

An Audit Report on

# The Health and Human Services Commission's Consolidation of Administrative Support Functions

September 2005

Report No. 06-009



# The Health and Human Services Commission's Consolidation of Administrative Support Functions

## Overall Conclusion

The Health and Human Services Commission (Commission) should use a consistent, comprehensive methodology to analyze the key business processes within its administrative support functions. The Commission reported that it achieved a salary savings for the 2004-2005 biennium of \$15.3 million in General Revenue as a result of centralizing the management of the administrative support functions and eliminating 567 positions within those services. However, the Commission needs a more comprehensive methodology to streamline processes, quantify workloads to establish staffing levels, set performance measures, and establish accurate baseline costs for outsourcing decisions. The Commission used most of these methods for establishing its Office of the Inspector General and Civil Rights Office but has not used them consistently to consolidate its other administrative support functions.

The Commission's decision to outsource its human resources and payroll services management function was not based on accurate cost data. The Commission's analyses estimated that outsourcing this function would achieve a five-year cost savings as high as \$21.7 million when compared with its optimized in-house model. However, because of significant errors and omissions in the Commission's cost data for both the outsourced and optimized in-house models, auditors were not able to determine whether the Commission's decision to outsource was cost-effective when compared with performing these services under the optimized in-house model. As of August 2005, the Commission reported that it had not yet achieved any cost savings from outsourcing this function. The Commission also lacks sufficient documentation needed to demonstrate compliance with statute regarding its best-value decision in awarding the human resources and payroll services management contract.

The Commission also needs to establish better performance measures for its purchasing function. The Commission and the health and human services agencies it oversees reported experiencing significant delays in ordering and receiving goods

### Background Information

House Bill 2292 (78th Legislature, Regular Session) required the Commission to:

- Consolidate the State's 12 health and human services agencies into 5 health and human services agencies.
- Implement an efficient and effective centralized system of administrative support functions for the new health and human services organizational structure. The goal of the changes required by House Bill 2292 was to achieve cost savings to help finance the operations of health and human services agencies.
- Develop a plan describing its consolidation methodology. In response to that requirement, the Commission developed a transition plan that specified that the consolidation of each administrative support function would be evaluated as a candidate for whole or partial outsourcing to a private vendor based on an analysis of cost-effectiveness.



and services using the consolidated purchasing and payment process. A number of these delays were associated with goods and services that supported health and human services agencies' delivery of client services. For example, health and human services agencies reported instances in which goods and services such as cell phone services for bioterrorism staff and patient and food supplies were either delayed or disrupted. Although the Commission recognized and corrected a number of the problems that caused the delays and disruptions, it still needs to establish performance measures that assess the overall efficiency and effectiveness of the purchasing and payment function.

The State Auditor's Office's Classification Office also reviewed 408 property management and purchasing positions at health and human services agencies and found that 373 (91 percent) of these positions were classified correctly. In comparison, the average percent of properly classified positions from the previous five statewide classification reviews was 90 percent. Agencies took appropriate action in resolving misclassified positions and have reported that they will spend \$14,545 to properly classify these positions.

The State Auditor's Office continues to audit the Commission's consolidation of human resources, financial services, and information resources.

## ***Key Points***

**As the Commission continues to streamline administrative support functions, it should use a consistent, comprehensive methodology to analyze the business processes within those services.**

As part of the "optimization phase" of the consolidation, the Commission should perform a comprehensive business process analysis of all of its administrative support functions to ensure that it has complete and accurate information to make decisions on consolidation and outsourcing. A comprehensive business process analysis would include the following:

- Quantifying workloads and staffing demands
- Reviewing processes' efficiency and identifying cost-saving opportunities
- Developing adequate performance measures that address customer needs

**The Commission's analysis of the cost-effectiveness of outsourcing human resources and payroll services management function contained inaccurate data and omitted relevant costs.**

The Commission used inaccurate and incomplete cost data in the cost models it used to determine the cost-effectiveness of outsourcing its human resources and payroll services management function. Errors in the Commission's cost data and

the fact that the Commission has revised the costs associated with both its optimized in-house and outsourced models *after* tentatively awarding the contract demonstrate that the Commission had not identified all its relevant costs at the time of the tentative award decision.

**The Commission lacks sufficient documentation needed to demonstrate compliance with statute regarding its best-value decision in awarding the human resources and payroll services management contract.**

To evaluate vendor proposals, the Commission used an objective and reasonable scoring process that incorporated its best-value factors. The Commission did not clearly document the best-value factors it used to select the vendor to which it awarded the contract as required by Texas Government Code, Section 2155.144.

**The Commission's contract does not guarantee that adequate information technology support services will be provided.**

The Commission did not adequately define the information technology (IT) support services that its contractor is required to provide before executing its contract for human resources and payroll services management. This is especially critical because the contract is based on a Web-based, self-service model that disperses many human resources-related tasks across the various health and human services agencies. Additionally, the Commission has not developed performance measures to monitor and evaluate the contractor's performance in the area of IT support services. The lack of definitive performance measures makes it difficult for the Commission to hold its contractor accountable for failing to perform to expectations.

**The Commission should address specific purchasing and payment process efficiency and effectiveness issues.**

The Commission should address current efficiency and effectiveness issues in its purchasing and payment process. Specifically:

- The Commission's performance measures do not provide adequate performance data to monitor all of its purchasing-related activities or anticipated cost savings.
- Purchasers working in the Commission's Enterprise Contract and Procurement Services division are not able to use their procurement cards in an efficient and cost-effective manner.
- Health and human services agencies are duplicating processes already handled within the purchasing requisition module of the Commission's internal accounting system.

**Ninety-one percent of property management and purchasing positions reviewed were classified correctly.**

Of the 408 property management and purchasing positions reviewed at health and human services agencies, 373 (91 percent) were classified correctly. Twenty-three (66 percent) of the 35 misclassifications resulted from health and human services agencies' classifying positions in an incorrect class series. In comparison, the average percent of properly classified positions from the previous five statewide classification reviews was 90 percent. More detailed information on the classification review is provided in Appendix 2 of this report.

### ***Summary of Management's Response and Auditor's Follow-Up Comment***

The Commission generally agrees with our recommendations, and its full responses are presented in Appendix 3. Although auditors were unable to determine whether outsourcing was cost-effective, in its management responses the Commission continues to assert that, based on its cost models, a savings will be achieved from outsourcing. However, the Commission did not perform a business process analysis to identify all relevant costs or document key assumptions for its optimized in-house and outsourced cost models. Auditors reviewed and identified problems in the original cost model the Commission used to make the outsourcing decision and in the Commission's three subsequent revised cost models. Examples of the problems auditors identified included:

- Errors. Costs associated with operations, such as IT support services, were significantly overstated in the Commission's optimized in-house cost model by \$19.1 million; these costs were also overstated in the Commission's outsourced model by \$5.1 million.
- Omissions. The Commission omitted from its outsourced model \$24.3 million in payroll costs associated with maintaining the human resources and payroll services function during fiscal year 2005.
- Unquantified costs. The Commission chose not to quantify the cost of activities that were shifted from traditional human resources departments to program management and staff. The shifting of these activities occurred as result of implementing a Web-based, self-service application.

Because of the magnitude of these discrepancies, documentation available at the Commission was not sufficient to determine whether outsourcing was cost-effective.

In addition, although the Commission agrees to develop performance measures for the IT support services to be provided by its contractor for human resources and payroll management services, it elected not to respond to the recommendation in

Chapter 2-C regarding whether it would develop adequate performance measures prior to executing contracts. The Commission should ensure that it develops and finalizes its expectations for contractor performance before executing contracts. The Commission is more likely to obtain contractor agreement to comply with performance standards that more adequately protect the State's interests during the contract negotiation process (rather than after a contract is executed). After a contract agreement is executed, especially for procurements in which services are being outsourced, the Commission is in a weaker negotiating position than the contractor because continuation of services becomes dependent upon the contractor performing those services.

### ***Summary of Information Technology Review***

The State Auditor's Office continues to review controls within the payment processes of the financial module of the Commission's internal accounting system. Results of audit testing performed in this area will be reported in a separate audit report on the Commission's consolidation of its financial services and related information systems.

### ***Summary of Objectives, Scope, and Methodology***

The audit objectives were to:

- Examine the Commission's administrative support functions that were consolidated pursuant to House Bill 2292. Because of the manner in which agency support functions were consolidated, it was also necessary to conduct audit work at other agencies included within Article II of the General Appropriations Act.
- Determine whether health and human services agencies conform with the State's Position Classification Plan by ensuring proper classification of positions.

The audit scope included reviewing the methodology the Commission used to plan the consolidation of its administrative support functions as identified by House Bill 2292. The scope also included examining the Commission's outsourcing decision and procurement process for its human resources and payroll services management function. The scope of the classification review included health and human services employees classified within the Inventory Coordinator, Purchaser, Contract Technician, Contract Specialist, and Property Manager class series. We also reviewed positions that agencies identified as performing similar work but that were classified in other class series.

The audit methodology consisted of collecting information and documentation, performing selective tests and other procedures, analyzing and evaluating the results of tests, and interviewing the Commission's management and staff. The

State Classification Office used the classification method of job evaluation when reviewing positions and determining proper classifications. These determinations were primarily based on a comparison of duties and responsibilities being performed with the state job description for each position.

Recent SAO Work		
Number	Product Name	Release Date
06-005	A Follow-Up Audit Report on the Health and Human Services Commission's Prescription Drug Rebate Program	September 2005
05-045	A Follow-Up Audit Report on the Health and Human Service Commission's Administration of the Children's Health Insurance Program	July 2005
05-033	An Audit Report on Administration of Nursing Facility Contracts at the Department of Aging and Disability Services and the Health and Human Services Commission	April 2005
05-028	A Follow-Up Audit Report on Managed Care Contract Administration at the Health and Human Services Commission	February 2005
05-024	An Audit Report on the Health and Human Services Commission's Monitoring of Its Contracted Medicaid Administrator	January 2005
04-042	An Audit Report on the Health and Human Services Commission's Administration of the CHIP Exclusive Provider Organization Contract	July 2004
04-011	An Audit Report on the Health and Human Services Commission's Monitoring of Managed Care Contracts	November 2003

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# Detailed Results

## Chapter 1

### ***The Commission Should Use a Consistent, Comprehensive Methodology to Improve Administrative Support Functions***

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The Health and Human Services Commission (Commission) should use a consistent, comprehensive methodology to analyze the key business processes within its administrative support functions. The Commission reported that it

#### **The Commission's Transition Plan for Administrative Support Services**

House Bill 2292 (78th Legislature, Regular Session) required the Commission to develop a plan describing its consolidation methodology.

In response to that requirement, the Commission developed a transition plan that described the consolidation of administrative support services as occurring through a two-step process:

- First, consolidate management and staff under the Commission.
- Second, optimize each administrative service to identify cost savings and efficiency improvements. Specifically, the transition plan defined optimization as streamlining, simplifying, and standardizing each administrative support service to generate cost savings and efficiency improvements.

The Commission's transition plan also specified that the consolidation of each administrative support service would be evaluated as a candidate for whole or partial outsourcing to a private vendor based on an analysis of cost-effectiveness.

achieved a salary savings for the 2004–2005 biennium of \$15.3 million in General Revenue as a result of centralizing the management of the administrative support functions and eliminating 567 positions within those services (see *Health and Human Services: A Progress Report on Consolidation*, March 2005). However, the Commission needs more detailed and accurate information to make decisions such as determining the number of staff needed to perform certain activities or whether outsourcing alternatives are cost-effective.

In the Commission's November 2003 transition plan, the Commission specified that it would first consolidate administrative support management and staff and then "optimize" each administrative support service to identify cost savings and efficiency improvements (see text box for additional details). As the Commission continues to optimize its administrative support functions, it should ensure that it:

- Analyzes and documents its administrative support functions' business processes and activities.
- Quantifies workload and staffing demands.
- Develops adequate performance measures that address customer needs.

In addition, the Commission should conduct additional analyses when considering the cost-effectiveness of outsourcing administrative support functions.

The Commission should use a consistent, comprehensive methodology to improve business processes within its administrative support functions.

The Commission completed its structural consolidation of administrative support functions by September 1, 2004. Through that effort, the Commission consolidated the administrative support staff who had been working in the 12

legacy health and human services agencies (those agencies employed approximately 46,000 total state employees). To achieve the consolidation, the Commission performed a series of functional reviews to identify administrative support service staff who were subject to consolidation. In addition, to manage the consolidation, the Commission established a project management methodology that it used to:

- Standardize its decision-making process for the selection and approval of consolidation projects.
- Track and monitor the progress of approved consolidation projects.
- Establish executive sponsorship for consolidation projects.

However, the Commission did not perform a comprehensive business process analysis for the majority of the administrative support functions audited.<sup>1</sup> The Commission has previously demonstrated that it can adequately review its business processes. For example, its planning assessments for the Office of Inspector General and Civil Rights Office included documentation and analyses of processes, breakdowns of activities, and the identification of legal and regulatory constraints.

**The Commission should perform a comprehensive business process analysis of its administrative support functions.**

The Commission conducted functional reviews of the 12 legacy health and human services agencies to identify full-time equivalent (FTE) positions in administrative support functions that would be subject to consolidation. However, the functional reviews neither (1) provided information on the amount of work that needed to be accomplished nor (2) identified areas in which business processes could be streamlined or consolidated for efficiency.

A comprehensive business process analysis would provide more complete information to management through documentation of existing processes, identification of process outputs and activities, and determination of customer requirements. This type of analysis would also assist the Commission in establishing a baseline of current performance and costs and help it identify performance gaps and areas for improvement in the optimization phase of the consolidation. Such an analysis also would help the Commission identify relevant costs<sup>2</sup> to use in considering outsourcing scenarios. As discussed in more detail in Chapter 2, without accurate cost data, the Commission could not develop adequate cost models for determining whether outsourcing was cost-effective.

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<sup>1</sup> We audited the Commission's consolidation planning for human resources, purchasing services, the Office of Ombudsman, the Civil Rights Office, the Office of Inspector General, Facilities Leasing and Management, Audit Services, and Legal Services.

<sup>2</sup> Relevant costs are the expenditures incurred that directly relate to performing specific activities of a business process.

As part of its business process analysis, the Commission should review its staffing levels for administrative support functions. The Commission reduced the number of administrative support functions' FTEs by (1) eliminating vacant positions identified by its functional reviews and (2) limiting staffing to positions that could be funded through available budget funding. As Table 1 shows, the Commission realized a cost savings of approximately \$15.3 million in General Revenue by reducing its administrative support function staff by 567 FTEs. In addition, the Commission did not fill 104 human resources position vacancies. To ensure that appropriate resources are available to meet the needs of its customers (as demonstrated by workload measures), the Commission should review the staffing levels for its administrative support functions.

Table 1

Administrative Support Functions FTE Reductions and Associated Salary Savings for the 2004-05 Biennium (Note: Information in this table was self-reported by the Commission and has not been audited)			
Administrative Support Functions	FTE Reductions	All Fund Savings (in millions)	General Revenue Savings (in millions)
Facilities leasing and management	43.5	\$1.6	\$0.9
Purchasing	88.5	5.8	2.3
Financial management <sup>a</sup>	64.0	3.6	1.8
Information resources	85.0	4.3	2.1
Other administrative, executive and program support	286.0	15.0	8.2
<b>Totals</b>	<b>567.0</b>	<b>\$30.3</b>	<b>\$15.3<sup>b</sup></b>
<sup>a</sup> The State Auditor's Office is currently auditing financial management and information resources consolidation planning. <sup>b</sup> The Commission did not fill an additional 104 vacant human resources positions; however, salaries associated with these positions are not included in the \$15.3 million cost savings.			

The Commission should strengthen its monitoring of the performance of administrative support functions identified under House Bill 2292.

The Commission did not place all administrative support functions directly under its management. Instead, the Commission placed some administrative support functions under its direct management, placed others under the direct management of each of the five health and human services agencies, and placed others under the management of both the Commission and the health and human services agencies. Table 2 shows the administrative support functions and the agencies that are responsible for managing them.

Table 2

Management of Administrative Support Functions		
Managed by the Commission	Managed at Each of the Health and Human Services Agencies	Managed Jointly by the Commission and the Health and Human Services Agencies <sup>a</sup>
Human Resources Office of Inspector General Civil Rights Office	Audit Services Financial Services	Office of Ombudsman Facilities and Leasing Management Purchasing Services Legal Services Information Resources
<sup>a</sup> "Managed jointly" implies that the performance of administrative support functions are dependent on business processes being performed by both the Commission and the health and human services agencies.		

While the Commission's decision to manage specific administrative support functions appears reasonable, the Commission should strengthen its oversight of the health and human services agencies it is responsible for overseeing as it continues to optimize its administrative support functions. House Bill 2292 specified that the Commission is responsible for ensuring that its administrative support functions are efficient and effective.

The Commission should develop adequate performance measures to monitor the performance of administrative support functions.

The Commission has developed inadequate performance measures for a number of administrative support functions and has not developed any performance measures for others.

The Commission did not identify either internal or external customer requirements to define performance measures that it developed for certain administrative support functions. Other performance measures it developed are output-based and, therefore, do not measure customer needs. For example, a key customer requirement for the purchasing function is how quickly goods are delivered; however, the Commission did not develop performance measures to monitor the purchasing function's cycle time (see Chapter 3 for additional details).

## Recommendations

The Commission should:

- Develop and standardize an enterprise-wide business process methodology to address:
  - ♦ Analysis of the efficiency and effectiveness of administrative support functions.

- ♦ Quantification of the workload to be performed by administrative support staff.
- ♦ Identification of all relevant costs that should be considered for outsourcing decisions.
- Develop performance measures to monitor the overall performance of administrative support functions, regardless of whether those services are managed by the Commission or by the health and human services agencies the Commission oversees.

## *The Commission Did Not Thoroughly Analyze Its Human Resources and Payroll Services Management Before Outsourcing*

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The Commission's November 2003 transition plan specified that administrative support functions would be evaluated for outsourcing based on an analysis of cost-effectiveness. However, the Commission did not accurately identify and verify all relevant costs associated with the human resources and payroll services management business processes to be performed under its optimized in-house model or under its outsourced model. Without accurate cost data, the Commission could not develop adequate cost models for determining whether outsourcing was cost-effective. As of August 2005, the Commission reported that it had not yet achieved any cost savings from outsourcing the human resources and payroll services management function.

### **Background Information**

In October 2004, the Commission executed its contract with the contractor that is performing the majority of the human resources and payroll services management function for the Commission and the four health and human services agencies it oversees. The contractor's primary responsibilities are to provide the following services:

- Payroll processing
- Recruitment and selection
- Performance systems and records management
- Compensation and classification administration
- Benefits processing
- Time and leave processing
- Safety and health administration
- Administrative training and staff development

The contract calls for the Commission to pay the contractor a total of approximately \$85 million over a five-year period.

At the time of its decision to tentatively award a contract to outsource human resources and payroll services management, the Commission estimated that outsourcing this function could achieve a five-year cost savings of \$21.7 million when compared with its optimized in-house model. This estimate was based on costs the Commission calculated for its optimized in-house and outsourced models. The Commission subsequently revised its costs for the optimized in-house and outsourced models, which resulted in a lower cost savings estimate of \$17.9 million. However, because of significant errors and omissions in the Commission's cost data for both

models, auditors were not able to determine whether the Commission's decision to outsource was more or less cost-effective when compared with performing this function under the optimized in-house model.

It should also be noted that the Commission has shifted unquantified human resources and payroll service management costs to the health and human services agencies and may incur additional costs related to difficulties it is experiencing in shifting information technology (IT) support services to its human resources and payroll services management contractor. This could reduce or eliminate any anticipated cost savings.

The Commission also lacks sufficient documentation that it selected its human resources and payroll services management contractor in accordance with statutory "best value" requirements. The Commission asserts that its best-value determination was based on a combination of different sets of information; however, that information does not support the Commission's assertion that the contractor it selected was chosen according to best value.

In addition, the Commission has not ensured that its human resources and payroll services management contractor will provide the IT support services the Commission needs. The Commission's request for proposal (RFP) for the human resources and payroll services management function did not clearly define its needs for the services associated with the human resources module of its internal accounting system. That module is a critical IT support system for the Commission's human resources and payroll processes.

As of May 2005, the Commission had not developed performance measures for the IT support services the contractor will provide. Not clearly defining performance measures increases the risk that the contractor will not provide the Commission and the four health and human services agencies it oversees with the IT support necessary for the human resources module of its internal accounting system.

Chapter 2-A

### **The Commission's Analysis for Determining the Cost-Effectiveness of Outsourcing Its Human Resources and Payroll Services Management Function Was Based on Inaccurate Data and Omitted Relevant Costs**

The Commission did not identify and include certain relevant costs associated with its human resources and payroll services management function in the analysis it used to determine whether outsourcing was cost-effective. The Commission's transition plan contained a requirement to evaluate cost-effectiveness, and the Texas Council on Competitive Government recommends that state agencies identify and include all relevant costs in their outsourcing decisions.<sup>3</sup>

The Commission's identification of relevant costs associated with the human resources and payroll services management function was essential for determining the cost-effectiveness of outsourcing. However, the Commission neither implemented its optimized in-house model nor performed a comprehensive business process analysis and workload assessment to identify the costs associated with performing the function in-house. Therefore, the Commission lacked adequate information on whether it could perform the human resources and payroll services management function more efficiently than an external vendor.

Inaccuracies identified in the Commission's cost data and the fact that the Commission identified additional costs associated with both its optimized in-house and outsourced models *after* tentatively awarding the contract demonstrate that the Commission had not identified all relevant costs at the time it decided to tentatively award a contract to outsource the human resources and payroll services management function.

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<sup>3</sup> The Council's cost methodology provides a guide to governmental agencies for making outsourcing decisions.

After the end of fieldwork on this audit, the Commission provided auditors a third revision of its cost models. The revised cost models also contained significant inaccuracies and omitted relevant costs associated with the human resources and payroll services management function.

The Commission's cost estimates prior to tentatively awarding the contract in June 2004 were based on inaccurate data.

Prior to its tentative award of the contract, the Commission used inaccurate cost data in determining the cost-effectiveness of outsourcing. The data was inaccurate because, in both its optimized in-house and outsourced models, the Commission overstated its Enterprise Support Center (ESC) costs associated with its internal accounting system (see text box for additional information regarding the ESC). Specifically:

#### The Enterprise Support Center (ESC)

The ESC provides direct ongoing maintenance and production support for the Commission's internal accounting system (the Health and Human Services Administrative System, or HHSAS).

The major functions of the ESC are to:

- Develop and maintain HHSAS technical and functional documentation.
- Develop and apply HHSAS application modification.
- Perform software maintenance activities.
- Maintain a single, secured HHSAS application control environment.
- Maintain the HHSAS technical architecture plan and associated specifications.
- Provide database administration and tuning functions.
- Coordinate with the Texas State Data Center to design and administer the system environment and database software security structure.

Source: Health and Human Services Commission's *Enterprise Support Center Approach for the Health and Human Services Administrative System*, May 7, 2004

- The cost of the optimized in-house model was overstated by approximately \$19.1 million because the Commission erroneously included in that amount certain IT support costs that should not have been included.
- The outsourcing model's cost estimate was overstated by approximately \$5.1 million because the Commission erroneously included certain IT support costs for an 18-month period that should not have been included.

It is important to note that the Commission identified these overstatements in costs *after* it had tentatively awarded the contract.

The Commission revised its cost estimates after it tentatively awarded the contract (and the other bidder was not selected) in June 2004.

After the Commission had tentatively awarded the contract in June 2004 (and during its negotiations with the vendor), the Commission revised both its optimized in-house and outsourced cost models on two more occasions to include additional costs. However, auditors identified the following errors in the Commission's revisions to the estimated cost of the outsourced model:

- The cost of the Commission's outsourced model was overstated by \$7.5 million in ESC costs for fiscal years 2006 through 2009. That model should have included the Commission's IT support services costs for only the period from September 1, 2004, through January 30, 2005, because the contractor assumed IT responsibilities on January 31, 2005.



- The Commission erroneously omitted \$24.3 million in salary and benefits costs from its outsourced model. The \$24.3 million represented projected costs that the Commission would incur in maintaining its human resources and payroll management function during fiscal year 2005.

The fact that the Commission revised both its optimized in-house and outsourced costs *after* tentatively awarding the contract indicates that the Commission had not identified all its relevant costs at the time of the tentative award decision.

There are additional, relevant costs that were omitted from both the optimized in-house and the outsourced models.

After executing the contract, the health and human services agencies needed to create 63 additional FTE positions. This occurred because the Commission did not quantify the workload associated with the human resources and payroll activities those agencies would perform under the optimized in-house model or the outsourced model.

The approximate cost for these additional positions totals \$12.3 million for the period from fiscal year 2006 through fiscal year 2009. The primary responsibilities of these additional positions will be to assist the agencies in hiring and screening employee applicants. These responsibilities were originally presumed to be performed by existing agency managers under both the Commission's optimized in-house and outsourced models. Because the costs associated with these positions should be included in the total cost for both the optimized in-house and outsourced models, this revision does not affect the cost-effectiveness determination. However, it does increase the overall cost of the human resources and payroll services management function.

Another cost that was not included in the Commission's models was the cost associated with the health and human services agencies' FTEs that perform timekeeping activities. The Commission has indicated that the cost and the number of FTEs associated with performing timekeeping activities would be reduced as the result of the implementation of its Web-based, self-service applications to be used by either its optimized in-house or outsourced models. However, the Commission was not able to provide any documented analysis of the cost associated with these timekeeping activities.

The Commission provided auditors a third revision of its cost models 10 months after the execution of the contract, but there were significant errors and omissions in these revised costs.

After the end of fieldwork for this audit, the Commission provided auditors a third revision of its cost models. However, because the revised cost models included inaccuracies and omissions of previously identified relevant costs, auditors were still unable to determine whether outsourcing was more or less

cost-effective when compared with performing this function under the optimized in-house model:

- The reported human resources salary and benefit costs for fiscal years 2007 through 2009 under the outsourced model were understated by \$3.6 million.
- Salary and benefit costs associated with the additional 63 FTEs that the health and human services agencies needed to create under both the optimized in-house and the outsourced model, as previously discussed, were omitted from the revised cost models.
- The Commission developed its outsourced model using the assumption that there would be a reduction of approximately 16 percent in the health and human services agencies' FTEs from 2005 to 2009, which resulted in the outsourced model's cost decreasing over that time period. However, the Commission did not use this same assumption in its development of the optimized in-house model. The Commission determined an annual fixed cost amount for its optimized in-house model and used that annual fixed cost amount to determine the cost of its optimized in-house model from 2005 to 2009.

## Recommendations

The Commission should:

- Ensure that it verifies the accuracy of cost data used in both its optimized in-house and outsourced models prior to deciding whether to outsource an administrative function. To adequately ensure the accuracy of its cost data, the Commission should ensure that the source of the cost data and the verification process for that data are documented.
- Consider implementing optimized models to identify the costs associated with performing functions in-house. In lieu of implementing optimized models, the Commission should (1) perform a comprehensive business process analysis to determine how efficiently a service can be performed in-house and (2) ensure that this process analysis is adequately documented. In addition, the Commission should consider using either the Texas Council for Competitive Government's or the Office of Management and Budget's Circular A-76 cost methodologies for performing outsourcing analyses.

## The Commission Lacks Sufficient Documentation Needed to Demonstrate Compliance with Statute Regarding Its Best-Value Decision in Awarding the Human Resources and Payroll Services Management Contract

The Commission lacks sufficient documentation to demonstrate compliance

### Determination of Best Value

Texas Government Code, Section 2155.144, requires the Commission to procure goods and services on the basis of best value and to document the best-value factors it considers in its procurement decisions.

The Commission defines best value as the optimum combination of economy and quality that is the result of fair, efficient, and practical procurement decision-making and that achieves health and human services procurement objectives. Best value is achieved by examining factors other than price in making a contract award.

with statute regarding its best-value decision in awarding the human resources and payroll services management contract (see text box for the definition of best value). Specifically, the Commission did not sufficiently document the factors it considered in its contract award decision.

The Commission asserts that its best-value determination was based on a combination of the following:

- The evaluation of vendor proposals based on the following components:
  - ♦ Business management services
  - ♦ Cost proposals
  - ♦ Human resources services
  - ♦ Technology services
  - ♦ Qualifications
  - ♦ Payroll services
- Conducting reference checks of each vendor
- Vendor presentations
- Vendors' best and final offers (revised cost proposals)

However, that documentation did not adequately support the Commission's assertion that the contractor it selected was chosen according to best value.

The Commission lacks sufficient documentation regarding its best-value determination as required by statute.

The Commission lacks documentation regarding the best-value factors on which it based its award decision in selecting its contractor. The Commission asserted that its award decision was based on a combination of different evaluations; however, the results of those evaluations suggest that the vendor to which the contract was ultimately awarded was selected based on its offering the lowest bid. Specifically:

- The Commission's process for scoring vendors' proposals incorporated the best-value criteria that the Commission established in its RFP for human resources and payroll services management. Although the Commission's scoring process appeared to be objective and reasonable, the Commission lacks documentation regarding its decision-making after its initial scoring of vendors' proposals.
- The Commission's reference checks of the vendors did not result in either vendor emerging as the more qualified or experienced vendor. Each vendor's reference checks included incomplete responses from one of three references.
- The Commission did not have complete documentation for all oral presentations made by the vendors that submitted bids for the contract. The Commission stated that the purpose of these presentations was not to evaluate the vendors. According to the Commission, presentations were made to ensure that the Commission understood the vendors' approaches to providing services. Vendor presentations typically provide an opportunity to collect additional information that is critical to procurement decisions.

The only documentation the Commission provided suggested that the vendor to which the contract was ultimately awarded was selected based on the revised cost data this vendor provided. After reducing its revised cost proposal by approximately 29 percent, the vendor to which the contract was awarded presented the Commission with the lowest best and final offer;<sup>4</sup> the vendor that was not selected reduced its cost proposal by approximately 10 percent. However, this documentation alone is not adequate to support the Commission's determination of best value.

In addition, unlike it did with the original cost proposals, the Commission did not assess either vendor's revised costs to determine in which areas each vendor was reducing its cost. Assessing the revised costs was critical, particularly considering the substantial cost reductions made by the vendor to which the contract was ultimately awarded. The Commission did not determine the effect of cost reductions on the vendor's time and effort to provide proposed services.

In its revised cost proposal, the vendor to which the contract was awarded presented one flat rate for all its proposed services. This made it difficult to quantify the cost reductions for certain services, particularly ESC services.<sup>5</sup> This vendor originally proposed a cost for ESC services of approximately

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<sup>4</sup> This vendor increased its original bid by 3 percent before presenting a reduced best and final offer bid.

<sup>5</sup> Both vendors provided line item costs for the human resource, payroll, timekeeping and leave, and information technology support services in their original cost proposals. Only the unselected vendor presented its costs by line item in the revised cost proposal.

\$20 million over five years. The Commission did not require that the vendor document this cost reduction in its final offer. The Commission also never documented its assessment of the adequacy of the ESC services this vendor would provide under its revised cost proposal. However, the Commission did not define its ESC services or related performance measures in its RFP or contract. The omission of ESC service needs and related performance measures from the contract is discussed further in Chapter 2-C.

## Recommendation

The Commission should more adequately document its reasons for selecting the vendors to which it awards contracts to ensure that it complies with statutory requirements for documenting its determination of best value.

Chapter 2-C

### **The Commission's Contract Does Not Guarantee that Adequate Information Technology Support Services Will Be Provided**

The Commission did not clearly define its ESC services needs in its RFP for human resources and payroll services management. As a result, it did not clearly define the contractor's IT responsibilities or performance measures in the executed contract. This is especially critical because the contract is based on a Web-based, self-service model that disperses many human resources-related tasks across the various health and human services agencies. Without clearly defining its service needs and associated performance measures in the contract, the Commission cannot ensure that the contractor will perform the ESC services necessary to adequately support the human resources and payroll services. Additionally, the Commission cannot ensure that the ESC services that the contractor does provide will be performed in accordance with the Commission's performance expectations. Inadequate performance of ESC services could lead to delays in the Commission's and its health and human services agencies' daily operations, unacceptable workarounds, the use or production of incorrect data, and an increase in security threats to the Commission's internal accounting system.

The Commission did not clearly define its requirements for ESC services in its RFP or the executed contract.

The Commission did not clearly define in its RFP or its executed contract the ESC services the contractor would be expected to perform. As a result, the Commission could not ensure that vendors' proposals would be adequately responsive in the area of ESC services.

If the Commission had adequately defined its needs, the Commission may

#### Major Information Resources Projects

Texas Government Code, Section 2054.003 (10), defines major information resources projects as:

- Any information resources technology project identified in a state agency's biennial operating plan for which development costs exceed \$1 million and that meets one of the following conditions:
  - ♦ Requires one year or longer to reach operational status
  - ♦ Involves more than one state agency
  - ♦ Substantially alters work methods of state agency personnel or the delivery of services to clients
- Any information resources technology project designated by the Legislature in the General Appropriations Act as a major information resources project.

have determined that its RFP was for a “major information resources project” as defined in the Texas Government Code (see text box for additional details). Texas Government Code, Section 2054.118, requires that state entities receive project and funding approval from the Legislative Budget Board and the Quality Assurance Team<sup>6</sup> (QAT) prior to requesting bids for major information resources projects. Because the Commission did not adequately define its ESC services needs or determine whether the project met the statutory definition of a major information resources project, these approvals were never sought.

Auditors identified additional concerns regarding (1) the transition of responsibilities for ESC services from the Commission to the contractor and (2) the implementation of those services. The State Auditor's Office is

currently performing additional audit work to examine these concerns.

**The contract does not include performance measures for the ESC services the contractor provides.**

The Commission cannot ensure that the contractor will provide adequate ESC services. The Commission had not developed performance measures for ESC services prior to executing its contract in October 2004. Furthermore, as of May 2005, the Commission had not amended its contract to include performance measures for ESC services. The Commission drafted contract performance measures for IT services in February 2005, four months after it executed the contract. However, those performance measures do not identify or measure performance data for the ESC services the contractor is providing. In addition, the Commission and the contractor informally agreed to a 90-day “burn-in” period after which the Commission will consider amending the contract to include performance measures. The Commission states that it is working with the contractor to develop adequate performance measures for the contractor's ESC services after this 90-day period during the month of May 2005.

In addition, as discussed in Chapter 2-B, the Commission did not reassess the awarded contractor's revised cost proposal during the procurement process to determine the reasonableness of the time, effort, and costs the selected contractor would expend in providing ESC services. The Commission cannot

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<sup>6</sup> The QAT comprises representatives from the State Auditor's Office, the Legislative Budget Board, and the Department of Information Resources. The QAT is responsible for reviewing agencies' and higher education institutions' biennial operating plans and identifying information technology projects that meet the requirements of Texas Government Code, Section 2054.003. In addition, the QAT provides ongoing monitoring of projects identified as major information resources projects.

provide assurances on the quality of the ESC services the selected vendor agreed to provide.

## Recommendations

The Commission should:

- Develop objective policies and procedures for defining IT support services in its RFPs, particularly in procurements for which vendors are asked to perform IT services that could significantly affect the Commission's and health and human services agencies' operations. The Commission should also ensure that these responsibilities are clearly specified in executed contract agreements.
- Ensure that it develops and finalizes adequate performance measures to monitor a contractor's performance before it executes a contract agreement.

## ***The Commission Should Strengthen Its Oversight of Purchasing and Payment Processes and Correct Known Inefficiencies***

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The Commission should strengthen its monitoring of the purchasing and payment processes to ensure that it develops an efficient and effective purchasing function. The Commission centralized only the activities related to

### **Purchasing and Payment Processes**

For the purposes of this report, the phrase “purchasing and payment processes” refers to activities that the Commission and the health and human services agencies it oversees use to order, buy, receive, and pay for goods and services through the use of purchase orders. These processes are performed using the purchasing requisition module within the Commission’s internal accounting system.

the issuance of a purchase order; however, the overall efficiency and effectiveness of the purchasing function is dependent on a number of other interrelated activities that occur at health and human services agencies before and after the issuance of a purchase order.

The Commission also did not conduct a comprehensive business process analysis of its purchasing and payment processes prior to implementing its consolidated purchasing function. As a result, a number of problems with

purchasing occurred that caused the health and human services agencies to experience delays in receiving goods and services they needed to support the delivery of client services.

As it continues to optimize its purchasing function, the Commission also should address specific issues that have been identified to ensure that purchasing is efficient and effective. For example, the Commission has not established effective performance measures for its purchasing function and, therefore, cannot yet analyze purchasing cycle time. In addition, the Commission’s purchasers are not always able to use procurement cards when it would be cost-effective and more efficient to do so. Health and human services agencies are also duplicating processes already performed by the purchasing requisition module of the Commission’s internal accounting system.

Chapter 3-A

### **The Commission Should Continue to Pursue Efficiencies and Cost Savings in Its Purchasing and Payment Processes**

While the Commission’s decision to centralize only the purchase order process appears reasonable, there is a need for the Commission to provide ongoing oversight of the health and human services agencies it oversees as it continues to optimize the purchasing function.

In addition, the Commission needs to ensure that it has taken a comprehensive approach to analyzing its purchasing function’s business processes to ensure that it has adequate information to make major decisions related to the optimization of the purchasing and payment function.



The Commission should strengthen its monitoring of the overall performance of the purchasing function.

The Commission’s approach to consolidating the purchasing function was to centralize the purchasing of goods and services. As Figure 1 shows, certain purchasing-related activities are performed by the health and human services agencies the Commission oversees.

Figure 1

The Commission’s Purchasing and Payment Process			
Step 1: Order	Step 2: Purchase	Step 3: Receive/ Take Delivery	Step 4: Payment
Agency orders goods or services →	Commission purchases goods or services →	Agency receives/takes delivery of goods or services →	Agency pays vendor

Source: The Health and Human Services Commission

A number of issues were reported by the health and human services agencies that indicated the Commission needs to monitor interdependent purchasing-related activities that either are part of or support the delivery of goods and services to health and human services agencies and their clients. The following were the most significant concerns cited by the health and human services agencies:

- The health and human services agencies reported that incorrect or incomplete information in requisition orders can cause excessive cycle time in completing a purchase order. This can delay the receipt and delivery of goods or services.
- In addition, health and human services agencies reported instances in which vendors discontinued or warned that they might discontinue providing goods or services due to non-payment. For example:
  - ♦ Cell phone services for the State’s bioterrorism staff were disconnected on several occasions because of non-payment.
  - ♦ Vendors warned of delayed shipments of patient and food supplies to the Texas Center for Infectious Disease because of non-payment.

(The State Auditor’s Office is conducting additional audit work to examine these concerns.)

A number of the goods and services associated with the above issues support critical services related to public health and safety and direct client services. These instances emphasize the need for the Commission to strengthen the monitoring of the overall performance of its purchasing and payment function.

The Commission experienced a number of problems with its purchasing and payment function because it did not analyze the business processes within that function or identify customer requirements.

The Commission made critical decisions regarding purchasing and payment processes without conducting a comprehensive business process analysis to understand its purchasing function. Specifically:

- The Commission unsuccessfully attempted to outsource its purchasing function in July 2004. The Commission cited multiple reasons for this unsuccessful attempt.<sup>7</sup> One of the reasons it cited was that the data it provided to vendors during the procurement process was inadequate. Specifically:
  - ♦ The integrity of the pricing data used for the RFP was not adequate.
  - ♦ There was a lack of data regarding the volume of purchases and the number of transactions.
- In September 2004, the Commission implemented a new purchasing requisition system that caused several purchasing problems for the health and human services agencies. The Commission did not adequately define the processes needed to collect information from the health and human services agencies that request goods and services. As a result, these agencies experienced significant delays in ordering and receiving goods and services. The Commission eventually discontinued the use of the purchasing requisition system and began using the purchasing requisition module of its internal accounting system instead.

These examples demonstrate that the Commission should adopt a more comprehensive approach to analyzing its business processes prior to making major decisions such as deploying automated systems and outsourcing.

## Recommendations

The Commission should:

- Develop and implement objective policies and procedures that will allow it to monitor the performance of all the interrelated activities of the purchasing function.
- Develop and use a comprehensive and standardized methodology for analyzing its business processes. It should ensure that business process analyses are conducted and used in major consolidation and outsourcing decisions.

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<sup>7</sup> The Commission reports that the primary reason its purchasing function was not outsourced was because its RFP precluded the vendor ultimately selected from conducting other business with health and human services agencies.

## The Commission Should Address Specific Purchasing and Payment Process Efficiency and Effectiveness Issues that Have Been Identified

As the Commission continues to streamline its purchasing function, it should resolve current efficiency and effectiveness issues in its purchasing and payment processes. Specifically:

- The Commission's current performance measures for the purchasing function do not provide adequate performance data.
- Purchasers working in the Commission's Enterprise Contract and Procurement Services (ECPS) division are unable to use procurement cards in an efficient and cost-effective manner.
- Health and human services agencies are duplicating processes handled within the purchasing requisition module of the Commission's internal accounting system.

The issues summarized above diminish the benefits of having a consolidated purchasing and payment process, which was intended to provide health and human services agencies with an effective and efficient system to procure goods and services.

The Commission should develop adequate purchasing performance measures.

The Commission has developed performance measures only for activities performed by its ECPS division, and those performance measures provide information only on the number of orders that ECPS prepares each month. The Commission has not established other performance measures to collect and monitor information that is significant to the health and human services agencies it oversees, such as process cycle times or the cost savings generated by purchasing practices such as bulk purchasing. Assessing cycle times and purchasing practices can assist the Commission in identifying specific areas that can be improved, re-engineered, or eliminated.

ECPS purchasers should be able to use their procurement cards in a more cost-effective manner.

Although purchasers working within ECPS are organized by the commodity categories they purchase,<sup>8</sup> these staff members can use their procurement cards to buy goods and services for only the particular health and human services agencies that originally issued their procurement cards. (The individuals who are now working in the Commission's ECPS division originally worked for individual health and human service agencies. Their

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<sup>8</sup> ECPS purchasers are organized by the types of commodities they purchase. The types of commodities include information technology, miscellaneous administrative services, administrative goods, medical, laboratory and food, building and equipment services, and program and client services.

positions were centralized, and these individuals became employees of the Commission in October 2003. However, purchasers retained the procurement cards they were issued from the respective agencies at which they originally worked.)

As a result of purchasers' being able to order goods or services only for a specific agency, if an order for goods or services is received from another agency, the purchaser must issue a purchase order rather than purchase the good or service using his or her procurement card. Issuance of a purchase order causes the Commission to incur administrative costs that could be avoided by using a procurement card. Using procurement cards instead of purchase orders also increases efficiencies in requisition order processing and the cycle time associated with the delivery of goods and services.

**Health and human services agencies should discontinue internal, off-line approval processes that duplicate other approval processes.**

A number of the health and human services agencies are using internal paper-based or electronic approval processes that duplicate the approval processes already provided by the purchasing requisition module within the Commission's internal accounting system. Use of duplicative approval processes results in unnecessary delays in the purchasing and payment process. The Commission's use of the purchasing requisition module in its internal accounting system was intended to provide a standardized and efficient approach for approving orders of goods and services.

## **Recommendations**

The Commission should:

- Develop performance measures that measure time and cost savings achieved from purchasing and payment process efficiencies.
- Analyze its use of procurement cards and ensure that purchasers can order goods and services on procurement cards when it is cost-effective to do so.
- Facilitate the discontinuation of duplicative purchasing approval processes in use at health and human services agencies.

# Appendices

## Appendix 1

### ***Objectives, Scope, and Methodology***

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#### **Objectives**

The audit objectives were to:

- Examine the Health and Human Services Commission's (Commission) administrative support functions that were consolidated pursuant to House Bill 2292 (78th Legislature, Regular Session). Because of the manner in which administrative support functions were consolidated, it was also necessary to conduct audit work at other agencies included within Article II of the General Appropriations Act.
- Determine whether agencies conform to the Position Classification Plan by ensuring the proper classification of positions.

#### **Scope**

The audit scope included assessing the methodology the Commission used to plan the consolidation of its administrative support functions as identified by House Bill 2292. The audit's primary focus was assessing the adequacy of the Commission's consolidation planning conducted from June 2003 through August 2004 specifically with regard to (1) the Commission's centralization and development of consolidated administrative support business processes and related information systems and (2) the effect of the Commission's consolidated business processes on direct client services. Additionally, our scope included reviewing the Commission's decision-making process for determining the cost-effectiveness of outsourcing its human resources and payroll services management function. Our audit assessed the Commission's procurement process for human resources and payroll management services from October 2003 through October 2004.

The scope of the classification compliance review included health and human services employees classified within the Inventory Coordinator, Purchaser, Contract Technician, Contract Specialist, and Property Manager class series from April to June 2005. We also reviewed positions that agencies identified as performing similar work but that were classified in other class series.

#### **Methodology**

The audit methodology included collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating the

results of tests, and interviewing the Commission's and health and human services agencies' management and staff.

Information collected and reviewed included the following:

- The Commission's House Bill 2292 transition plan
- The Commission's Program Management Office's policies and procedures for consolidation activities
- The Commission's and health and human services agencies' consolidation planning documents and analyses
- Interviews with the Commission's executive management and administrative support management and staff, and interviews with health and human services agencies' management and staff
- Commission and health and human service agency reports, interoffice memoranda, and financial reports
- Procurement files associated with the contract for human resources and payroll services management
- The Commission's executed contract for human resources and payroll services management
- Requests for proposals for purchasing and for human resources and payroll services management
- Contract deliverables associated with the Commission's executed contract for human resources and payroll services management
- Consultant reports on ombudsman and purchasing services
- Surveys completed by employees and verified by their supervisors

Procedures and tests conducted included the following:

- Limited review of consolidation planning documents for administrative services
- Assessment of consolidation planning activities
- Limited review of the RFP process for purchasing and for human resources and payroll services management
- Limited review of executed contracts and amendments for consolidation planning services

- Limited review of the executed contract for human resources and payroll services management
- Analysis and testing of the Commission's reports for cost comparisons for in-house and contracted human resources and payroll services
- Review of state job descriptions
- Review of internal salary relationships
- Review of health and human services agencies' 408 property management and purchasing job classifications

Criteria used included the following:

- Texas statutes and the Texas Administrative Code
- Texas Council on Competitive Government's cost methodology
- The Commission's House Bill 2292 transition plan
- *State of Texas Contract Management Guide*
- State job descriptions
- Commission policies and procedures

### **Other Information**

We conducted fieldwork from January 2005 through May 2005. With the exception of the classification compliance review performed by the State Classification Office, this audit was conducted in accordance with generally accepted government auditing standards. The classification compliance review was conducted under the requirements of Texas Government Code, Section 654.036 (2) and (3).

The following members of the State Auditor's staff performed the following:

#### **Health and Human Services Consolidation Audit**

- Willie J. Hicks, MBA (Project Manager)
- Kels M. Farmer, CISA (Assistant Project Manager)
- Priscilla Garza
- Yi Hubert
- Joe Lawson, CPA
- Gary Leach, MBA, CQA

- Anthony Patrick, MBA
- Susan Pennington, MPAff
- Anca Pinchas, MAcy
- John J. Quintanilla, MBA, CIA, CFE
- Andrew Reardon
- Rene Valadez
- Michael Yokie, CISA
- Dorvin Handrick, CISA, CDP
- Leslie Ashton, CPA (Quality Control Reviewer)
- John Young, MPAff (Audit Manager)

State Classification Compliance Review

- Juliette Torres, CCP, PHR (Project Manager)
- Sharon Schneider, PHR (Assistant Project Manager)
- Kristen Lanum
- Dave Simmons, CISA
- Dennis Bushnell, CPA (Quality Control Reviewer)



## Property Management and Purchasing Positions

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Of the 408 property management and purchasing positions reviewed for this classification compliance review, 373 positions (91 percent) were classified correctly. The positions reviewed included Inventory Coordinators, Purchasers, Contract Technicians, Contract Specialists, and Property Managers (see Table 3). Positions that agencies identified as performing similar work but that were classified in other class series were also reviewed.

Table 3

Positions Reviewed	
Class Series	Number of Employees
Inventory Coordinator	47
Purchaser	108
Contract Technician	69
Contract Specialist	167
Property Manager	4
Other Classes	13
<b>Total</b>	<b>408</b>

Appendix 2-A

### Classification

Most agencies appropriately classified their property management and purchasing positions. Of the 408 property management and purchasing positions reviewed, 373 (91 percent) were identified as correctly classified. In comparison, the average percent of properly classified positions from the previous five statewide classification reviews was 90 percent.

As Table 4 shows, 23 (66 percent) of the 35 misclassifications resulted from agencies' classifying positions in an incorrect class series.

Table 4

Analysis of Misclassified Positions				
Class Series <sup>a</sup>	Number of Employees Who Moved Up to a Higher Class Title within the Same Class Series <sup>b</sup>	Number of Employees Who Moved Down to a Lower Class Title within the Same Class Series <sup>c</sup>	Number of Employees Who Moved from a Different Class Series <sup>d</sup>	Number of Employees Who Had Their Duties Changed to Remain in Their Current Class Titles
Inventory Coordinator	0	0	13	0
Purchaser	0	0	0	0
Contract Technician	0	0	2	0
Contract Specialist	0	11	4	0
Property Manager	0	0	4	1
<b>Total Misclassifications</b>	<b>0</b>	<b>11</b>	<b>23</b>	<b>1</b>

<sup>a</sup> A class series is a category of job or "class" titles.

<sup>b</sup> For example, an employee classified as a Contract Specialist II has been reclassified to a Contract Specialist IV.

<sup>c</sup> For example, an employee classified as a Contract Specialist IV has been reclassified to a Contract Specialist II.

<sup>d</sup> For example, an employee classified as a Clerk IV has been reclassified to an Inventory Coordinator I.

Collectively, health and human services agencies report that they will spend \$14,545 to properly classify positions that were misclassified. In many cases, agencies were able to reclassify positions without changing the salaries. Seven positions required salary increases ranging from \$180 to \$5,748 annually, and one reclassification resulted in a \$2,292 decrease in annual salary.

Appendix 2-B

### Importance of Proper Employee Classification

Proper classification of positions promotes efficient and effective use of resources. Misclassified positions can pose a business risk to the agencies through their effect on services and budgets. If employees are classified in positions at too high of a level for the work they perform, agencies may be paying the employees more than their job duties warrant. If employees are classified in positions at too low of a level for the work they perform, employees could be underpaid. This could affect the employees' morale and lower their motivation, thus affecting services to the citizens of Texas. In addition, it could result in higher turnover, which could be costly for the agencies.

## Management's Response



### TEXAS HEALTH AND HUMAN SERVICES COMMISSION

ALBERT HAWKINS  
EXECUTIVE COMMISSIONER

September 22, 2005

John Keel, CPA  
State Auditor  
1501 North Congress Avenue, Suite 4.224  
Austin, Texas 78701

Dear Mr. Keel:

Attached please find the Health and Human Services Commission's management response to the State Auditor's Office (SAO) draft audit report titled "The Health and Human Services Commission's Consolidation of Administrative Support Functions."

We have carefully reviewed the information contained in the draft report, and appreciate the opportunity to provide our response to SAO's findings and recommendations.

Sincerely,

A handwritten signature in cursive script that reads "Albert Hawkins".

Albert Hawkins

cc: Wanda M. Thompson, Ph.D.  
Deputy Executive Commissioner for System Support Services  
Chris Traylor, Chief of Staff  
David Griffith, Internal Audit Director

P. O. Box 13247 • Austin, Texas 78711 • 4900 North Lamar, Fourth Floor, Austin, Texas 78751

## **HEALTH AND HUMAN SERVICES COMMISSION**

Management Response  
to the State Auditor's Office Audit Report on:

### **The Health and Human Services Commission's Consolidation of Administrative Support Functions**

#### **Summary of Management Response:**

House Bill (HB) 2292 set in motion one of the largest government reorganizations in recent decades in the United States. The restructuring mandated by HB 2292 required consolidating 12 existing State health and human services agencies into five. Together, those agencies represented more than 48,000 employees involved in operating more than 200 programs delivering services to millions of Texans each year. These agencies account for more than \$19 billion in annual spending.

Working with the Transition Legislative Oversight Committee (TLOC), the Health and Human Services Commission (HHSC) set out to accomplish the vision of HB 2292 by emphasizing careful and deliberate planning and methodical implementation. At the same time, however, it was necessary to move forward expeditiously to meet time constraints associated with HB 2292 implementation and to avoid repeating previous unsuccessful efforts to consolidate health and human services functions. Earlier efforts failed in part because agencies became mired in endless cycles of analysis and review.

In implementing HB 2292, HHSC's major initial focus was on the integration or consolidation of agencies and administrative functions, with the goal of efficiently achieving the agency consolidations and most of the administrative services restructuring by August 31, 2004. As HHSC reported to TLOC and other legislative committees, it met this enormous challenge with no significant disruptions to client services or support services. This achievement was due to ample planning, along with the dedicated efforts of thousands of employees and through cooperation and collaboration with other State agencies, including the Legislative Budget Board, State Comptroller of Public Accounts, and State Auditor's Office.

The Commission agrees with the overarching recommendation of the report that it should apply a comprehensive methodology to evaluate administrative support services in the future. HHSC is committed to a consistent application of thorough planning and analytical methodologies as it works to optimize both its administrative and client services.

HHSC also agrees with the part of the report that indicates there were errors and omissions in the cost data it used while making decisions about whether to outsource its human resources and payroll functions or to develop optimized in-house functions. It is clear, even in retrospect, that the errors had no material affect on the appropriateness of the decision that was made, i.e., that outsourcing would meet business requirements while providing the greatest savings and

efficiency to the State. Consistent with the decision model it used, HHSC updated its analyses throughout the process to provide a dynamic information resource for decision-making; however, analyses were neither designed nor intended to result in completely precise numbers. Results were intended to be used to support decision-making about whether or not to outsource and what should be outsourced, as well as to be used during contract negotiations to help drive down the cost of contracting by providing best case optimized cost estimates against which to compare vendor cost proposals.

Updated data and analyses support the decision the Commission made to outsource its human resources and payroll functions. Five-year estimates indicate that HHSC will save \$32.7 million by outsourcing human resources and payroll functions when compared to the baseline (the budgeted level of funding for the five-year period). Further estimates indicate a savings differential between outsourcing and a theoretical optimized in-house model of \$10.9 million.

The report notes that as of August 2005 the Commission had reported no cost savings from outsourcing these functions. This is true. In fact, the Commission never expected to save money in fiscal year 2005, the year of transition. Higher start-up costs in early years were anticipated to be offset with savings in later years to achieve overall savings of \$32.7 million over five years. To address this, the structure of estimated savings was based on a cumulative five-year contract period, not year-by-year estimates of costs and savings.

The report also states that the contract for human resources and payroll services does not guarantee that adequate information technology (IT) support services will be provided. Although the solution proposed by the vendor included a significant IT system, the services to be outsourced were conceptualized as a business support project, not an IT project. Therefore, only one specific IT requirement, compatibility with the Health and Human Services Administrative System (HHSAS), was included in the request for proposals (RFP). Performance measures in the contract appropriately target whether business requirements are met, including those that will be met through the use of automated systems, and hold the contractor accountable for meeting those requirements. In addition, the contract provides an opportunity for HHSC to modify performance measures during the transition period to make certain the measures meet its needs.

HHSC is currently reviewing additional key performance measures designed to monitor its procurement function. However, the Commission focused its consolidation in this area on the procurement system itself and not on related payments, which were outside of the consolidation scope and intended to remain the responsibility of agency Chief Financial Officers (CFOs) and Commissioners. Clear State controls over payment processes and agency accountability for payment functions already exist. Although the report cited isolated examples of payment delays, the report did not indicate auditors found systematic payment problems.

## Chapter 1

**SAO Recommendation:** *The Commission should develop and standardize an enterprise-wide business process methodology to address:*

- *Analysis of the efficiency and effectiveness of administrative support functions.*
- *Quantification of the workload to be performed by administrative support staff.*
- *Identification of all relevant costs that should be considered for outsourcing decisions.*

**Management Response:** The Commission agrees that a consistent, comprehensive methodology is vital to improving business processes. The Transition Legislative Oversight Committee directed HHSC to proceed in a timely, careful, and deliberative manner that focused on ensuring the continued uninterrupted delivery of client services and supported good decision-making. HHSC created and followed processes that identified all related tasks in their proper sequence with appropriate review and approval points. Functional reviews were an essential element of a methodology that included a consistent and comprehensive task list for consolidating administrative services that clearly identified for each administrative function:

- What activity was in scope and not in scope,
- All staff performing any level of in-scope functions and related costs,
- What level of staff would be needed to continue to provide administrative services in a consolidated environment,
- What staff to consolidate and how any staffing gaps in service delivery would be closed,
- Issues and mitigation strategies for the effort to ensure continued service delivery, and
- The initial cost of operating in a consolidated function.

In addition, HHSC took actions to improve administrative functions and achieve additional efficiencies through the analyses and decision-making it conducted in the operating budget process. Overall, this level of analyses was unprecedented in health and human services agencies.

**Action Planned:** In the current optimization phase, HHSC will be performing even more comprehensive business process analyses of its administrative support functions, including the analysis of staffing levels and the development and implementation of efficient and effective service delivery models. These models will include appropriate performance measures to ensure administrative services are delivered competently and resourcefully.

HHSC will examine its current approach for overseeing administrative functionality remaining within the HHS agencies, and refine its process methodology to ensure:

HHSC Management Response  
Consolidation of Administrative Support Functions  
September 22, 2005  
Page 4

- A rational and consistent approach to how administrative services are delivered across agencies to its service delivery programs,
- Clearly defined and monitored service delivery processes, and
- Transformational systems that quickly identify and respond effectively to challenges.

**Estimated Completion Date:** May 31, 2006

**Title of Responsible Person:** Director, Central Program Management Office

**SAO Recommendation:** *The Commission should develop performance measures to monitor the overall performance of administrative support functions, regardless of whether those services are managed by the Commission or by the health and human services agencies the Commission oversees.*

**Management Response:** The Commission agrees that high quality delivery of all services, both client and administrative, includes well-designed performance measures that accurately reflect the level of service provided by the delivery process and its ability to produce relevant outcomes. As the report acknowledges, each administrative area currently reports monthly on a set of performance measures to executive management.

The impact of improvements to consolidated service delivery takes time, so many of these measures target workload and output, important metrics for monitoring the immediate adequacy of resources to meet established cycle times. As optimized administrative processes are defined and implemented to improve customers' ability to provide their own services, HHSC will identify and track more meaningful and focused performance metrics that include measurement of efficiency and outcomes.

HHSC continuously reevaluates the appropriateness of staffing levels. Staffing level is a key factor that is being analyzed throughout each phase, consolidation planning and implementation, optimization development, and continuous monitoring for improvement for those functions already optimized. In addition, HHSC uses other processes, such as Legislative Appropriations Request (LAR) development and annual design and review of operating budgets, to monitor staffing levels.

The report notes that not all administrative functions are consolidated at the Commission. As HHSC carefully and deliberately implemented the requirements of HB 2292, it made decisions regarding the appropriate placement of administrative functions, either at each agency or within a consolidated structure. Functions remaining at agencies were deemed to need an immediate local oversight to ensure effective and efficient services. The Commission was careful not to construct a resource intensive, duplicative, and administratively burdensome consolidated

function that forced unnecessary control over appropriately placed agency functions. Rather, accountability for these tasks remained at the agencies, and the Centers for Program Coordination were given the responsibility for ensuring appropriate coordination.

The Commission provides oversight of these administrative functions not just through performance measure tracking, but also through issue escalation and accountability processes currently in place. As HHSC moves from consolidation to integration and optimization of functions, it will continue to refine and modify performance measures as appropriate. Currently, such activities take place within procurement, human resources (through service level agreements with the vendor), and contract administration.

**Action Planned:** HHSC will continue to prioritize analysis and development of appropriate performance measures for procurement, human resources, and contract administration functions to ensure effective and efficient delivery of services. It will also review and modify other administrative support function performance measures as part of its continued implementation of consolidated administrative services as required by HB 2292.

**Estimated Completion Date:** May 31, 2006

**Title of Responsible Person:** Director, Central Program Management Office

#### Chapter 2 - A

**SAO Recommendation:** *The Commission should ensure that it verifies the accuracy of cost data used in both its optimized in-house and outsourced models prior to deciding whether to outsource an administrative function. To adequately ensure the accuracy of its cost data, the Commission should ensure that the source of the cost data and the verification process for that data are documented.*

**SAO Recommendation:** *The Commission should consider implementing optimized models to identify the costs associated with performing functions in-house. In lieu of implementing in-house models, the Commission should (1) perform a comprehensive business process analysis to determine how efficiently a service can be performed in-house and (2) ensure that this process analysis is adequately documented. In addition, the Commission should consider using either the Texas Council for Competitive Government's or the Office of Management and Budget's Circular A-76 cost methodologies for performing outsourcing analyses.*

**Management Response:** The Commission agrees that validation of the accuracy of cost data is important for comparison of an optimized in-house model and an outsourced model. It should be reiterated that when considering the human resources and payroll functions, the Commission was not looking to streamline or reengineer current processes, but rather to create a new and



unique process to serve a completely reorganized health and human services system and to subsequently transition eight different systems into a single new system. Whether in-house or outsourced, any model would necessarily undergo changes as it is refined and customized through design and implementation. There was, and there currently is, no data to indicate that implementing an in-house model under these conditions would have provided the greatest value to the State. On the contrary, the State would remain at risk, as the time to implement the in-house model (estimated to take two years or more) would continue to be less efficient than those models offered by the market place.

HHSC made the decision to include only those budget costs directly related to the human resources, payroll, and supporting automation operations to determine the cost-effectiveness of outsourcing versus optimization of the in-house model. Precisely documenting all "relevant costs" associated with the human resources and payroll services, as retrospectively suggested in the report, was deemed cost prohibitive, overly time-consuming, and of dubious value to the decision-making process.

HHSC updated projections to reflect the most current and most accurate costs at the time. If these changes had significantly changed the cost/benefits of using the selected bidder, HHSC could still have exercised its right to end negotiations with the bidder and select another bidder or further develop the optimized model.

As noted, HHSC performed a more intensive and detailed scope analysis once a tentative contract was in place to determine appropriate service levels for human resources activities performed by the contractor. Because the optimized model did not reflect current operations, adjustments to scope, and thus to cost, were appropriately made. It is important to note that such adjustments would have been necessary regardless of what optimized solution was deployed. This is not an indication that the Commission did not adequately identify relevant costs at the time of the tentative award decision. Nor would such a condition prevent the Commission from considering whether other vendors could have provided a more cost effective solution.

The Commission agrees that there were errors and omissions in its cost models, and staff revised those costs estimates after discovering errors, including those related to Enterprise Support Center (ESC) costs. However, the \$19.1 million and \$5.1 million amounts characterized in the report as overstatements were not due to inaccurate data, but rather resulted from refinements to the models and application of a more accurate set of assumptions. Moreover, HHSC realized additional savings because \$24.3 million was budgeted for human resources salary and benefits in fiscal year 2005, while actual costs totaled only \$15 million.

The report states that revised cost models also contained omissions because HHSC did not include salary and benefits for an additional 63 full time equivalents (FTEs) Job Requisition Coordinator (JRC) positions, and costs associated with upgrading information resource infrastructure. While HHSC added 63 positions that it did not include in its human resources

models, it will also eliminate the need for 150 full time timekeepers. The savings from those reductions, because they were not human resources or payroll positions, were also not included in the models.

Savings from the reductions are estimated at approximately \$15 million over five years. In addition, the 63 positions mentioned in the report are overstated because 28 of the 63 positions are hiring specialists assigned to the Department of Family and Protective Services (DFPS). These positions were approved as part of DFPS' reform recommendation prior to the creation of the JRC concept. DFPS would have needed these new hiring resources under either the old system or the optimized in-house model. Consequently, a more accurate number for new full-time JRC positions across the agencies is 35.

Moreover, the Commission negotiated a per employee cost rate based upon an assumed 16 percent reduction in FTEs from FY 2005 to FY 2009. This was done near the end of negotiations with the contractor in an effort to ensure flexibility in the contract. HHSC did not adjust the optimized in-house model accordingly because costs are not as variable in such a model, and there are greater fixed costs. In addition, by the time this rate structure (which would provide additional savings) was negotiated, it was already clear that the outsourced model would provide greater benefits to the Commission than an optimized in-house model.

During the fall of 2004, HHSC reported an estimated five-year savings under the outsourced model of \$45 million. This estimate was calculated by comparing the budgeted level of funding available for the five-year period (the budgeted baseline) to estimated costs to outsource the human resources and payroll functions. After adjusting for errors and omissions noted by auditors and other changes resulting from negotiations, HHSC currently projects that savings to be \$32.7 million. Moreover, HHSC currently estimates a savings of \$10.9 million over the five-year contract period when optimized in-house model costs are compared to outsource costs.

The Commission also underscores that the proposed outsourced model provides additional benefits that the in-house model would not. As part of contract negotiations with the vendor, the vendor agreed to review HHSC's processes and implement industry best practices where appropriate to improve efficiencies and streamline processes. This has resulted in an on-line training program that offers approximately 150 administrative courses to Commission employees. This will result in savings in travel and course registration, in addition to savings in costs that would have been required to provide these in an instructor-led environment. Additionally, the vendor has worked with the payroll division to reduce the number of monthly payroll runs from approximately 270 each month to less than 70. This will reduce State Comptroller of Public Accounts processing costs and decrease financial services cash management staff time.

The Commission developed and complied with a set of guiding principles for making administrative support outsourcing decisions that included identifying relevant costs of

performing services. A business case template and methodology supported this decision-making strategy. Administrative service directors worked with central program management office staff to systematically and comprehensively identify all relevant costs based on scope, staff, and process analyses in the 150-plus step action plan for consolidating the function. While recognizing some limitations to the business process analytics, we believe the process used by HHS agency staff was largely effective in meeting the challenge of articulating the functional scope of human resources activities necessary for accurate costing.

This report suggests that the Commission should consider implementing optimized models to identify the costs associated with performing in-house functions. HHSC disagrees that this approach would achieve best value for the State. Once analyses identify the most cost-effective approach, it would not make sense, or be in the best interest of the State, to implement the approach that was least cost-effective simply to determine its actual cost.

One of the challenges associated with identifying baseline costs for the human resources function was that, although consolidated at the time the commission began exploring outsourcing, human resources had not completed its transition from eight different human resources operations, each of which contained different agreements with programs about the nature and level of support human resources provided. Because of the wide variation across the enterprise agencies in how programs and human resources worked together, identifying relevant costs as defined by the Texas Council for Competitive Government would have required enormous effort and analysis, an effort more ideally performed in a stable and well defined service delivery environment. As configured at the time, before consolidation, human resources service delivery was labor intensive and almost all of the budgeted amounts reflected cost of staff dedicated to human resources activity. After consideration of the complexities that would be involved in applying a business case analysis in this environment, the Commission made a decision to use budgeted amounts, which were well defined and reliable, to estimate the as-is cost of delivering human resources.

The Commission remains committed to engaging in the consistent, methodical, and comprehensive analytic approach underlying these recommendations as it continues to consolidate and optimize its administrative functions. HHSC will evaluate its processes and methodologies for identifying relevant cost data when evaluating and recommending options to outsource administrative functions. As appropriate, based upon the specific situation under review for outsourcing, the Commission will consider applying the Texas Council on Competitive Government or the Office of Management and Budget's Circular A-76 cost methodologies. HHSC will, in all subsequent business process analysis projects, consistently follow existing processes to ensure the data it uses is accurate and fully documented.

## Chapter 2 - B

**SAO Recommendation:** *The Commission should more adequately document its reasons for selecting the vendors to which it awards contracts to ensure that it complies with statutory requirements for documenting its determination of best value.*

**Management Response:** This recommendation has been implemented. HHSC thoroughly documented the RFP issuance and evaluation process to support its decision to award a contract. The statutory requirement referred to in this report requires the agency to document that it considered all relevant best value factors in making the acquisition. The statute does not prescribe, however, the method or form in which such documentation should occur. In the human resources procurement, the evaluation instrument (which was developed with the assistance of the State Auditor's Office) is linked to the best value factors published in the RFP, and comprises the bulk of such documentation. Further, the contract itself reflects agreements and decisions consistent with the best value factors HHSC used.

The human resources procurement was conducted at a time when the agency was revising contracting procedures. The tentative award was made before final procedures were implemented. HHSC agrees that the procurement would have benefited from more obvious documentation of critical decisions, including decisions regarding best value. HHSC subsequently adopted a Contracting Processes and Procedures Manual that includes additional controls for steps in the contracting process, including necessary documentation. The agency has created a Contracts Council to enhance HHS enterprise-wide policies, procedures, and tools to ensure more effective contracting. The agency also continues to test and improve processes to ensure executive decisions are clearly reflected in the documentation to support the award of a contract.

The Commission shared with the auditors its documentation of the oral presentations made by both vendors. This documentation comprised a lengthy and detailed list of follow-up questions to each vendor based upon issues and discussions from the vendor presentations and their written responses to these questions. This material is referenced as part of the final contract with the vendor.

Consistent with the purchase of service approach desired for human resources services, the RFP asked for costs per employee per year based on a proposed volume of activity in each major human resources activity area and used that information in its decision-making. In terms of buying a business solution, the cost of IT itself was not a factor in and of itself and was appropriately reflected in both the cost per staff and human resources business model that were the subject of intense evaluation efforts. While vendors may have provided more specific information related to information technology, that information was not a requirement of the RFP, and not requested nor provided in a standardized format from all vendors. As such, specific evaluation of the cost of IT services would not have been appropriate.

As the report notes, the request for best and final offers resulted in a reduction of cost from both vendors. Neither vendor proposed a concomitant decrease in service levels, rather each maintained that the same level of service defined in their proposals and subsequent written documentation would be provided. As that level of service had been previously thoroughly evaluated, and both vendors had offered acceptable solutions, the amount of reductions and final proposed cost played a considerable role in the final decision. The difference in total value presented in best and final offers from the two vendors was estimated at \$25 million dollars.

HHSC has established and implemented a standard set of contracting processes and procedures. Those procedures include the requirement for comprehensive documentation of executive-level decision making.

#### Chapter 2 - C

**SAO Recommendation:** *The Commission should develop objective policies and procedures for defining IT support services in its RFPs, particularly in procurements for which vendors are asked to perform IT services that could significantly affect the Commission's and health and human services agencies' operations. The Commission should also ensure that these responsibilities are clearly specified in executed contract agreements.*

**Management Response:** This RFP and subsequent vendor contract was initiated as a human resources consolidation project and focused on business process improvements. HHSC clearly laid out its objectives in the human resources RFP that included a) no infrastructure costs, and b) the use of self-services. HHSC's goal was to purchase a business service product defined by a comprehensive set of human resource activities. Vendors were responsible for building and costing a business model that would meet the human resource service needs defined in the RFP, including any information technology solution or infrastructure they felt appropriate. As HHSC was not buying an informational technology system, there were no specific IT related requirements with one key exception: HHSC's only caveat was that the IT solution must integrate with HHSC's automated system (referred to as the Health and Human Services Administrative System, or HHSAS) that feed information to the State Comptroller for payment. Information about HHSAS operations was provided to vendors along with other relevant information in a separate web page from the RFP. Any final solution for seamless integration of the vendor's IT framework and HHSAS, however, because of its highly technical nature, would necessitate extensive dialog, a process that is more appropriate in the period of extended contract negotiations.

While the proposed solution of the provision of human resources does entail a significant IT component, it was not sourced as, nor do we believe should be considered on its own, a significant IT solution as defined by DIR. Nevertheless, HHSC agrees that the business solutions that include a significant IT impact should be closely coordinated with HHSC's IT division and will ensure that IT is engaged as warranted.

Business focused performance measures were included in the initial contract. The contract effort included detailed business requirements definition (referred to as the "blue print" in the project). As part of the contract deliverable, the blueprint was finalized in December 2004. Business requirements define IT solutions and requirements for IT performance metrics. Many of the detailed operational performance requirements for the ESC have been derived from the business requirements.

**Action Planned:** HHSC will develop policies and procedures to ensure that HHSC business activities coordinate with HHSC IT to define IT support services in future business focused RFP's for which vendors are asked to perform IT services that could significantly affect the Commission's and health and human services agencies' operations. These processes will result in HHSC IT and HHSC business activities coordinating closely in the initial stages of RFP development and will require ongoing IT involvement and oversight during the development of business solution.

**Estimated Completion Date:** December 31, 2005

**Title of Responsible Person:** Chief Operating Officer

**SAO Recommendation:** *The Commission should ensure that it develops and finalizes adequate performance measures to monitor a contractor's performance before it executes a contract agreement.*

**Management Response:** In the human resources and payroll services contract, development of detailed business requirements to support the overall business solution was required of the contractor as an early contract deliverable. Many of the detailed operational performance metrics for the ESC were to be developed from this business requirements deliverable, and could not have been developed prior to contract execution.

More specifically, HHSC and the awarded vendor, Convergys, implemented a draft set of ESC performance measures beginning when the Convergys IT support services team assumed operation of the ESC on January 31, 2005. The *90-day burn-in period* was intended to allow the Convergys IT support services team an opportunity to develop and mature their operational procedures and processes within their new environment, then performance measures could be more adequately defined. The *90-day burn-in period* concluded in May 2005.

HHSC agrees that final ESC performance measures should be completed.

**Action Planned:** HHSC completed a draft of proposed final performance measures in August 2005. HHS Enterprise IT is currently reviewing the draft. Once the review is completed, Enterprise IT will bring the measures forward for discussion with Convergys,

which is also drafting a list of proposed final performance measures. Enterprise IT and Convergys will meet and agree on final ESC performance measures in October 2005.

**Estimated Completion Date:** October 31, 2005

**Title of Responsible Person:** Director of HHSAS

### Chapter 3 - A

**SAO Recommendation:** *The Commission should develop and implement objective policies and procedures that will allow it to monitor the performance of all the interrelated activities of the purchasing functions.*

**Management Response:** Consolidation of administrative purchasing centered on the procurement system and excluded payments, which were outside of the consolidation scope and remained the responsibility of agency CFOs and Commissioners. Clear State controls over payment processes and agency accountability for payment functions already exist. It would be a daunting task for the Commission to oversee all these functions. For perspective, 437,112 vouchers were processed by the five HHS agencies over a 12-month period. This does not include client services or payroll payments.

What the Commission has done is put in place, through the Health and Human Services Contract Council, a newly formed Procurement Council. The Procurement Council is a subgroup of the Contract Council and is responsible for developing policy guidelines and service level agreements (contracts) that will define the processes involved with procurement activities (including requisitioning, budget, purchasing, receiving, and accounts payable). Representatives from each of the HHS agencies currently make up the Procurement Council.

**Action Planned:** The Procurement Council, working in conjunction with the HHS Contract Council, has been formed to carry out the task of developing objective policies, procedures, and service level agreements that will define activities, assign responsibilities, and monitor the implementation of the guidelines that will help measure the effectiveness of purchasing function activities across HHS agencies.

**Estimated Completion Date:** February 28, 2006

**Title of Responsible Person:** Director, Enterprise Contract and Procurement Services

**SAO Recommendation:** *The Commission should develop and use a comprehensive and standardized methodology for analyzing its business processes. It should ensure that business process analyses are conducted and used in major consolidation and outsourcing decisions.*

**Management Response:** In May 2004, the Health and Human Services Commission entered into a contract with a vendor to develop an optimization plan for contract and procurement activities at the Commission. Workgroups consisting of stakeholders across the HHS Enterprise were formed to define "as is" processes and then develop "to be" models to be implemented on September 1, 2004. This effort not only has allowed a significant reduction in procurement staffing, but also will result in further financial benefits from application of best purchasing practices, strategic sourcing initiatives, and volume discounts. In the short time this new organizational unit has been in place, an early success was achieved in fiscal year 2004 when Enterprise Contract and Procurement Services (ECPS) renegotiated a multi-year contract for purchasing pharmaceuticals, allowing the State to avoid some general revenue expenditures.

**Action Planned:** The Commission will continue to further define and monitor business processes to ensure that the decisions that have been made are working, and where issues are identified, immediately move to modify processes to address those issues. With respect to the Enterprise Contract and Procurement Services Division, the Commission will continue to document existing processes, identify process outputs and activities and determine customer needs in an attempt to continue to identify which business processes can be streamlined or consolidated for efficiencies. Further, the Procurement Council will help provide the ongoing oversight and the necessary input on the analysis of business processes as the full optimization of the purchasing function is developed.

**Estimated Completion Date:** February 28, 2006

**Title of Responsible Person:** Director, Enterprise Contract and Procurement Services

### Chapter 3 - B

**SAO Recommendation:** *The Commission should develop performance measures that measure time and cost savings achieved from purchasing and payment process efficiencies.*

**Management Response:** ECPS has developed performance measures some of its internal activities. Through its Procurement Council, the Commission will further develop performance measures for all phases of processes. The Procurement Council will also continue to further develop and define business processes that promote a streamlined approach that will decrease burdens on staff, increase service levels, and produce savings of taxpayer dollars so that more funds can be spent on service provision. In addition, it should be noted that the previously referenced vendor's report recommended the development and implementation of key performance indicators or performance measures. Measures would address the average time to process a requisition, the average time to source a purchase order or contract, supplier delivery time, customer service, cost avoidances, and HUB participation. The Procurement Council is currently addressing development of these measures.



**Action Planned:** Through the Procurement Council, performance measures and cost saving initiatives will be further developed, implemented and maintained. Additionally, these performance measures and cost saving initiatives will be documented in policy that will govern procurement activities in each HHS agency and will form the basis for service level agreements that will be developed between the Commission and each agency. ECPS will lead a focused effort to document standard policies and procedures for application throughout the enterprise to develop standard requirements that support core business needs.

**Estimated Completion Date:** March 31, 2006

**Title of Responsible Person:** Director, Enterprise Contract and Procurement Services

**SAO Recommendation:** *The Commission should analyze its use of procurement cards and ensure that purchasers can order goods and services on procurement cards when it is cost-effective to do so.*

**Management Response:** While the Commission agrees that it should use a sufficient number of procurement cards to enable it to carry out necessary business, it does not find it necessary to issue a procurement card to every purchaser. In the fall of 2004, ECPS distributed throughout the division a list of current procurement cards that existed for each agency and the staff that maintained those cards. Where a procurement card was needed for a particular purchase, staff were directed to transfer the requisition to staff who maintained a card for that agency, and in some cases a specific program. HHSC maintains that such a utilization of procurement cards is both appropriate and effective. Procurement card utilization must be controlled to decrease the likelihood that fraudulent activities could occur. In addition, controlled issuance increases the level of expertise of the staff using the procurement cards. Further, procurement cards as a purchasing method are considered less technical than other methods, and it is not cost effective to have higher-level purchasers performing lower level duties.

**Action Planned:** ECPS has implemented a policy that identifies specific staff within the organization that will maintain procurement cards. Requisitions received from HHS agencies are reviewed and assigned to one of five commodity teams. Once received, the commodity team lead reviews the requisitions and assigns those requisitions to purchasers based on several factors, including procurement method, certification level, and workload. All procurement card purchases will be made by key staff within the organization that have been assigned the task of issuing orders using procurement cards. Each of these staff will maintain one procurement card per HHS agency, and will only use the procurement card when an approved HHSAS requisition has been received.

In order to maintain appropriate management controls over procurement card use, HHSC will limit the overall number of staff who are assigned procurement cards.

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**Estimated Completion Date:** October 31, 2005

**Title of Responsible Person:** Director, Enterprise Contract and Procurement Services

**SAO Recommendation:** *The Commission should facilitate the discontinuance of duplicative purchasing approval processes in use at health and human services agencies.*

**Action Planned:** Procurement Council workgroups will review the purchasing approval processes in place at each of the HHS agencies. Upon completion of the review, recommendations for streamlining these processes and eliminating any duplication will be developed and presented to the Contract Council for approval and adoption.

**Estimated Completion Date:** September 30, 2006

**Title of Responsible Person:** Director, Enterprise Contract and Procurement Services

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