



An Audit Report on

**Selected Texas Education Agency  
Contracts and Grant with Education  
Service Centers**

November 2016

Report No. 17-013



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# Selected Texas Education Agency Contracts and Grant with Education Service Centers

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## Overall Conclusion

The Texas Education Agency (Agency) should improve its contract procurement and formation processes and strengthen its oversight of selected contracts and grants with education service centers (ESCs) to ensure that it complies with statutes, Office of the Comptroller of Public Accounts requirements, Agency policies and procedures, and requirements in the contracts and grant agreement. Specifically, for the two contracts and one grant agreement audited, the Agency did not have an executed contract or grant agreement before it allowed the Region 13 ESC (Austin) and the Region 20 ESC (San Antonio) to begin work under those contracts and grant agreement. The execution dates for those contracts and grant agreement, and their renewals and amendments, were between 12 days and 128 days after their effective dates (see text box for additional information on the contracts and grant audited).

The Agency had controls and processes related to payments for the ESC contracts audited, and it made payments in a timely manner and stayed within the contract budgets. However, the Agency did not require the Region 13 ESC to submit sufficient documentation with invoices to verify that (1) the Agency had received the invoiced services and (2) the expenditures were allowable and associated with specific deliverables under the contracts.

Additionally, the Agency did not consistently provide sufficient oversight of its contracts with the Region 13 ESC and its grant to the Region 20 ESC. Specifically, the Agency did not ensure that the **Region 13 ESC's staff made all** required site visits or performed key monitoring activities, such as weekly program

### Background on Education Service Centers (ESCs)

Chapter 8 of the Texas Education Code established ESCs throughout the state and authorized the commissioner of education to **"decide any matter concerning the operation or administration" of the ESCs, including the allocation of state and federal funds to the ESCs.**

That statute established three purposes for ESCs:

- Assist school districts in improving student performance.
- Enable school districts to operate more efficiently.
- Implement initiatives assigned by the Legislature or the commissioner of education.

### Summary of Contracts and Grant Audited

**Early College High School Contract** - The Early College High School program allows participating students to earn college credit up to 60 hours at the same time they are earning their high school diploma. The Agency contracts with the Region 13 ESC to provide the program with technical assistance, resources, evaluation, and coaching. The selected Early College High School contract began in November 2014. Through March 31, 2016, the Agency had made payments totaling \$955,785 on the contract.

**The Texas District and School Improvement Support Center (Support Center) Contract** - The purpose of the Support Center contract, which began in July 2014, with the Region 13 ESC is to provide technical assistance, training, resources, and statewide coordination to schools identified for improvement. The contract also provides for direct services to school districts in support of the federal School Improvement Grant. Through March 31, 2016, the Agency had made payments totaling \$2,567,142 on the contract.

**Creating Turnaround Educator Pipelines (CTEP) Grant** - The CTEP grant provides funding to the Region 20 ESC to coordinate school district and school efforts to increase the numbers of students that high-performing teachers reach. The audited CTEP grant began in October 2014. Through March 31, 2016, the Agency had made payments totaling \$1,276,762 on the grant.

Sources: Texas Education Code, Sections 8.001 and 8.002; the Uniform Statewide Accounting System; the Early Childhood High School Web site; the Support Center Web site; and the CTEP Web site.

This audit was conducted in accordance with Texas Government Code, Sections 2101.038, 321.0131, and 321.0132.

For more information regarding this report, please contact Michael Simon, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

updates, at the required frequency. The Agency also did not ensure that all purchasing personnel completed the required disclosure statements prior to awarding the contracts.

The Agency established and generally followed entitywide contracting policies and procedures that were consistent with the *State of Texas Contract Management Guide* to award the audited contracts. For example, it involved the appropriate staff in the planning phase of the audited contracts, and it performed preliminary risk assessments to determine the appropriate level of oversight and management for the audited contracts. The Agency also included the necessary information in the solicitation documents for the contracts audited, and it evaluated bids appropriately.

The Agency generally monitored the CTEP grant in accordance with the grant requirements, applicable statutes and rules, and internal policies and procedures. However, it should strengthen certain aspects of its oversight of the CTEP grant.

Auditors communicated other, less significant issues related to the procurement, formation, and oversight of the contracts and grant agreement audited to the Agency separately in writing.

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

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating <sup>a</sup>
1-A	The Agency Allowed the Region 13 ESC and the Region 20 ESC to Perform Work Without Having Executed Contracts and a Grant Agreement	High
1-B	The Agency Should Strengthen Its Financial Monitoring of the Contracts Audited	High
2	The Agency Generally Complied with Statutes and Requirements for Contract Planning; However, It Should Strengthen Controls Over Certain Contract and Grant Procurement and Oversight Processes	Medium

<sup>a</sup> A chapter or subchapter is rated Priority if 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.

A chapter or subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the **audited entity's ability to effectively administer the program(s)/function(s) audited**. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A chapter or subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the **audited entity's ability to effectively administer program(s)/function(s) audited**. **Action is needed to address the noted concern** and reduce risks to a more desirable level.

A chapter or subchapter is rated Low if the **audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited** or the issues identified do not present significant risks or effects that would negatively affect the **audited entity's ability to effectively administer the program(s)/function(s) audited**.

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

At the end of each chapter in this report, auditors made recommendations to address the issues identified during this audit. The Agency agreed with the recommendations addressed to it in this report.

### *Audit Objective and Scope*

The objective of this audit was to determine whether the Agency awards, manages, and monitors selected contracts and grants with ESCs in accordance with applicable statutes, rules, and other requirements.

The scope of this audit covered the Early College High School contract with the Region 13 ESC (Austin) during fiscal years 2015 and 2016 (through March 31, 2016); the Texas District and School Improvement Support Center (Support Center) contract with the Region 13 ESC during fiscal years 2014, 2015, and 2016 (through March 31, 2016); and the Creating Turnaround Educator Pipelines (CTEP) grant agreement with the Region 20 ESC (San Antonio) during fiscal year 2015.

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# Detailed Results

## Chapter 1

### *The Agency Did Not Execute the Contracts and Grant Agreement Audited Prior to Allowing Work to Start, and It Did Not Sufficiently Monitor Contract Payments*

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The Texas Education Agency (Agency) did not execute the contracts with education service centers (ESCs) for the Early College High School and the Texas District and School Improvement Support Center (Support Center), and the grant for Creating Turnaround Educator Pipelines (CTEP), in a timely manner. Specifically, the Agency allowed the Region 13 ESC (Austin) and the Region 20 ESC (San Antonio) to begin work under the contracts and grant agreement audited prior to the effective dates<sup>1</sup> for the contracts and grant agreement; before the appropriate parties had signed the agreements; and, for the Early College High School contract, while the parties to the contract were still negotiating and reviewing the budgets. In addition, the Agency should strengthen its review of payments to the Region 13 ESC to verify that the Agency received invoiced services, that expenditures were allowable, and that the invoices relate to specific deliverables under the contracts.

#### Chapter 1-A

### The Agency Allowed the Region 13 ESC and the Region 20 ESC to Perform Work Without Having Executed Contracts and a Grant Agreement

Chapter 1-A  
Rating:  
High <sup>2</sup>

The Agency did not execute the contracts for the Early College High School and Support Center programs prior to allowing the Region 13 ESC to begin work on those programs. In addition, the Agency did not have an executed grant agreement for CTEP prior to allowing the Region 20 ESC to begin the work specified in that agreement. The initial contracts and grant agreement were signed from 12 days to 97 days after their effective dates. The amendments and renewals for the contracts were signed from 20 to 128 days after their effective dates. Allowing work to proceed without an executed contract or grant agreement increases the risk that disagreements will arise regarding the scope of the work under the contract or grant

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<sup>1</sup> A contract's or grant agreement's "execution date" is the date on which all necessary parties sign the contract or grant agreement. The effective date is the date on which the rights and obligations under the contract or grant agreement become operational, typically the first day of the contract's or grant agreement's term.

<sup>2</sup> The risks related to the issues discussed in Chapter 1-A are rated as high because they present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concerns and reduce risks to the audited entity.

agreement and could complicate the resolution of those disagreements. Additionally, allowing work to begin before there is an executed contract or grant agreement could limit the Agency's ability to effectively monitor the programs and leaves contractors and subcontractors without adequate direction on performance and budget expectations.

Both contracts and the grant agreement audited went into effect before the Agency and the ESCs formally executed them.

**Early College High School Contract.** The Early College High School contract, which was effective in November 2014 (covering the remainder of fiscal year 2015) with up to two one-year renewal options, was signed 12 days after its effective date. According to Agency management, the delay resulted from its ongoing review and revision of the budget that the Region 13 ESC proposed for the project. The amendment and renewal were executed 128 days and 119 days, respectively, after their effective dates.

**Support Center Contract.** The Support Center contract, which was effective in July 2014 (covering a portion of fiscal year 2014 and all of fiscal year 2015) with up to two one-year renewal options, was signed 52 days after its effective date. The two contract amendments and renewal were executed 20 days, 25 days, and 50 days, respectively, after their effective dates.

**CTEP Grant.** The CTEP grant, which was effective in October 2014 (covering part of fiscal year 2015 through December 2015), was executed 97 days after its effective date.

According to the *State of Texas Contract Management Guide*, contract managers are not authorized to instruct a contractor to start work before a contract is fully executed. That guide also provides suggested lead times to assist agencies in ensuring that they process contracts prior to their effective dates. For contract amendments, the *State of Texas Contract Management Guide* requires agencies to obtain written approval of all changes prior to those changes taking place.

In addition, according to the *Agency's Contract Development and Administration Manual*, contracts should be signed before any services are rendered. Although the Agency ensured that it made payments to the Region 13 ESC for the Early College High School and Support Center program contracts only after those contracts were executed, it did not finalize the terms, conditions, and budgets for the programs those contracts covered prior to allowing the contractor to perform work. Allowing services to be performed prior to having an agreed-upon budget limits the Agency's ability to effectively monitor the programs and leaves contractors and subcontractors without adequate direction on performance and budget expectations.

Agency staff reviewed and approved the two contracts and grant agreement audited; however, the Agency did not ensure that project management approved one of the contracts.

The Agency did not document project management's review and approval of the Support Center contract prior to its execution. The Agency's *Contract Development and Administration Manual* requires contract staff to send a draft of the final contract to the program's project manager for review and approval. The Agency provided documentation showing that it sent a draft of the final contract to the project manager; however, there was no documentation of the subsequent approval. Ultimately, the Agency's chief financial officer appropriately signed the contract. However, not obtaining the required signature from the project manager increases the risk that the Agency will not obtain important information from program staff regarding a contract's terms prior to its execution.

#### Recommendation

The Agency should develop and implement a process to ensure that it appropriately reviews and executes contracts and grant agreements, amendments, and renewals (1) prior to their effective dates, (2) prior to allowing work to be performed, and (3) with sufficient lead times for required reviews and approvals.

#### Management's Response

*The Agency agrees with the recommendations regarding contracts. The following facts help explain the context for the contract execution process.*

- *TEA contract staff sent each contract to the program staff for review and approval and obtained verbal approval of the documents.*
- *No invoices were paid to the Contractors until the contracts were executed.*
- *No work on the ECHS Contract began until ESC Region 13 received the executed contract.*

*With regard to contracts, the Agency has developed and is currently implementing processes to ensure that staff appropriately review and execute contracts, amendments, and renewals (1) prior to their effective dates, (2) prior to allowing work to be performed, and (3) with sufficient lead times for required reviews and approvals. As of November 16, 2016, TEA had built a contract tracking tool and also conducted staff training on November*

*2 and 3, 2016, emphasizing the need for contracts to be executed prior to allowing contractors to begin work and related processes.*

*Person Responsible: Director, Purchasing and Contracts*

*Completion date: August 31, 2017*

*With regard to the Creating Turnaround Educator Pipelines (CTEP) grant, TEA followed UGMS, which is prepared by the Texas Comptroller of Public Accounts. TEA is required to follow UGMS as indicated in the State of Texas Contract Management Guide.*

*Accordingly, the Grants Administration Division applied Subpart C—Post-Award Requirements \_\_\_\_\_.23 Period of Availability of Funds, where it states “(a) General. Where a funding period is specified (project begin and end dates), a grantee may charge to the award only costs resulting from obligations of the funding period. . . .” The grant application as well as the notice of grant award (NOGA) specify the funding period and thus obligations that occurred within the project begin and end dates can be charged to the grant but are not eligible for drawdown until after the NOGA is negotiated and approved. TEA was interpreting the start date outlined in the above UGMS rules as the date the grantee can begin incurring costs relating to the grant. However, controls built into the expenditure system for grant funding do not allow the grantee to draw down funds for costs incurred before the NOGA has been executed and an itemized budget of allowable expenses is negotiated and approved. In following UGMS rules TEA will put processes in place to follow SAO’s guidance.*

*Person Responsible: Grants Administration*

*Completion date: August 31, 2017*

## The Agency Should Strengthen Its Financial Monitoring of the Contracts Audited

Chapter 1-B  
Rating:  
High <sup>3</sup>

The Agency had controls and processes related to payments for the ESC contracts audited, and it made payments in a timely manner and stayed within the contract budgets. However, it should require the ESCs to submit sufficient information with their invoices so that the Agency can determine whether services are received, expenditures are allowable, and invoices tie to contract tasks and deliverables.

The Agency should require additional information from ESCs before processing payments. As of March 31, 2016, the Agency had approved 7 payments totaling \$955,785 for the Early College High School contract audited. While all of those payments were properly authorized, the Agency did not require the Region 13 ESC to provide sufficient supporting documentation to allow the Agency to determine whether it had received the invoiced services and whether the expenditures were allowable under the terms of the contract. The Agency also did not require the Region 13 ESC to specify the contract deliverables to which the invoices were related.

As of March 31, 2016, the Agency had approved 15 payments totaling \$2,567,142 for the Support Center contract audited. All of the payments for that contract were properly authorized. In addition, the Region 13 ESC provided task lists for 5 (33 percent) of the 15 invoices tested.<sup>4</sup> Although the task lists were tied to contract deliverables, they did not contain sufficient detail for the Agency to determine receipt of the services or the allowability of the expenditures under the terms of the contract.

By not requiring adequate documentation to be submitted with invoices, the Agency is at increased risk of approving payments for unallowable expenditures.

The *State of Texas Contract Management Guide* requires state agencies to review invoices to determine whether (1) the contractor is billing only for goods or services received and (2) the goods or services have been inspected and accepted. In addition, the Agency's *Contract Development and Administration Manual* requires invoices to contain sufficient detail about the costs to be reimbursed and the services performed to allow the Agency's program area to determine whether (1) the contractor's billing coincides

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<sup>3</sup> The risks related to the issues discussed in Chapter 1-B are rated as high because they present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concerns and reduce risks to the audited entity.

<sup>4</sup> The Agency provided email correspondence asserting that it had compared the task lists against its own information on project progress for four of the five invoices that the Region 13 ESC submitted with the tasks lists.

with the contract's progress, (2) the invoice corresponds with the contract terms, and (3) the costs are allowable costs.

The Agency generally had controls for its payment process, and it made payments in a timely manner within the budget for the audited contracts. **For the two contracts audited<sup>5</sup>, the Agency:**

- Processed contract payments in a timely manner.
- Had appropriate segregation of duties for approving payments.
- Had processes to detect double billing.
- Ensured that total payments did not exceed the budget, original purchase order, or amounts agreed to in the contracts.

The Agency also required the Region 13 ESC to submit historically underutilized business program subcontracting plan progress reports with each invoice.

#### Recommendations

The Agency should:

- Require contractors to submit sufficient documentation with each invoice to allow the Agency to determine whether it received the invoiced services and whether the expenditures were for allowable costs.
- Require contractors to document the work they performed related to contract deliverables and submit that documentation with invoices for payment.

#### Management's Response

*The Agency agrees with the auditor's recommendations. The following facts help explain the context for the invoice approval process:*

- *Monthly invoices from the education service centers (ESCs) were reviewed by TEA pursuant to the contract terms and were not paid by TEA unless the Agency was satisfied contract services were performed.*

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<sup>5</sup> For the CTEP grant, auditors tested 11 payments totaling \$1,276,762 that the Agency made to the Region 20 ESC. However, the Agency did not require the Region 20 ESC to submit supporting documentation for grant expenditures; instead, it reserved the right to request supporting documentation from the Region 20 ESC. Auditors determined that the Agency did not request any documentation from the Region 20 ESC in support of the payments tested.

- *No invoices were paid to the Contractors until the contracts were executed.*

*TEA is requiring ESCs to submit sufficient documentation with each invoice to allow the Agency to determine whether it received the invoiced services and whether the expenditures were for allowable costs. TEA is requiring ESCs to document the work they performed related to contract deliverables and submit that documentation with the invoices for payment. TEA sent a letter to all of the ESC executive directors on October 12, 2016, advising them of TEA's new invoice requirements and procedures and provided informal training to ESCs on November 15, 2016.*

*TEA also conducted TEA internal staff training on November 2 and 3, 2016, which included training on contract management roles and responsibilities, required forms, key elements of a deliverable, the review of invoices, and the approval procedures. TEA also added language to the contract terms and conditions regarding documentation needed to support approving invoices.*

*Person Responsible: Director, Purchasing and Contracts*

*Completion date: January 1, 2017*

*The Agency Generally Complied with Statutes and Requirements for Contract Planning; However, It Should Strengthen Controls Over Certain Contract and Grant Procurement and Oversight Processes*

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Chapter 2  
Rating:  
Medium <sup>6</sup>

The Agency planned the audited contracts in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts (Comptroller's Office) requirements, and Agency policies and procedures. The Agency ensured that the associated statements of work contained all of the elements that the Comptroller's Office required and that the bids were completed correctly. The Agency also completed a formal preliminary risk assessment for both contracts audited to determine the level, type, and amount of management, oversight, and resources required to plan and implement the contracts.

However, the Agency should improve certain contract and grant administration procedures related to procurement and oversight. Specifically, the Agency should improve its contract procurement process by ensuring that its purchasing staff are free of conflicts of interest and by reviewing solicitations when the Agency receives only one bid to determine whether the solicitations were overly restrictive. The Agency also should strengthen its contract and grant oversight processes by making sure it reviews documentation related to contract and grant deliverables.

The Agency planned the audited contracts to ensure compliance with applicable Comptroller's Office requirements and Agency policies and procedures.

To help ensure compliance with applicable state laws, rules, requirements, and Agency policies and procedures, the Agency performed the following contract planning procedures for both contracts audited:

- Completed preliminary risk assessments.
- Involved the appropriate sponsors and staff in planning.
- Included all statement of work and essential and recommended terms in the request for proposal.
- Obtained the appropriate management approvals of the solicitation.

The Agency did not ensure that purchasing personnel signed disclosure statements. **The Agency did not ensure that all applicable Early College High School and Support Center contract purchasing and evaluation staff completed a**

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<sup>6</sup> Chapter 2 is rated medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

disclosure statement for purchasing personnel indicating whether they had any conflicts of interest, as required by the Texas Government Code<sup>7</sup>, the *State of Texas Contract Management Guide*, and the *Agency's Contract Development and Administration Manual*. Requiring purchasers and evaluators to complete disclosure statements helps to ensure that purchasers do not have undisclosed conflicts of interest, that staff evaluating proposals are objective, and that contract proposals are scored in an unbiased manner.

The Agency did not determine why it received only one responsive bid for the Support Center contract. **The *State of Texas Contract Management Guide* includes procedures that agencies should follow when they receive a single responsive bid to a contract solicitation. Those procedures include reviewing the solicitation documents to determine whether the solicitation was overly restrictive and contacting potential bidders to determine why they did not bid. The Agency did not provide documentation that it followed those procedures when it received only one responsive bid for the Support Center contract. Following those procedures could help the Agency identify overly restrictive aspects of its solicitations, increase competition for its contracts, and increase the value of the contracts to the State.**

**The Agency did not ensure that the Region 13 ESC's staff made all required site visits to new Early College High School campuses. The Agency did not ensure that the Region 13 ESC performed at least five site visits to each new participating Early College High School campus in fiscal year 2015, as required by the contract. The site visits, conducted by design leadership coaches whom the Region 13 ESC hired, are intended to ensure that the campuses follow the principles of the Early College High School program. By not ensuring that the Region 13 ESC conducted the required site visits, the Agency increases the risk that participating campuses are not adhering to program guidelines.**

The Agency should strengthen certain aspects of its oversight of the CTEP grant. **The Agency generally monitored the Region 20 ESC's CTEP grant program deliverables in accordance with the grant requirements, applicable statutes and rules, and internal policies and procedures. However, the Agency did not ensure that its grant program staff:**

- Reviewed the participating school districts' models designed to increase the number of students receiving instruction from high-performing teachers. The CTEP notice of grant award requires that the participating school districts' models align with principles established by a statewide

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<sup>7</sup> Texas Government Code, Section 2262.004, defines purchasing personnel as employees of a state agency who make decisions on behalf of the state agency or recommendations regarding (1) contract terms or conditions on a major contract; (2) who is to be awarded a major contract; (3) preparation of a solicitation for a major contract; or (4) evaluation of a bid or a proposal.

steering committee. By not reviewing the models, the Agency cannot ensure that they align with statewide principles.

- Performed weekly program updates, held quarterly meetings, and held bimonthly project update conference calls with the Region 20 ESC's program staff and major subcontractors, as required by the grant application. Not requiring the Region 20 ESC to provide grant program updates limits the Agency's program oversight and increases the risk that the ESC will not meet the grant's objectives.
- Collected quantitative data and evaluated the effectiveness of the CTEP program at participating school districts and measured the effect of the program on the students. The grant application requires that the Agency collect and assess qualitative data to measure the effect of the increased reach upon students in the CTEP program.

The Agency also did not review the Region 20 ESC's staffing decisions for compliance with the qualification requirements for CTEP program staff. Ensuring that the Region 20 ESC hires qualified staff could help the Agency meet the CTEP program objectives.

#### Recommendations

##### The Agency should:

- Comply with the procedures in the *State of Texas Contract Management Guide* when it receives only one responsive bid for a contract solicitation.
- Require all appropriate purchasing personnel to complete the disclosure statements required by statute, the *State of Texas Contract Management Guide*, and the *Agency's Contract Development and Administration Manual*.
- Ensure that contractors perform all site visits required by the terms of the contracts.
- Review the program models of school districts participating in the CTEP program to ensure that they align with statewide program principles.
- Conduct project updates, such as meetings and conference calls, with the frequency prescribed by grant requirements.
- Collect and evaluate program data to better understand the effect of the CTEP grant program, as required by the terms of the grant.

- Review grantee staffing for the CTEP program, as required by the terms of the CTEP grant.

### **Management's Response**

*The Agency agrees with the auditor's recommendations. TEA will put controls in place to:*

- *Comply with the procedures in the State of Texas Contract Management Guide when it receives only one responsive bid for a contract solicitation.*
- *Require all appropriate purchasing personnel to complete the disclosure statements required by statute, the State of Texas Contract Management Guide, and the Agency's Contract Development and Administration Manual.*
- *Ensure that contractors perform all site visits required by the terms of the contracts.*
- *Review the program models of school districts participating in the CTEP program to ensure that they align with statewide program principles.*
- *Conduct project updates, such as meetings and conference calls, with the frequency prescribed by grant requirements.*
- *Collect and evaluate program data to better understand the effect of the CTEP grant program, as required by the terms of the CTEP grant.*
- *Review grantee staffing for the CTEP program, as required by the terms of the CTEP grant.*

*The Agency has developed contract improvement processes and is implementing them. As of November 16, 2016, TEA had built an Agency contract tracking tool and conducted staff training on November 2 and 3, 2016, emphasizing the need to comply with the requirements listed above.*

*Person Responsible: Director, Purchasing and Contracts*

*Completion date: August 31, 2017*

# Appendices

## Appendix 1

### *Objective, Scope, and Methodology*

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#### Objective

The objective of this audit was to determine whether the Texas Education Agency (Agency) awards, manages, and monitors selected contracts and grants with education service centers (ESCs) in accordance with applicable statutes, rules, and other requirements.

#### Scope

The scope of this audit covered the Early College High School contract with the Region 13 ESC (Austin) during fiscal years 2015 and 2016 (through March 31, 2016); the Texas District and School Improvement Support Center (Support Center) contract with the Region 13 ESC during fiscal years 2014, 2015, and 2016 (through March 31, 2016); and the Creating Turnaround Educator Pipelines (CTEP) grant agreement with the Region 20 ESC (San Antonio) during fiscal year 2015.

#### Methodology

The audit methodology consisted of collecting and reviewing selected contract planning steps, procurement, formation, and oversight documentation for the Early College High School and Support Center contracts and the CTEP grant; conducting interviews with Agency staff; reviewing statutes, rules, Office of the Comptroller of Public Accounts requirements, and Agency policies and procedures; and performing selected tests and other procedures.

#### Data Reliability and Completeness

Auditors used expenditure information in the Uniform Statewide Accounting System (USAS) and relied on previous State Auditor's Office audit work to determine that data was sufficiently reliable for the purposes of this audit. Additionally, auditors relied on prior State Auditor's Office audit work that tested general and application controls of the Agency's Centralized Accounting and Payroll/Personnel System (CAPPS). Auditors did not perform any additional information technology work at the Agency.

#### Sampling Methodology

Auditors tested all Early College High School and Support Center contract and CTEP grant expenditure payments distributed in fiscal year 2015 through

March 2016 and reviewed all of the Agency's monthly monitoring activities in fiscal year 2015 through March 2016 for all deliverables identified in the contracts and grant audited.

Information collected and reviewed included the following:

- The Early College High School and Support Center contracts between the Agency and the Region 13 ESC.
- The grant agreement for CTEP between the Agency and the Region 20 ESC.
- Agency policies and procedures, manuals, and monitoring tools.
- Agency solicitation and bid documentation, evaluation criteria and documentation, and related supporting documentation.
- Agency contract and grant procurement documentation, including planning documentation, documented approvals, and other supporting documentation.
- Agency financial disclosure statements, disclosure statements for purchasing personnel, and nondisclosure and conflict of interest statements.
- Agency expenditure data from USAS.
- Agency payment documentation, including contractor invoices, approvals, and other supporting documentation.
- Agency internal audit reports.

Procedures and tests conducted included the following:

- Interviewed Agency staff about contract and grant management.
- Reviewed the Agency's contracting policies and procedures to determine whether they aligned with the *State of Texas Contract Management Guide*.
- Reviewed planning documentation to determine whether the Agency (1) performed a preliminary risk assessment; (2) involved the appropriate sponsors and staff in planning the procurement; and (3) ensured that the solicitation contained all elements required by the *State of Texas Contract Management Guide*.

- Reviewed applicable (1) financial disclosure statements, (2) disclosure statements for purchasing personnel, and (3) nondisclosure and conflict of interest statements.
- Tested whether the Agency properly documented bid evaluation criteria and used that criteria when selecting a contractor.
- Reviewed the selected contracts and related supporting documentation to determine whether they contained approvals made in a timely manner, payment methodology, and applicable essential terms from the *State of Texas Contract Management Guide*, and whether they complied with other requirements.
- Tested contract and grant expenditures for accuracy, proper approvals, and compliance with contract terms, the *State of Texas Contract Management Guide*, and the *Agency's Contract Development and Administration Manual*.
- Tested grant expenditures for accuracy, proper approvals, and compliance with grant terms, the *Agency's General and Fiscal Guidelines*, and the *Agency's Standard Application System and Instructions*.
- Tested contract expenditures to determine whether payments were for services received and were linked to deliverables.
- Tested the Agency's monitoring activities for compliance with contract and grant terms, including contract deliverables.
- Tested whether the CTEP grant application was complete, submitted in a timely manner, included all requirements, and was reviewed and approved by the appropriate Agency staff.
- Tested whether the Agency posted the CTEP grant application to the TEA Grant Opportunities Web site as required before the award.

Criteria used included the following:

- Texas Education Code, Chapters 8 and 29.
- Texas Government Code.
- Title 19, Texas Administrative Code, Chapter 102.
- *State of Texas Contract Management Guide*, versions 1.12, 1.13, and 1.14.

- The Agency's *Contract Development and Administration Manual*, revised February 2015.
- The Agency's *General and Fiscal Guidelines*.
- Terms in the contracts and grant agreement audited.

#### Project Information

Audit fieldwork was conducted from April 2016 through October 2016. 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:

- Scott Boston, MPAFF (Project Manager)
- Jamie Kelly, MBA (Assistant Project Manager)
- Kelley Ngaide, CFE, CIA
- Adam Ryan, MACT
- Taylor Sams
- Cameron Scanlon
- Daniel Spencer, MSA
- Richard Wyrick
- Dana Musgrave, MBA (Quality Control Reviewer)
- Michael Simon, MBA, CGAP (Audit Manager)

## Issue Rating Classifications and Descriptions

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

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

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

Table 2

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

## **Related State Auditor's Office Work**

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<b>Related State Auditor's Office Work</b>		
Number	Product Name	Release Date
17-002	<b>An Audit Report on the Texas Education Agency's Procurement and Oversight of Texas Virtual School Network Contracts</b>	September 2016
16-004	An Audit Report on Selected State Contracts and Grants at the Harris County Department of Education	September 2015
13-042	An Audit Report on Selected State Contracts at the Texas Education Agency	July 2013

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