisor's conference calls seem to be an adequate oversight control as long as attendance is mandatory and the discussion includes follow-up to ensure that any issues/problems discussed are addressed.
- The Interagency Contracts (IACs) with the Texas Historical Commission (THC) and the Texas Commission on the arts (TCA) do not really have a sufficient scope of work and should reference the umbrella Memorandum of Understanding (MOU).
- While most of the procurements were within policy more oversight is needed in the areas of receipts that show what was purchased, the request needs to show a better reason why the procurement is needed, all approvals need to predate the procurement and TRV needs to keep their signature authority log current.
- The *Payroll Employee Mileage* report should be utilized to review employee mileage reimbursements; and mileage claims should be compared to the credit card procurements when mileage is claimed for procurements.
- Expectations about which functions the TIC supervisors should be attending as part of promoting tourism & public relations should be included on the supervisors' performance plans. Any functions not noted, should be approved by the section director prior to attendance at the function.
- Several of the TIC employee evaluations were past due. These should be monitored at the division level to ensure compliance.
- Access to some Information Technology (IT) Systems was not current.

- Several of the TICs were past due on their Safety Meetings. These should be monitored at the division level to ensure compliance.

TRV Response and Action Plan:

TRV agrees with this observation and the TIC inspection procedures will be revised to include improvements with emphasis placed on a formal follow-up process so that problems or outstanding issues are addressed.

The Travel Information Center Supervisor's Guide is in DRAFT status so the suggestion of providing more detailed information can be addressed fairly easily. This guide will work with the TRV Administrative Reference Guide, which will address in detail many processes to include those on contract administration. The TRV Administrative Reference Guide is scheduled to be completed by August 31, 2007. The TIC Supervisor's Guide will include additional information specific to the TICs that may not be covered in the TRV Administrative Reference Guide.

TRV agrees that the TIC supervisor conference call attendance should be mandatory and has already implemented this recommendation. Discussion will include follow-ups to ensure all issues/problems are addressed, and these follow-ups to issues will be documented in the meeting minutes.

The Interagency Contracts with the Texas Historical Commission (THC) and the Texas Commission on the Arts (TCA) contain the scope of work as outlined in the legislative riders. Both of these contracts are submitted to the Contract Services Section of the Office of General Counsel for review and approval. The TRV DAM will work with CSS on future contracts to see if the scope of work can be expanded to include the reference to the Memorandum of Understanding, but these riders are independent of the MOU. The MOU is required by Senate Bill 275, 78th Legislature, which does not reference any funds for THC or TCA.

TRV understands that this observation relates to procurement card purchases. Auditing procedures are already in place where the DAM audits every procurement card transaction made by a TRV employee. Although not outlined in the procurement card guidelines developed by GSD, TRV agrees that itemized invoices should be provided whenever possible. Internal procedures will be revised to include these instructions. TRV signature authority log is current.

TRV agrees the Payroll Employee Mileage report is a useful tool. The TRV DAM will contact the Finance Division to see if this report can be printed within the division or request that it be forwarded to the division on a more regular schedule than once every 6 months so that we may use it as outlined in the observation.

TRV concurs. Tourism and public relations functions that the supervisor should attend, and that are known at the time of the supervisor's evaluation, will be included in the supervisor's performance plan. It is correct that the functions are not listed on the plans currently, but the supervisors do receive written approval in advance to attend travel shows. The new TIC Supervisor's Guide will address obtaining approval for all other functions, such as convention

and visitors bureau meetings. The Travel Services Section Director and TIC Supervisors have been instructed as such, and procedures will be established and implemented.

TRV agrees, however, employee evaluations are currently being monitored at the division level. On occasion evaluations are reflected as past due on the monthly report due to geography. With the location of the TICs, the evaluation can be completed on time, but when you add mailing time, review time for the Section Director, and review time by the Division Director, there can be up to two weeks added before the evaluation is forwarded to the HR Campus for input in HR OnLine.

TRV concurs. The TRV DAM is currently reviewing lists of IT access that were a focus of this audit. It has been determined that not all access currently granted is needed. Access lists will be updated as well as the "internal" process for future approval of access.

TRV concurs and safety meetings are being monitored at the division level. However, currently the Travel Information Centers are required to conduct three safety meetings within a fiscal year with no requirement of when those meetings must occur. TRV will update its procedures to include the requirement of one safety meeting per quarter.

Detailed Findings and Recommendations

No. 1: Where required, the HUB Subcontracting Plan Progress Assessment Reports were not being submitted by the vendors as required.

The *Texas Administrative Code*, Title 1, Part 5, Chapter 111, Subchapter B (Historically Underutilized Business Program), rule §111.14 (d) Commodities and Other Services Contracts (10) states "*The contractor/vendor shall maintain business records documenting its compliance with the HUB subcontracting plan and shall submit a compliance report to the contracting agency monthly and in the format required by the Texas Building and Procurement Commission. The compliance report submission shall be required as a condition for payment*".

The current HUB Subcontracting Plan (HSP) Prime Contractor Progress Assessment Report form states that "*this form must be completed and submitted to the contracting agency each month to document compliance with your HSP.*"

In addition, some of the POs reviewed specified that the vendor shall submit the reports monthly with the invoice to the address on the purchase order and some specified that the vendor shall submit the report quarterly to the Business Opportunities Program Office (BOP.)

TRV staff did not clearly understand all their responsibilities associated with the HUB Program. These responsibilities include monitoring the vendor's activities to ensure compliance with the HUB Subcontracting Plan, ensuring that the vendor submits the HUB Progress Assessment Report on a regular basis as specified by the HUB Program requirements and forwarding a copy of the HUB Progress Assessment Report to the BOP Office.

In addition, the fact that the purchase orders instructed the vendors to submit the HUB Progress Assessment Reports to either the address on the PO or BOP may have contributed to the non-compliance.

Effect: Non-compliance with the HUB Program requirements could jeopardize the department's delegated purchasing authority and it can negatively impact the department's ability to meet the intent of the HUB Program, which is to encourage the use of HUB vendors. In addition, the department may be under-reporting its HUB activities.

Recommendation: TRV should work with BOP to get a clear understanding of their responsibilities associated with the HUB Program in order to ensure compliance and to ensure that any necessary HUB Progress Assessment Reports are provided for their active purchase orders. TRV should also work with the GSD to ensure that any future vendors are given proper instructions on where to send the reports.

GSD and BOP need to determine why this is an issue and provide guidance to the purchasers and project managers on their responsibilities regarding HUBs on contracts with HUB plans.

TRV Response and Action Plan:

TRV concurs and will meet with BOP to better understand the HUB Program requirements as it relates to TRV contracts and the reporting requirements. We will also work with GSD to ensure that any future vendors are given proper instructions on where to send the reports. TRV concurs that GSD and BOP need to determine why this is an issue and provide guidance to the purchasers and project managers on their responsibilities regarding HUBs on contracts with HUB plans.

BOP Response and Action Plan:

The Business Opportunity Programs (BOP) Office will disseminate a memorandum to the Districts/Divisions/Offices with instructions concerning the proper administration of the HUB Program, specifically, the HUB Subcontracting Plan and required reports.

The memorandum will include instructions to do the following:

- 1. Monitoring the vendor's activities to ensure compliance with the HUB Subcontracting Plan.*
- 2. Ensuring the vendor submits the HUB Progress Assessment Report as required by the HUB Subcontracting Plan requirements*
- 3. Submitting a copy of the HUB Progress Assessment Report to the BOP Office.*

This memorandum will be disseminated by August 31, 2007.

GSD Response and Action Plan:

The General Services Division (GSD) will be changing text in the appropriate purchasing documents to ensure that it is in alignment with BOP efforts and the planned memo to all Districts/Divisions/Offices concerning the proper administration of the HUB program.

In addition GSD's Contract Management for Services Procurements course (DEV 408) addresses many of the areas cited for improvement in this report under Observations No. 1. This course covers documentation requirements, contract administration and monitoring, invoice review and sign off (example form).

The course also addresses contract management procedures for monitoring vendor compliance with HUB reporting. HUB reporting is related to contract compliance and is therefore the responsibility of the contract manager. The course provides a sample agenda for a Post Award Meeting that covers administrative requirements such as submission of invoices and the Prime Contractor Progress Assessment Report. Based on the audit finding, GSD Purchasing has added the PAR to the Invoice Review Checklist that is distributed in the class.

GSD Purchasing recommends that TRV staff that has contract management responsibilities attend the DEV 408 course. This course is posted on the TxDOT HR calendar.

No. 2: The TIC State Use contracts were not adequately supported by the required analysis or evaluations:

- None of the contracts reviewed had a Cost Benefit Analysis. It was also noted that several of the districts allow Cost of Living increases when contracts are renewed. Two contracts even had increases built in to the 2nd year of a 2 year contract. Also, it was noted that there is a perception that State Use contracts must be utilized if there is a workshop performing the needed service so no cost analysis is performed.

Criteria: The Contract Management Manual, Chapter 17, Section 1 - Overview states
"The DDO will perform a Cost Benefit Analysis to verify that the work should be contracted instead of being performed by in-house forces. The cost-benefit analysis should contain information on the timeliness, cost, and quality of state forces and contracted services. This data allows the DDO to make an informed decision on whether to contract the services or to perform them in-house."

Section 6 - Contract Development, Award, and Administration states *"After the CRP is selected by TIBH, all parties negotiate the contract. The fair market price included within the contract should be negotiated using the Cost Benefit Analysis as a basis for comparison. Items to be negotiated and incorporated into the contract include the: Work schedule; Timeframe for performing the work; The maximum amount payable; Start and completion dates; and, the contract may also specify the number and type of personnel, depending on the type of service or project to be performed."*

Section 5 - Determining When to Use the State Use Program states *"Any time a DDO has identified the need to contract, the DDO should consider the State Use Program. If the product or service can be provided in a timely manner, if it can be provided at a fair market price, and if no other statute or law requires a different contract procedure, the DDO shall use the State Use Program..."*

Effect: If a Cost Benefit Analysis is not completed then the department could be paying higher than fair market price for the services or using State Use forces when it is not appropriate.

- Only some of the contracts reviewed had Technical Analysis

Criteria: The Contract Management Manual, Chapter 17, Section 6 - Contract Development, Award, and Administration states *"The technical analysis should identify Work locations such as roadways, rest areas, or facilities; Work tasks; Work cycles, which indicate the number of times the service is to be performed during the contract period. The final version of the technical analysis will become the basis for the contract's scope of work attachment and can be submitted to the local TIBH representative who will use this document as a basis for selecting the CRP."*

Effect: If a Technical Analysis is not completed the contract requirements could be poorly defined and there could be no way to compare bids.

- Very few of the contracts reviewed had Provider Evaluations

Criteria: The Contract Management Manual, Chapter 16, Section 6 - Contract Development, Award, and Administration states *"Prior to contract closeout, evaluate the CRP's performance using an evaluation form. The form may be customized to incorporate performance measures most appropriate for the project. Submit evaluation forms to the TIBH representative and retain a second copy for the contract file."*

Effect: If evaluations are not completed then it makes it more difficult to terminate the contract and there is no history to be used when soliciting for a vendor to perform the services.

- Over half of the contracts reviewed were being paid as Miscellaneous Contracts in Segment 41 instead of through CMCS. Contractors must be paid through CMCS in order for tracking of insurance through the centralized insurance tracking process.

Criteria: The Contract Management Manual, Chapter 11, Segment 41 (FIMS) states *"The Miscellaneous Contract Information System is a computerized management information system used to monitor and control miscellaneous contract for expenditures which are not construction/maintenance or purchase of service contracts which get entered into CIS/CMCS or APS."*

Chapter 17, Section 6 - Contract Development, Award, and Administration states *"The CRP who is selected to perform a service for TxDOT must agree to maintain the following insurance policies throughout the contract period: General liability; Workers' Compensation; and, Texas business automobile insurance. The CRP shall complete and submit to TxDOT a Certificate of Insurance, form 1560, as per the form's submittal instructions. The Construction Division (CST) monitors workers' compensation, general liability, and automobile insurance requirements for State Use Program contracts. The*

DDO must verify that the CRP (vendor) has active insurance policies on file with the department by checking the Contract Information System prior to execution of the contract.”

Effect: If the contracts are not being paid through CMCS, there is no centralized tracking of the insurance by CST, so a contractor could be working without the required insurance.

The TIC Supervisors were not aware of the requirements and relied on the district State Use Coordinators for their expertise with the State Use contracts.

Recommendation: TRV should ensure that the TIC Supervisors are trained in the requirements for the State Use Program. The TIC Supervisors need to ensure that their contracts have a Cost Benefit Analysis, a Technical Analysis, and Provider Evaluations. They should also ensure that the contracts are being paid through CMCS so that CST can track the vendors insurance. Lastly, the Cost Benefit Analysis should be used in determining if a Cost of Living increase is reasonable.

MNT should determine why the required items are not being performed and provide additional guidance (and training if needed) to the district State Use Coordinators.

TRV Response and Action Plan:

TRV agrees the TIC Supervisors should have a more active role in determining the use of and administering the State Use Program Contracts and not rely solely on the district State Use Coordinators. TIC Supervisors will be trained in the requirements for the State Use Program. TRV concurs and will appreciate the assistance of MNT in providing additional guidance to the District State Use Coordinators. However, the TRV DAM will contact those districts where the Travel Information Centers are not using CMCS to process State Use Program payments to facilitate a change in processing so that the proper standard procedure is used by all TICs and vendor insurance can be tracked.

MNT Response and Action Plan:

MNT concurs with the recommendation. MNT will work with TRV to ensure the required Cost Benefit Analysis, Technical Analysis and Provider Evaluations are completed in accordance with the State Use Program. In addition, as this may be a symptom of similar occurrences within the Districts, MNT will provide guidance to the Districts to ensure local state use coordinating personnel are knowledgeable of required documentation and analysis. Further guidance will be provided regarding payment of these contracts utilizing CMCS. Training will be provided as the need is determined.

Closing Comments

The results of this audit were discussed with the Travel Division Director in an exit conference held on June 8, 2007. Briefings were also held with MNT, GSD, and BOP prior to issuing the draft report to apprise them of the issues concerning their areas of responsibilities. We would like to thank the Travel Division staff and TIC Supervisors for their assistance and cooperation with this audit.