

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

An Internal Audit of the Purchasing function at TDHCA

Audit Report # 20-003

Executive Summary

The Office of Internal Audit (OIA) reviewed the Purchasing function at TDHCA, its internal controls, and policies and procedures that are currently in place. Based on our reviews and testing, the OIA concludes that the Purchasing function operates in compliance with applicable rules. The OIA has identified the following improvement areas to enhance consistency and efficiency of operation.

Observations and Recommendations

- OIA recommends that Financial Administration and the Purchasing division establish a procedure to remove employees' names from PeopleSoft upon their separation from TDHCA.
- OIA recommends that the Purchasing division establish an improved record keeping system to ensure a complete and more consistent documentation process.
- OIA recommends that the Purchasing division establish a procedure for review and reconciliation of monthly credit card statements to improve consistency of the process.

Management Response

Management agreed with our recommendations, and detailed responses are included in the body of the audit report.

Objective, Scope and Methodology

Our audit scope included a review of the State of Texas Procurement and Contract Management Guide, Texas Government Code 2102 (Internal Auditing Act), Review of Historically Underutilized Business (HUB) program requirements, in addition to policy and procedures established by the Comptroller's office as well as the division Standard Operating Procedures (SOPs).

Mark Scott

May 29, 2020

Mark Scott, CPA, CIA, CISA, CFE, MBA
Director, Internal Audit

Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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May 29, 2020

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Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

RE: Internal Audit of the Purchasing function

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Audit of the Purchasing function at TDHCA.*" This audit was conducted in accordance with applicable audit standards. It included the objectives to evaluate and explain the *Purchasing* function and its activities, and to evaluate its compliance with applicable rules.

The purchasing division undergoes biennial "post payment" audits by the Comptroller's Office. No Internal Audit or SAO audits have been conducted recently, and the director of the Purchasing division has recently retired. The Purchasing function was identified during the 2020 fiscal year risk assessment, and rated high on the risk assessment due to lack of recent audits of the function, as well as recent changes in the management of the division.

Background

The Purchasing section of the TDHCA's Financial Administration division is responsible for coordinating and managing all aspects of the procurement process for goods and services obtained by the Department. The Purchasing division provides procurement for all offices located in Austin, Texas as well as all of the Department's Field Offices. Procurement processes are followed to ensure compliance with procurement rules and regulations, and to obtain the best products and services available for the

best value. The purchasing division follows the Comptroller Procurement Manual for proper processing as well as the Department's Standard Operating Procedures (SOP).

The Purchasing division administers the requirements of Historically Underutilized Businesses (HUB) opportunities related to TDHCA procurements, and encourages and assists potential HUB vendors to be certified through the State Comptroller of Public Accounts, State Procurement Division (SPD).

The Purchasing division is also responsible for receiving and processing of requisitions, development of specifications, development of statement of work, the issuance of purchase orders against existing statewide, cooperative or agency contracts, and the verification of the inspection of merchandise or receipt of services by the agency.

Scope and Methodology

Our audit scope included a review of the State of Texas Procurement and Contract Management Guide, Texas Government Code 2102 (Internal Auditing Act), Review of Historically Underutilized Business (HUB) program requirements, in addition to policy and procedures established by the Comptroller's office as well as the division Standard Operating Procedures (SOPs). We also reviewed and examined aspects of the purchasing functions that fall under other divisions, such as Financial Administration.

Procurement Requisition (PR)

The Procurement Requisition (PR) is an online document that defines the needs for goods and services for the Department, and is approved through PeopleSoft software. Each Division can initiate and enter a PR for an item into PeopleSoft, which would be routed to Financial Administration for budgetary coding and approval after being approved by the Division Director.

Some PRs and purchases may require additional steps depending on the items. For example; any PR over \$10,000 requires additional approval by the Executive Director, or his designee, prior to submission to the Purchasing division, and any technology products and services should be routed through the Information Systems division. The Department requires an approved PR prior to any purchase.

We reviewed and tested a sample of 20 PRs for accuracy, consistency, and compliance with applicable rules and approval processes. We used a Random Number Generator to select our sample from a population of PRs that were submitted and approved between June 2019 and March 2020. The sample represented PRs from different price categories.

In our review we've noted that some of the previous employees of TDHCA were still listed as "approvers" on PeopleSoft. Those employees no longer had access to the PeopleSoft software and could not have approved any PRs.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
20-003.01	OIA recommends that Financial Administration and the Purchasing division establish a procedure to remove employees' names from PeopleSoft upon their separation from TDHCA	7/1/20	Director of Financial Administration

Management Response

Financial Administration acknowledges this recommendation. Upon separation from TDHCA an employee's access to any system is immediately terminated. The update of the file listing employees' names on CAPPs Financials is not automatically updated but there is no risk of unauthorized access. Financial Administration is coordinating with personnel in the Information Systems Division to develop a process to ensure this list is updated promptly.

Posting and Notification of Solicitation

The Department posts notification of solicitation opportunities according to the Comptroller Procurement Manual and Texas Government Code §2155.083. The purchasing staff uses the information available on Texas Comptroller's website to create lists of potential CMBL and HUB vendors, as well as to retrieve specific vendor information. Procurement solicitations that are anticipated to be \$25,000 or more are posted on Electronic State Business Daily (ESBD).

- The Central Master Bidders List (CMBL); is a master database used by the state of Texas purchasing entities to develop a mailing list for vendors to receive bids based on the products and services they can provide to the state of Texas. Manufacturers, suppliers, and other vendors wishing to furnish materials, equipments, supplies, and services to the state are required to register for the CMBL through Texas Comptroller's website to receive bidding opportunities.
- Historically Underutilized Business program (HUB) is explained in more detail in the later section of this report.

Request for Proposal (RFP), Request for Qualification (RFQ)

A Request for Proposals (RFP) is a written solicitation document for purchases acquired by means of the competitive sealed proposals procurement method. Generally, an RFP is recommended when factors other than price are to be considered, negotiations are desired, requirements cannot be described by detailed specifications included in a Purchase Order (PO), or the vendor is expected to provide innovative ideas.

A Request for Qualifications (RFQ) is generally used for professional services wherein the respondents are evaluated based solely on their qualifications and skills. The solicitation method is more like an application process, where it is very clear what is expected from the vendor. Price is negotiated after the agency selects its preferred respondent based on how well the respondents met the published qualifications. Vendors must respond to an RFQ by submitting their qualifications to perform specified work. The submissions are reviewed to determine the qualified respondents who are requested to prepare a proposal, including cost, to perform the specific work as may be embodied in an RFQ. In an RFQ the price is not a factor until after the vendor is selected.

During fiscal year 2019 there were a total of five RFPs and two RFQs that were completed and processed at TDHCA. OIA reviewed the records and documentation related to each for accuracy, completeness, and compliance with applicable rules and regulation. The results of our review included some deficiencies in record keeping of the RFP and RFQ documentation. For example, we found that some of the RFP / RFQ folders only contained blank templates of the forms and applications, or an incomplete risk assessment or scoring matrix document.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
20-003.02	OIA recommends that the Purchasing division establish an improved record keeping system to ensure a complete and more consistent documentation process.	8/31/20	Director of Financial Administration

Management Response

Financial Administration acknowledges this recommendation. The Purchasing division has effective internal controls to ensure the review and evaluation of RFPs and RFQs in compliance with procurement laws and regulations before executing a contract award. Historically the documentation of this process has been in the form of hard copy folders which are complete. It has transitioned into an electronic filing process and the items listed are due to this transition but any risk is mitigated by the continued maintenance of the hard copy files. In order to improve this transition and reduce the risk of incomplete electronic files, the Purchasing section will be developing a checklist to ensure the file’s completeness. The checklist will be reviewed and signed by the Financial Services Manager.

Procurement Credit Cards

The Department may only use procurement credit cards issued under the State Procurement Division (SPD) contracts. The procurement credit card may be used as a payment method for goods and services purchased for dollar amounts within the Department’s purchasing authority and the cardholder’s authorized charging limit. The Texas Procurement and Contract Management Guide

requires agencies to maintain a procurement file or log for each card transactions and must include the NIGP Class¹ and Item code, and best value determination.

The procurement credit card may be used to pay for capital or controlled assets, utilizing the expenditure object code established for the type of assets being purchased. The Texas Identification Number (TIN), Payee Identification Number (PIN), or Vendor Identification Number (VIN) of the selling vendor is entered into USAS by Financial Administration staff.

Currently there are four credit cards under Purchasing division’s master account. The four card holders are the three purchasing staff, and the Director of Information Systems. In our review we’ve noted that the contact individual for the master account was one of the previous employees of the TDHCA. The contact information has since been corrected and changed to the current manager of Financial Services.

We reviewed the credit card statements and backup documentation, and reviewed the processes currently in place to reconcile credit cards’ monthly charges. We found that the Department doesn’t appear to have documented guidelines regarding the review and reconciliation of procurement credit cards’ monthly statements, and documentation and record keeping of monthly charges. The current process seems to be manual and inconsistent. For example, there is no electronic log for the credit card charges, and the manual logs are scanned in at later time and date by each purchasing staff. We also found that part of approval and authorization process could be verbal conversations.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
Texas 20-003.03	OIA recommends that the Purchasing division establish a procedure for review and reconciliation of monthly credit card statements to improve consistency of the process.	8/31/20	Director of Financial Administration

Management Response

Financial Administration acknowledges this recommendation. The Purchasing Division has the proper internal controls to ensure that credit card transactions are properly approved and validated. Although staff does perform a review of transactions on credit card statement and compares to Purchase Requests, the process can be improved. They will work to establish written procedures to ensure that the reconciliation process is outlined to have consistency and proper documentation. In addition, it will require management review and approval.

¹ The National Institute of Governmental Purchasing (NIGP) Commodity Book is offered through Texas Comptroller’s office to be used by bidders, vendors and state agency personnel. State agencies use the class item numbering and descriptions found in this book to properly code products or services on their requisitions and purchases.

Historically Underutilized Business (HUB)

The State of Texas developed the HUB Program that has been in place for a number of years. The goal of this program is to actively involve HUBs in the Texas procurement process and ensure that they receive a fair share of state business. The Statewide Procurement Division administers the HUB program in accordance with Texas Government Code §2161, Texas Administrative Code, Title 34, Section §20.281 to §20.298.

The Texas Government Code §2161.251 requires that all contracts with an expected value of at least \$100,000, except for federally funded contracts, must include a HUB Subcontracting Plan. The state of Texas has determined that State Agencies and Universities are required to achieve certain percentage in each of the following categories for procurements

Heavy Construction 11.20 %
Building Construction 21.10%
Special Trade 32.90%
Professional Services 23.7%
Other Services 26.0%
Commodities 21.10%

Agencies are required to submit semi-annual and annual HUB reports to the Comptroller showing the expenditures made with both HUB and non-HUB vendors. OIA reviewed the TDHCA's semi-annual and annual reports for fiscal year 2017, 2018, 2019, and we found that TDHCA has met the minimum requirements set by the state of Texas.

OIA extends our appreciation to management and staff of Financial Administration and the Purchasing division for their cooperation and assistance during the course of this audit.

Sincerely,

Mark Scott

Mark Scott, CPA, CIA, CISA, CFE, MBA
Internal Audit Director