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An Audit Report on

Selected Texas State Veterans Homes Contract Functions at the General Land Office and Veterans' Land Board

October 2021
Report No. 22-003



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Overall Conclusion

The General Land Office and Veterans' Land Board (Agency) has established monitoring processes for its contracts with the operators that manage its nine Texas State Veterans Homes (Veterans Homes). The Agency's monitoring activities were designed to help ensure that its operators provide services in accordance with the health and safety requirements of its contracts. However, the Agency did not consistently document when contract monitoring activities were performed, including whether the operator took corrective actions when that monitoring identified performance and noncompliance issues.

From September 2019 through January 2021, the Agency paid \$114.6 million for management and operations services for its nine Veterans Homes (see the text box for more information about administration of the Veterans Home). The Agency accurately processed payments for its Veterans Homes contracts with operators. However, it did not consistently ensure that its operators' invoices received all required approvals prior to payment.

For two of its Veterans Homes, the Agency extended by five years the contracts for the emergency purchases of management and operations services, instead of competitively re-procuring new contracts. The emergency purchases were procured in December 2014, with the contracts initially set to expire on September 30, 2017. However, the Agency amended the contracts for the emergency purchases three times; as a result, those contracts are set to expire on August 31, 2022.

In addition:

- While the Agency performed certain required procurement and contract formation requirements for its pharmacy services contract, it should strengthen its processes to ensure that it obtains all required disclosures and affirmations during the procurement process.

Texas State Veterans Homes

The General Land Office and Veterans' Land Board (Agency) contracts with operators for management and operations services for its nine Texas State Veterans Homes (Veterans Homes) that provide long-term skilled nursing care for qualified Texas veterans, their spouses, and eligible parents. See Appendices 4 and 5 for more information on those nine Veterans Homes.

In addition, the Agency contracts with a pharmacy services provider for prescription drug services for its nine Veterans Homes. Those services include the filling, delivering, and billing for pharmaceutical orders requested by each operator for residents of the Veterans Homes and prescribed by authorized physicians for those residents. From September 1, 2019, through January 31, 2021, the Agency paid a total of \$5.6 million for pharmacy services.

Sources: Agency contracts and the Office of the Comptroller of Public Accounts.

- The contracts and amendments tested for the emergency purchases and pharmacy services received required Agency management reviews and approvals. However, the Agency did not consistently obtain approval from the members of the Veterans' Land Board (Board) for those contracts and amendments. Additionally, the Agency did not ensure that the Board received required contract management training from the Office of the Comptroller of Public Accounts.
- The Agency adopted adequate information security policies, procedures, and standards designed to protect the privacy and confidentiality of data managed by its Veterans Homes program. However, it should strengthen security controls over certain automated systems.

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

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating ^a
1-A	The Agency Monitors the Contract Compliance and Performance of Its Veterans Homes' Operators; However, It Should Improve How the Veterans Homes Program Documents Its Contract Monitoring Activities	Medium
1-B	The Agency Had Adequate Payment Processes, But It Should Ensure That Purchase Orders and Invoices Are Consistently Reviewed and Approved Prior to Payment	Medium
1-C	The Veterans Homes Program Processed Payments for Pharmacy Services as Required; However, It Should Ensure That the Pharmacy Database Uses Reliable Information for Approving and Denying Transactions for Payment	Medium
2-A	The Agency Extended Its Contracts for Emergency Purchases Rather Than Procuring New Contracts, and It Did Not Comply With Certain Procurement Requirements	High
2-B	The Agency Complied With Most Contract Formation Requirements for Its Pharmacy Services Contract	Medium
3	The Agency Should Strengthen Its Processes for Approving and Reporting Contracts	Medium
4	The Agency Should Enhance Its Security Controls Over Selected Information Systems That Support Its Veterans Homes Program	Medium

^a A chapter/subchapter is rated **Priority** if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

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

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

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

Auditors communicated other, less significant issues separately in writing to the Agency's management.

Summary of Management's Response

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

Audit Objective and Scope

The objective of this audit was to determine whether the Agency administers selected Veterans Homes program contract functions in accordance with applicable requirements.

The scope of this audit covered (1) contracts related to the Veterans Homes program that were active at any point between September 1, 2019, and January 31, 2021, and (2) contract activities during any period up to and including January 31, 2021, related to those contracts. The scope also included a review of significant internal control components related to (1) the contract oversight of vendor performance and vendor payments and (2) the contract formation of negotiated and amended payment rates.

To mitigate any potential issues arising from a familial relationship, the First Assistant State Auditor recused herself from this audit. The audit was supervised, reviewed, and approved by Assistant State Auditor Angelica Ramirez.

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Detailed Results

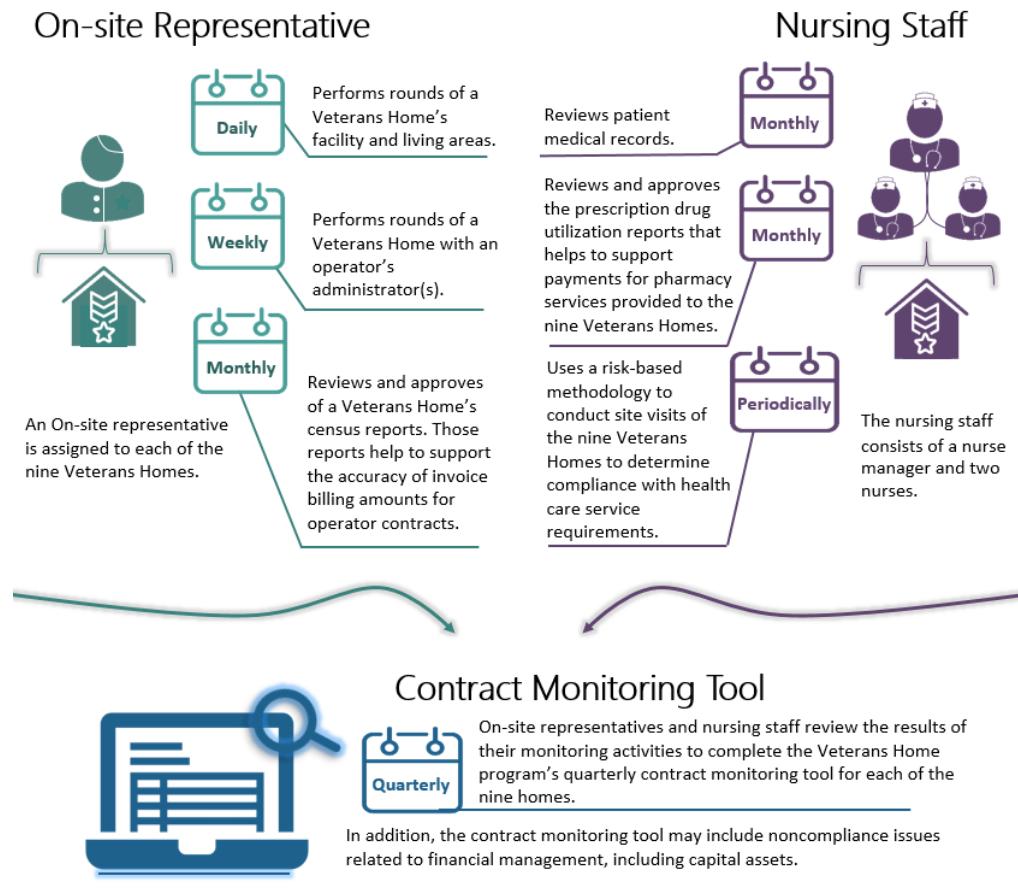
Chapter 1

The Agency Had Monitoring and Payment Processes for Its Veterans Homes Contracts; However, It Should Improve Documentation of Those Processes

The General Land Office and Veterans' Land Board (Agency) developed contract oversight processes for its Texas State Veterans Homes (Veterans Homes) program. Those processes include contract monitoring and payment processing activities for the management, operation, and pharmacy services provided to its nine Veterans Homes by the Veterans Homes program's on-site representatives and nursing staff (see Figure 1 for more information on the contract monitoring activities performed).

Figure 1

Contract Monitoring Activities the Veterans Homes Performed



Source: The Agency.

However, the Agency should strengthen controls for (1) documenting monitoring activities, (2) obtaining the required approvals for payments, and (3) ensuring the reliability of the prescription drug information that its pharmacy database uses to automatically approve and deny payments for pharmacy services.

Chapter 1-A

The Agency Monitors the Contract Compliance and Performance of Its Veterans Homes' Operators; However, It Should Improve How the Veterans Homes Program Documents Its Contract Monitoring Activities

**Chapter 1-A
Rating:**
Medium¹

The Agency's contract oversight processes were designed to help ensure that the services its operators provide to its nine Veterans Homes are delivered in accordance with the health and safety requirements of its contracts. The monitoring activities performed involve the following Agency staff:

- Veterans Homes program's on-site representatives, nursing staff, and certified contract manager,
- The Agency's construction services division, and
- The VLB accounting division.

Additionally, the Veterans Homes program's contract oversight of Veterans Homes is supplemented by other periodic monitoring activities performed by the Texas Health and Human Services Commission, the U.S. Department of Veterans Affairs, and the U.S. Centers for Medicare and Medicaid Services.

However, the Agency's Veterans Homes program did not consistently document certain contract monitoring activities of the operators that manage its Veterans Homes. Auditors reviewed samples of the Veterans Homes program's records for contract monitoring activities conducted from September 2019 through January 2021 for two of the nine Veterans Homes – the Frank M. Tejeda (Floresville) Veterans Home and the Alfredo Gonzalez (McAllen) Veterans Home. While those records showed that the Veterans Homes program performed monthly reviews and approvals of census reports as required, this monitoring was inconsistent with the other contract monitoring activities. Specifically:

¹ The risk related to the issues discussed in Chapter 3 is rated as Medium because issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

- **Quarterly Monitoring.** For 2 (40 percent) of the 5 quarterly contract monitoring tool reports tested for the audited period², the Veterans Homes program did not consistently document whether noncompliance issues identified were corrected. For the McAllen Veterans Home, documentation showed the identification and resolution of the four noncompliance issues related to infection control processes and behavior monitoring. However, for the Floresville Veterans Home, there was no documentation showing whether the operator had resolved the problem or implemented a corrective action plan for 9 (90 percent) of 10 noncompliance issues relating to health care services, infection control, staffing adequacy, facility conditions, and certain administrative requirements.
- **Daily Monitoring.** The Veterans Homes program had documentation to show that 23 (82 percent) of 28 daily rounds tested were performed for the McAllen Veterans Home³; however, the documentation did not show whether any issues were identified and communicated to the operator. Additionally, the Veterans Homes program did not have documentation to support that daily rounds were performed for any of the 30 days tested for the Floresville Veterans Home.
- **Weekly Monitoring.** Although the Veterans Homes program had documentation to show that weekly rounds were performed for 7 (88 percent) of the 8 weeks tested for the McAllen Veterans Home, it could provide documentation for only 4 (67 percent) of the 6 weeks tested for the Floresville Veterans Home⁴. In addition, the documentation for both Veterans Homes did not always show whether any issues were identified and communicated to the operator.

Additionally, on-site representatives and nursing staff document only performance problems and noncompliance issues identified from daily and weekly monitoring activities in the contract monitoring tool. For the documentation reviewed for the Floresville and McAllen Veterans Homes,

² Auditors randomly selected the first and fourth quarter contract monitoring tools for fiscal year 2020 to test compliance with the Agency's quarterly monitoring requirements for each of the operators that managed the Floresville and McAllen Veterans Homes.

³ Auditors randomly selected 30 days at each Veterans Home to test whether daily rounds were performed. However, auditors tested 28 days at the McAllen Veterans Homes because daily rounds were not performed for two days selected due to COVID-19 testing being performed on site.

⁴ Auditors randomly selected eight weeks to test whether weekly rounds were performed. However, auditors tested only seven weeks for the McAllen Veterans Home because weekly rounds were not conducted for one week selected due to the Thanksgiving holiday. Auditors tested only six of the selected weeks for the Floresville Veterans Home because weekly rounds were not performed for (1) one week due to the Thanksgiving holiday and (2) one week because Veterans Homes program staff worked from home due to the COVID-19 pandemic.

noncompliance issues and other problems identified were typically described in a brief one-sentence statement.

The Veterans Homes program asserted that performance and noncompliance issues identified in its contract monitoring tool are discussed with its operators on a quarterly basis; however, it does not maintain documentation of those meetings. The *Texas Procurement and Contract Management Guide* specifies that meetings related to contract monitoring activities must be substantiated in writing and maintained as part of the contract file. Such documentation must include the date and time that meetings occurred, as well as a summary of topics discussed including pending action items and decisions that were made.

The Veterans Homes program's inconsistent and incomplete documentation of its contract monitoring activities increases the risk that performance and noncompliance issues related to the health, safety, and well-being of its residents may not always be reported and resolved.

Recommendation

The Agency should develop, document, and implement a standardized process for documenting the contract monitoring activities performed and meetings conducted by its on-site representatives and nursing staff for Veterans Homes' operator contracts.

Management's Response

The Texas State Veterans Homes Division generally agrees with the SAO findings regarding contract monitoring. A revised policy to standardize the On-Site Representative's responsibilities regarding rounds and Contract Monitoring Tool documentation will be implemented in the first quarter of FY22.

Responsible Party

Deputy Director of TSVH

Completion Date

December 31, 2021

Chapter 1-B

The Agency Had Adequate Payment Processes, But It Should Ensure That Purchase Orders and Invoices Are Consistently Reviewed and Approved Prior to Payment

**Chapter 1-B
Rating:**

Medium⁵

The Agency's payment process had adequate controls that ensured that its monthly payments to the operators of its Veterans Homes were:

- Accurate, reasonable, and supported.
- Compliant with not-to-exceed contract limitations.
- Identified and corrected duplicate payments when they occurred due to double billings.

From September 1, 2019 through January 31, 2021, the Agency paid the operators of its nine Veterans Homes a total of \$114.6 million. Auditors tested a sample⁶ of those payments and determined that while the Agency verified the accuracy of operators' billings amounts, it should improve its controls to ensure that appropriate management personnel consistently reviews and approves all documentation supporting the billing invoices. Specifically, for 8 (10 percent) of the 78 payments tested, totaling \$48,321, the Agency did not have documentation to show that the purchase orders for the payments tested were approved by the director of procurement.⁷ Title 34, Texas Administrative Code, Section 20.217, requires that the procurement director approve each state agency contract for the purchase of goods or services.

Additionally, for one of those eight payments, totaling \$1,496, the Agency did not have documentation to show that the chief investment officer approved the payment, as required by Agency policy. The chief investment officer is responsible for confirming that funds are available for payments to operators.

⁵ The risk related to the issues discussed in Chapter 3 is rated as Medium because issues identified present risks or effect that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

⁶ Auditors tested a total of 78 payments, totaling \$7.8 million, that included 60 payments selected randomly and 18 payments selected based on risk.

⁷ The eight payments tested were associated with four purchase orders. In some instances, multiple payments tested were processed against the same purchase order.

Recommendation

The Agency should verify that the director of procurement and chief investment officer approved required documentation that support payments to be paid to operators.

Management's Response

The Agency has taken steps to ensure that the Director of Procurement approves required documentation that supports payments to be paid to operators by routing Purchase Orders to the Director of Procurement as the final approval authority per Title 34, Texas Administrative Code, Section 20.217.

The Agency has taken steps to ensure that the Chief Investment Officer approves payments to the Veterans Homes per Agency policy by reinforcing the understanding of the requirement with all parties who submit such payments.

Responsible Party

Manager of VLB Accounting

Completion Date

Implemented

Chapter 1-C

The Veterans Homes Program Processed Payments for Pharmacy Services as Required; However, It Should Ensure That the Pharmacy Database Uses Reliable Information for Approving and Denying Transactions for Payment

Chapter 1-C
Rating:
Medium⁸

The Veterans Homes program's payment processes had adequate controls to verify the appropriateness and accuracy of its payments for pharmacy services (see text box for more information on the payment process). From September 2019 through January 2021, the Agency paid \$5.6 million for the pharmacy services provided to its nine Veterans Homes.

Additionally, the Veterans Homes program's pharmacy database was programmed to enforce the payment approval and payment denial requirements described in its pharmacy services contract for the medications that may be prescribed to the residents of the Veterans Homes. However, the effectiveness of that design is dependent on the reliability of the medication list that the pharmacy database uses to match medications billed to the Veterans Homes program to the payment requirements for medications defined in the pharmacy database. The Veterans Homes program currently relies on a medication list from its pharmacy services provider. The Veterans Homes program previously subscribed to an independent data source for the medication list. The Veterans Homes program asserted that it ended the subscription service after April 2020 because it determined that there was no benefit with obtaining the medication list from an independent data source.

By relying on a medication list from its pharmacy services provider instead of an independent data source, there is an increased risk that the medication list may be unreliable, which could result in the pharmacy database improperly approving or denying a medication for payment.

Veterans Homes Program's Payment Process for Pharmacy Services

The Veterans Homes program asserted that it processes approximately 9,000 to 12,000 transactions on a monthly basis for medications provided to residents through its pharmacy services contract. The Veterans Homes program's pharmacy auditor and nursing staff processes those transactions for payment by using automated and manual review processes. Specifically:

- Approximately 70 percent of monthly transactions are reviewed and approved through the automated review process. An in-house developed database automatically approves and denies billings for medications based on the requirements of the pharmacy services contract and Veterans Homes program requirements.
- For the manual review process, the Veterans Homes program's pharmacy auditor manually reviews transactions that were not approved or denied by the automated review process and determines whether a transaction should be approved for payment.

The pharmacy auditor submits all approved medication billings for Agency management approvals prior to payment.

Source: The Agency.

⁸ The risk related to the issues discussed in Chapter 3 is rated as Medium because issues identified present risks or effect that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Recommendation

The Agency should consider either (1) using a medication list from an independent data source or (2) conducting periodic independent audits that verify the reliability of the medication list that is used.

Management's Response

The Texas State Veterans Homes Division generally agrees with the SAO findings regarding procuring an independent pharmacy list with pricing for comparative purposes. The division will re-procure the independent list the division used previously.

Responsible Party

Deputy Director of TSVH

Completion Date

September 1, 2022

Chapter 2

The Agency Should Improve Certain Contract Procurement and Contract Formation Processes Over its Veterans Homes Emergency Purchases and Pharmacy Services Contract

Contract Formation

Contract formation involves processes for ensuring that a state agency's awarded contract complies with applicable procurement laws and contains provisions that achieve the procurement objectives.

Source: *State of Texas Procurement and Contract Management Guide*.

The Agency adopted processes to comply with most contract formation requirements (see text box for more information about contract formation requirements). The Agency's contracts for the emergency purchase of management and operation services for the Lamun-Lusk-Sanchez (Big Spring) Veterans Home and McAllen Veterans Home and its pharmacy services contract for the Veterans Homes program included statutorily required contract terms and reasonable payment methodologies. Additionally, certified purchasing staff managed the procurement process for those contracts.

However, the Agency did not effectively manage the contract term for its emergency purchases or comply with certain procurement requirements for emergency purchases.

While the Agency mostly complied with disclosure and contract formation requirements in developing the pharmacy services contract, it did not consistently complete required disclosure forms and affirm that its award decision complied with procurement requirements.

Chapter 2-A

The Agency Extended Its Contracts for Emergency Purchases Rather Than Procuring New Contracts, and It Did Not Comply With Certain Procurement Requirements

Chapter 2-A Rating:

High ⁹

For each of the two contracts for emergency purchases (emergency purchases) tested, the Agency amended the contract term three times to extend the emergency purchases instead of competitively procuring new contracts. The Agency made the original emergency purchases to replace an operator for the Big Spring and McAllen Veterans Homes (see text box for more information about the emergency purchases tested).

Emergency Purchases for the Big Spring and McAllen Veterans Homes

In October 2014, the Agency was notified by the operator of the Big Spring and McAllen Veterans Homes that it had started bankruptcy proceedings and as a result would not be able to continue to provide management and operation services to those Veterans Homes. To minimize the risk to the health, safety, and welfare of the residents, the Agency elected to procure an emergency purchase for the management and operation services at those Veterans Homes.

On December 5, 2014, the Agency executed two contracts as emergency purchases for a new operator to manage the Big Spring and McAllen Veterans Homes through September 30, 2017.

Source: The Agency.

⁹ The risk related to the issues discussed in Chapter 2-A is rated as High because they present risks or results that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

Those emergency purchases had original contract terms of approximately three years (from December 2014 through September 2017). As a result of the three amendments, the expiration date for the two emergency purchases tested was extended five years to August 31, 2022. Figure 2 shows a timeline of the three contract extensions to the emergency purchases' expiration dates as of January 31, 2021.

Figure 2

Contract Extensions to the Emergency Purchases Tested as of January 31, 2021^a

12/14/2014 Emergency Purchases Executed	9/30/2017 Original Expiration Date	8/31/2019 1 st Amended Expiration Date	1/31/2020 2 nd Amended Expiration Date	8/31/2022 3 rd Amended Expiration Date
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^a See Chapter 3 for more information about the amendments that extended the emergency purchases.

Source: The Agency.

From December 5, 2014, through January 31, 2021, the Agency's payments totaled \$118.5 million on the contracts for those two emergency purchases: \$52.2 million for the Big Spring Veterans Home and \$66.3 million for the McAllen Veterans Home. (See Appendix 5 for more information on payments to all nine Veterans Homes.)

However, the *Texas Procurement and Contract Management Guide* specifies that emergency purchases of goods or services should not exceed the scope or duration of the emergency. While the initial emergency purchase was made in response to unforeseen circumstances, the Agency had sufficient time prior to the expiration of the emergency purchase to plan a competitive re-procurement of management and operation services to those Veterans Homes. Emergency purchases do not provide the same opportunities for competition as a competitive procurement; therefore, there is a greater risk of the State not receiving the best value for an awarded contract.

The Agency did not comply with certain procurement requirements for the two emergency purchases tested.

The Agency could not provide documentation showing that it performed certain required procurement activities that help provide transparency to emergency purchase awards. Specifically:

- **The Agency did not develop a solicitation for its emergency purchases of management and operation services needed for the Big Spring and McAllen Veterans Homes.** The Agency did not post a solicitation to the *Electronic State Business Daily*, as required by Title 34, Texas Administrative Code, Section 20.208(a). Additionally, because the Agency did not develop a solicitation, it is unclear whether amendments to the emergency purchase contracts were within the scope of what was actually solicited to operators.
- **The Agency could not provide completed nondisclosure agreements and nepotism disclosure forms for staff involved with the procurement of emergency purchases.** The Agency could not identify the Agency staff who were involved in the procurement process, and it could not provide documentation to show that purchasing staff completed required disclosure forms to identify any potential conflicts of interests between the Agency staff and the awarded vendor. *The State of Texas Contract Management Guide*¹⁰ specified that agency employees involved in preparing a solicitation should sign and submit a nondisclosure statement and conflict of interest statement prior to beginning work on a solicitation. Additionally, Texas Government Code, Section 2262.004, requires purchasing personnel to complete required disclosures prior to the award of contract with a value that exceeds \$25,000.
- **The Agency did not obtain a Historically Underutilized Business (HUB) subcontracting plan during the procurement process for the emergency purchases.** Texas Government Code, Section 2161.252, requires each state agency that considers entering into a contract with an expected value of \$100,000 or more to determine whether there will be subcontracting opportunities under the contract. The Agency asserted that a HUB subcontracting plan is always included in potential contracts of \$100,000 or more; however, since a solicitation was not posted, the awarded operator did not submit a HUB subcontracting plan. Auditors determined that although a HUB subcontracting plan had not been submitted, the operator submitted HUB compliance reports on subcontracting activities to the Agency in accordance with HUB reporting requirements.

¹⁰ *The State of Texas Contract Management Guide*, version 1.13, was effective at the time of the procurement.

The Agency did not post its contracts for the two emergency purchases to its website as required until January 2021.

As previously discussed, the Agency executed the contracts for the two emergency purchases in December 2014. For each contract for the purchase of goods or services from a private vendor, Texas Government Code, Section 2261.253(a), requires a state agency to post on its website the contract and a copy of the solicitation. For contracts not competitively procured, an agency also is required to post the statutory authority under which it procured the contract.

In addition, the Agency did not report the emergency purchases to the Legislative Budget Board until several years after the statutorily required timeframe (see Chapter 3 for more information).

Recommendations

The Agency should:

- Competitively re-procure management and operation services for the Big Spring and McAllen Veterans Homes, if there is a continued need for those services, prior to the expiration dates of the emergency purchases.
- Develop, document, and implement a process to:
 - ◆ Ensure that the procurement of emergency purchases complies with statutory requirements for soliciting contracted services, identifying potential conflicts of interests, and obtaining HUB subcontracting plans.
 - ◆ Verify that contracts for emergency purchases are posted to its website, as statutorily required.

Management's Response

The Agency plans to post competitive solicitations for management and operation services for the Big Spring and McAllen Veterans Homes to the Electronic State Business Daily (ESBD) early in the third quarter of fiscal year 2022, with new contracts in place by September 1, 2022.

The Agency's current Procurement Policy and procedures require emergency purchases to comply with all statutory requirements, including, without limitation: ESBD solicitation and award posting requirements; completion of the Agency's Non-Disclosure and Conflict of Interest Statement and the nepotism disclosure (if applicable) by all participants in the procurement; and inclusion of a HUB Subcontracting Plan in the solicitation if the HUB

Coordinator has determined there are subcontracting opportunities. These requirements are consistent with the current version of the Texas Procurement and Contract Management Guide and their completion is verified by Procurement Division management using a comprehensive solicitation file checklist.

The Agency's Contract Management Division (CMD) has incorporated a workflow into their contract management system to ensure contracts are reported in a timely manner. These contracts do not contain a "not to exceed" amount, so upon the last amendments for each CMD worked with the Agency's Financial Management Division to verify past expenditures and calculated projections through the end of each contract. Once these calculations were verified, the contracts were reported to the LBB. CMD also utilizes the contract management system workflow to ensure that all active contracts are posted to the Agency's [Texas Senate Bill 20 Expenditure Disclosure](#) page on its public website.

Responsible Party

Director of Procurement

Completion Date

September 1, 2022

Chapter 2-B

The Agency Complied With Most Contract Formation Requirements for Its Pharmacy Services Contract

**Chapter 2-B
Rating:**

Medium¹¹

The Agency performed certain required procurement and contract formation requirements for its pharmacy services contract. However, the Agency should strengthen its processes to ensure that it obtains all required disclosures and affirmations.

Required Disclosures. The Agency performed required procurement activities that helped ensure that its purchasing staff and other agency staff completed required disclosure forms. Specifically, all 11 purchasing employees and other Agency employees involved in the procurement process for the pharmacy services contract completed nepotism disclosures as required.

In addition, 9 (82 percent) of 11 Agency employees involved in the procurement process completed nondisclosure agreements. The two employees who did not complete a nondisclosure agreement were nonpurchasing staff who managed financial operations that supported the procurement process. Texas Government Code, Section 2261.252, requires each state agency employee or official who is involved in procurement or in contract management for a state agency to disclose any potential conflict of interest.

Required Reviews and Affirmations. The Agency ensured that the required legal staff reviewed its contract for pharmacy services and posted the awarded contract on the Agency website as required. However, the Agency did not perform the required affirmations for the pharmacy services contract. Specifically, the Agency did not confirm that its procurement director completed affirmations that:

- Documented the best value standard used for the contract and acknowledged in writing that the Agency complied with its and the Office of the Comptroller of Public Accounts (Comptroller's Office) contract management guide, as required by Texas Government Code, Section 2155.0755.
- Verified in writing that the solicitation and purchasing methods and contractor selection process complied with state law and Agency policy, as required by Texas Government Code, Section 2261.255, for contracts exceeding \$5 million.

¹¹ The risk related to the issues discussed in Chapter 3 is rated as Medium because issues identified present risks or effect that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

- Verified that the Agency used the Comptroller's Office's Vendor Performance Tracking System to determine whether to award a contract to a vendor, as required by Texas Government Code, Section 2262.055(d).

By not documenting that its award decision for the pharmacy services contract complied with those statutory requirements, the Agency weakened its ability to show that the procurement process for the pharmacy services contract ensured the accountability, transparency, and competitiveness of its award decision.

The Agency also did not obtain approval of the pharmacy services contract from members of the Veterans' Land Board (Board) (see Chapter 3 for more information).

Recommendations

The Agency should:

- Verify that all Agency staff involved in the procurement process for a contract complete the required nondisclosure agreements prior to awarding a contract.
- Confirm that its Procurement Director completes statutorily required affirmations for a contract award before executing a contract.

Management's Response

The Agency currently requires all staff involved in the procurement process, including financial analysts, to complete and sign the agency's Non-Disclosure and Conflict of Interest Statement prior to receipt of solicitation responses. Receipt of these forms is verified prior to contract award by Procurement Division management using a comprehensive solicitation file checklist.

The required affirmations were not included in the Procurement Division's procurement file checklist at the time this contract was awarded, so staff did not verify they were in the file. Procurement Division management currently uses the solicitation file checklist referenced above to verify completion of all statutorily required affirmations by the Procurement Director that must be completed before contract execution.

Responsible Party

Director of Procurement

Completion Date

Implemented

The Agency Should Strengthen Its Processes for Approving and Reporting Contracts

**Chapter 3
Rating:**

Medium¹²

The Agency's contract formation processes helped to ensure that the contracts for the emergency purchases and pharmacy services tested received the required Agency management reviews and approvals prior to execution. Those processes included legal counsel reviews before contract execution, and the final approval and execution of each contract by the deputy land commissioner/chief clerk. In addition, the Agency mostly complied with requirements for reporting vendor performance for those contracts to the Comptroller's Office at least once a year as required.

However, the Agency did not consistently obtain approval from the members of the Board, or ensure the Board received required contract management training (see text box for more information about the Board). The Agency also did not report the contracts and certain contract amendments to the Legislative Budget Board within required time frames.

The Agency should ensure that the Board consistently approves contracts and contract amendments as required.

The Agency executed the contracts tested for the two emergency purchases for Big Spring and McAllen Veterans Homes and for pharmacy services without first obtaining the Board's approval. In addition, the Agency did not obtain the Board's approval for 4 (50 percent) of the 8 amendments that substantially changed the contract term and value for those contracts. The four amendments that the Board did not approve were to the two emergency contracts that were made prior to January 2020. The Board adopted a process to review and approve contracts and amendments in January 2020.¹³ Table 2 on the next page summarizes the eight contract amendments that substantially changed the contract term and contract value

Members of the Board

The Board has three statutorily defined members:

- The Commissioner of the General Land Office, who serves as chairman.
- Two citizens of Texas—one who is experienced in veterans affairs and one who is experienced in finances.

The Board formulates policies and rules necessary to ensure the proper administration of its veterans programs, including the Veterans Homes program, and to carry out the intent and purposes of state law related to veterans programs.

Sources: Texas Constitution, Article III, and Texas Natural Resources Code, Chapter 161.

¹² The risk related to the issues discussed in Chapter 3 is rated as Medium because issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

¹³ The Board adopted a contract review and approval process based on recommendations from the Sunset Advisory Commission that were reported in the *Sunset Advisory Commission, Staff Report with Final Results, School Land Board and Veterans' Land Board, 2018-2019 86th Legislature*, June 2019.

of the three contracts tested and indicates whether those amendments received the Board's approval.

Table 2

Amendments That Changed the Contract Term and Contract Value of the Contracts Tested for Emergency Purchases and Pharmacy Services as of January 31, 2021					
Contract	Amendment Number	Description	Date Amendment Executed	Approved by Members of the Board?	Date Approved
Emergency Purchase: Big Spring Veterans Home	4	Extended the contract term from September 30, 2017, to August 31, 2019; changed select terms and conditions; and changed the payment rates for September 1, 2017, through August 31, 2019.	November 7, 2018	No	Not Approved
	5	Extended the contract term to January 31, 2020; changed select terms and conditions; and extended the period for the payment rates set in Amendment 4 to January 31, 2020.	December 18, 2019	No	Not Approved
	6	Extended the contract term to August 31, 2022; revised select terms and conditions; and set payments rates for the following periods: <ul style="list-style-type: none"> ▪ September 1, 2019, through August 31, 2020. ▪ September 1, 2020, through August 31, 2021. ▪ September 1, 2021, through August 31, 2022. 	February 5, 2020	Yes	January 23, 2020
Emergency Purchase: McAllen Veterans Home	3	Extended the contract term from September 30, 2017, to August 31, 2019; changed select terms and conditions; and changed the payment rates for September 1, 2017, through August 31, 2019.	November 7, 2018	No	Not Approved
	4	Extended the contract term to January 31, 2020; changed select terms and conditions; and extended the period for the payment rates set in Amendment 3 to January 31, 2020.	December 19, 2019	No	Not Approved
	5	Extended the contract term to August 31, 2022; revised select terms and conditions; and set payments rates for the following periods: <ul style="list-style-type: none"> ▪ September 1, 2019, through August 31, 2020. ▪ September 1, 2020, through August 31, 2021. ▪ September 1, 2021, through August 31, 2022. 	February 5, 2020	Yes	January 23, 2020
Pharmacy Services	1	Increased funding by \$1.7 million for a total amount not to exceed \$9.7 million after determining that there was an insufficient balance to fund the full contract term due to pharmaceutical cost inflation and improved census numbers. The original contract not-to-exceed value was \$8.0 million. Revised applicable fee schedules to reflect new charges for medications.	April 25, 2018	Yes	February 22, 2018
	2	Extended the contract termination date from August 31, 2018, to August 31, 2021. Increased funding by \$12.5 million for a total not-to-exceed amount of \$22.2 million. Revised a contract attachment that defines the Services and Special Conditions to allow for the use of drug discount coupons when doing so will result in cost savings for the Board.	October 5, 2018	Yes	August 10, 2018

Source: The Agency.

Board members received some contract management training, but they should complete required training from the Comptroller's Office.

The Board received contract management training that the Agency developed in-house, provided as part of the training delivered to new Board members concerning their duties, as required by the Texas Natural Resources Code. However, the Board did not receive the required contract management training that the Comptroller's Office provides. Texas Government Code, Section 656.053, requires members of a governing body of state agencies to complete at least one course of that training.

The Agency was late in reporting required information about the contracts tested to the Legislative Budget Board.

The Agency reported the two emergency purchases and pharmacy services contracts, as well as the contract amendments that extended the contract terms (contract extensions), to the Legislative Budget Board. However, it reported that information to the Legislative Budget Board from two years to more than five years after the time frames required by the General Appropriations Act (see Table 3).

Table 3

Contracts and Amendments Reported Late to the Legislative Budget Board				
Contract/ Amendment	Date Executed	Report Due Date to the Legislative Budget Board	Date Reported to the Legislative Budget Board	How Late?
Emergency Purchase—Big Spring Veterans Home	December 5, 2014	October 1, 2015 ^a	February 2, 2021	5 years, 4 months
Emergency Purchase—McAllen Veterans Home	December 5, 2014	October 1, 2015 ^a	December 18, 2018	3 years, 2 months
Contract—Pharmacy Services	February 25, 2016	October 1, 2016 ^a	July 23, 2019	2 years, 9 months
Amendment 2—Pharmacy Services	October 5, 2018	November 4, 2018 ^b	November 16, 2020	2 years

^a The General Appropriations Acts (83rd and 84th Legislatures) required that before October 1 of each fiscal year, a state agency shall report to the Legislative Budget Board all contracts to which the agency was a party during the prior fiscal year.

^b The General Appropriations Act (85th Legislature) requires a state agency or institution of higher education to report contract amendments, modifications, renewals, and extensions prior to the date on which the first payment will be made, but no later than 30 calendar days after the date on which the contract amendment is executed.

Sources: The Agency, the Board, the Legislative Budget Board, and General Appropriations Acts (83rd, 84th, and 85th Legislatures).

The Agency also reported contract extensions for the two emergency purchases tested to the Legislative Budget Board after the required time frames. However, as discussed in Chapter 2-A, the Agency should have competitively procured new contracts instead of extending the contract terms for those emergency purchases.

If the Agency does not report contract information, including emergency purchases, within the required time frames, the Legislative Budget Board may not be able to provide the Legislature with accurate and complete information about the Agency's contracts.

Recommendations

The Agency should:

- Ensure that it consistently follows its process to obtain Board members' review and approval of contracts and amendments.
- Ensure that members of the Board receive the required contract management training provided by the Comptroller's Office.
- Develop, document, and implement a process to ensure that contracts and amendments approved by the Board are reported to the Legislative Budget Board within the required timelines.

Management's Response

The Agency acknowledges and agrees with SAO's recommendations that it ensure that the Board members receive the Comptroller's contract management training required by Texas law and it follow its processes to obtain Board approval of certain contracts and amendments.

The Board members will complete the required contract management training by December 31, 2021.

However, the Agency notes that no statute, law, or rule existed (or currently exists) that required or requires the Board to approve any contracts and their amendments prior to their execution – therefore the Board has never been in violation of, and will not be in violation of, any Texas law due to lack of Board approval for any contract or amendment. In January 2020, based on a recommendation of the Texas Sunset Commission, the Board approved a Contract Approval Policy (Policy) that requires Major Contracts and their amendments (as is defined in the Policy) be approved by the Board. Since that time, Agency staff has consistently brought Major Contracts and their amendments to the Board for approval under the Policy. The Board will

continue to follow its adopted Policy with respect to all future Major Contracts and Major Contract amendments.

Responsible Party

Director of Contract Management

Completion Date

December 31, 2021

The Agency Should Enhance Its Security Controls Over Selected Information Systems That Support Its Veterans Homes Program

Chapter 4
Rating:
Medium ¹⁴

The Agency adopted adequate information security policies, procedures, and standards designed to protect the privacy and confidentiality of data managed by its Veterans Homes program. However, it should strengthen security controls over certain automated systems used to manage the following:

- Veterans' health records that each operator of a Veterans Home is required to maintain.
- Access to records involving the Veterans Homes program, including protected health information.

The Agency should verify that the health records system it requires operators to purchase and use to manage veterans' health information complies with applicable federal and state requirements for handling and storing protected health information.

The Agency provides limited oversight of the security controls for the health records system that it requires its operators to use. Instead, it relies on each operator that manages a Veterans Homes to ensure that the system's security controls are adequately configured to protect veterans' health information. However, the Agency owns all data that its operators manage in connection with Veterans Homes; therefore, it is ultimately responsible for the data's protection.

The Department of Information Resources' *Texas Cybersecurity Framework* specifies that an evaluation of third-party provider and external vendors should be completed to verify that security requirements are met for information that will be transmitted, processed, stored, or managed by external entities.

The Agency should verify the appropriateness of active user accounts within selected information systems.

Auditors identified active user accounts that had inappropriate access to the automated systems that manage records and pharmacy services billings for the Veterans Homes program. The user accounts identified were assigned to employees who no longer had a business need for access to the systems. The

¹⁴ The risk related to the issues discussed in Chapter 3 is rated as Medium because issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

user accounts identified did not access the automated systems reviewed during the audit scope from September 1, 2019, through January 31, 2021.

The Department of Information Resources' *Security Control Standards Catalog* requires state agencies to establish certain controls over account management to mitigate the risk of unauthorized access to information systems.

The Agency should ensure that the security settings to select information systems enforces its information security standards for account management.

Auditors reviewed the security settings in selected information systems and determined that the user account requirements met most of the information security standards adopted by the Agency. However, the Agency should strengthen certain user access settings. To minimize security risks, auditors communicated additional details about the weaknesses identified separately to the Agency in writing.

Recommendations

The Agency should:

- Develop, document, and implement a process to verify that external information systems used by operators of Veterans Homes have adequate security controls over data involving protected health information.
- Perform periodic reviews of user accounts to verify each user's business need for access to information systems.
- Ensure that all user access settings comply with the requirements of its information security standards.

Management's Response

The Agency has developed, documented, and implemented a process to verify that the operators have adequate security controls over protected health information, including controls to monitor and review the security of protected health information held by the operator's third-party providers and vendors. The Agency notes that the United States Department of Health and Human Services currently advises covered entities that they are not required to "monitor or oversee the means by which their business associates carry out privacy safeguards or to the extent to which the business associate abides by

the privacy requirements of a [business associate agreement]"¹⁵. The Agency would also like to clarify that the Agency does allow for the operators to use other compatible cloud-based medical records systems. Regardless, the Agency acknowledges the State Auditor's Office recommendation and will review the need to implement a more formal process to obtain the necessary documentation to verify protected health information entrusted to the Operators' Business Associate subcontractors for the electronic medical records system is secure. We estimate that the aforementioned review process, and any necessary implementation, will be completed by the end of the 2022 Fiscal Year.

The Agency will review access to the identified system that manages records and pharmacy services billings for the Veterans Homes program annually. In addition, an automated process is implemented that notifies the Agency's Privacy Officer when individuals' access is granted or removed.

The Agency will ensure the system identified complies with all applicable agency information security standards by 11/30/2021.

Responsible Party

Chief of Information Security

Completion Date

September 1, 2022

¹⁵ <https://www.hhs.gov/hipaa/for-professionals/faq/236/covered-entity-liable-for-action/index.html>

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the General Land Office and the Veterans' Land Board (Agency) administer selected Texas State Veterans Homes (Veterans Homes) program contract functions in accordance with applicable requirements.

Scope

The scope of this audit covered (1) contracts related to the Veterans Homes program that were active at any point between September 1, 2019, and January 31, 2021, and (2) contract activities during any period up to and including January 31, 2021, related to those contracts. The scope also included a review of significant internal control components related to (1) the contract oversight of vendor performance and vendor payments and (2) the contract formation of negotiated and amended payment rates (see Appendix 3 for more information about internal control components).

Methodology

The audit methodology consisted of collecting and reviewing contract documentation, including the contracts audited; conducting interviews with Agency staff; reviewing statutes and rules, Office of the Comptroller of Public Accounts requirements, and Agency policies and procedures; and performing selected tests and other procedures. The selection methodology for the contracts tested was a risk-based approach that reviewed the contract dollar amount, type of contract, and recent external reviews and audit coverage for the Agency's contracts.

Data Reliability and Completeness

Auditors used expenditure information in the Uniform Statewide Accounting System (USAS) and relied on prior State Auditor's Office audit work to determine whether that data was sufficiently reliable for the purposes of this audit. Additionally, auditors relied on prior State Auditor's Office audit work to determine that the Agency had adequate general and application controls to ensure that transactions required (1) proper approvals by multiple staff before processing and (2) complete and valid entries before processing in the Agency's procurement system, Buyspeed.

Sampling Methodology

To test that the Agency's payments to Veterans Homes' operators and its pharmacy services provider were accurate, reasonable, and supported, auditors selected nonstatistical samples of USAS expenditures through random selection. In addition, auditors selected a risk-based sample of additional transactions for testing. This sampling design was chosen to ensure that the samples would include coverage of the Agency's payments to operators and address specific risk factors identified in the population.

To test whether the Agency complied with select procurement and contract formation requirements, auditors used a risk-based approach to select the Veterans Homes program's two emergency purchases and the pharmacy services contract from a population of the nine maintenance and operations contracts and the one pharmacy services contract for the Veterans Homes program. This sample design was chosen to address specific risk factors identified in the population.

To test that the Agency complied with contract oversight requirements for performance monitoring, auditors used a risk-based approach to select two contracts from a population of nine maintenance and operations contracts. For the contracts selected, auditors selected nonstatistical samples of daily, weekly, monthly, and quarterly monitoring reports through random selection. This sampling design was chosen to ensure that the samples would address specific risk factors identified in the population and include coverage of the Agency's monitoring reports.

The samples selected were not necessarily representative of the populations; therefore, it would not be appropriate to project the test results to the populations.

Information collected and reviewed included the following:

- The Agency's contracts and amendments.
- The Agency's policies, procedures, and organizational charts.
- The Agency's expenditure data from USAS.
- The Agency's contract monitoring records of Veterans Homes' operators.
- The Agency's user manuals for applicable information systems.
- User access data, password parameters, and other supporting documentation related to general controls over selected Agency information systems.

- The Agency's payment documentation, including invoices, approvals, and other supporting documentation.
- Prior State Auditor's Office information technology work.

Procedures and tests conducted included the following:

- Interviewed Agency management and staff.
- Reviewed Agency contract management policies and procedures.
- Tested whether the Agency's contract manager met certification requirements.
- Tested whether the Agency complied with disclosure requirements for potential conflicts of interest.
- Reviewed the contracts selected and related supporting documentation to determine whether the contracts were approved by appropriate management, included a reasonable and defined payment methodology, and included essential contract terms according to the *State of Texas Contract Management Guide, version 1.13*.
- Reviewed contract amendments, including amendments that extended the term of a contract, for compliance with statutory requirements.
- Tested vendor payments for accuracy and compliance with contract terms and statutory requirements.
- Analyzed vendor payments for late payments, double billing, and potential duplicate vendor payments.
- Tested the Agency's monitoring activities for compliance with Agency policies and procedures.
- Reviewed supporting documentation related to general controls and application controls over selected information systems.

Criteria used included the following:

- Texas Constitution, Article III, Section 49-b.
- Texas Government Code, Chapters 441, 656, 2155, 2251, 2261, and 2262.
- Texas Natural Resources Code, Chapter 161.
- Title 34, Texas Administrative Code, Chapter 20.

- The General Appropriations Acts (83rd, 84th, 85th, and 86th Legislatures).
- The *State of Texas Procurement and Contract Management Guide*, version 1.3.
- The *State of Texas Contract Management Guide*, versions 1.13, 1.14, 1.15, and 1.16.
- The *State of Texas Procurement Manual*, 2012 and 2015.
- The Agency's contracts for management and operation services and pharmacy services related to the Veterans Homes program.
- Department of Information Resources' *Security Control Standards Catalog*, version 1.3.
- Department of Information Resources' *Texas Cybersecurity Framework Control Objectives and Definitions*.
- The State of Texas Records Retention Schedule.
- The Agency's policies and procedures.

Project Information

Audit fieldwork was conducted from January 2021 through August 2021. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Willie Hicks, CIA, MBA, CGAP (Project Manager)
- Michelle Rodriguez, CFE (Assistant Project Manager)
- Brady Bennett, MBA, CFE, CGAP
- Brandy Corbin
- Alex Lerma, MS
- Emmanuel Melendez, MBA, CPA

- Sarah Kade
- Kristin Auriel Rene Pope, MSA
- Quang Tran, CFE
- Ann E. Karnes, CPA (Quality Control Reviewer)
- James Timberlake, CIA, CFE (Audit Manager)

Issue Rating Classifications and Descriptions

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

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

Table 4 provides a description of the issue ratings presented in this report.

Table 4

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

Internal Control Components

Internal control is a process used by management to help an entity achieve its objectives. The U.S. Government Accountability Office's *Government Auditing Standards* require auditors to assess internal control when internal control is significant to the audit objectives. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a framework for 5 integrated components and 17 principles of internal control, which are listed in Table 5.

Table 5

Internal Control Components and Principles		
Component	Component Description	Principles
Control Environment	The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.	<ul style="list-style-type: none"> ▪ The organization demonstrates a commitment to integrity and ethical values. ▪ The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control. ▪ Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. ▪ The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives. ▪ The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.
Risk Assessment	Risk assessment is the entity's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.	<ul style="list-style-type: none"> ▪ The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives. ▪ The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed. ▪ The organization considers the potential for fraud in assessing risks to the achievement of objectives. ▪ The organization identifies and assesses changes that could significantly impact the system of internal control.
Control Activities	Control activities are the policies and procedures that help ensure that management's directives are carried out.	<ul style="list-style-type: none"> ▪ The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels. ▪ The organization selects and develops general control activities over technology to support the achievement of objectives. ▪ The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

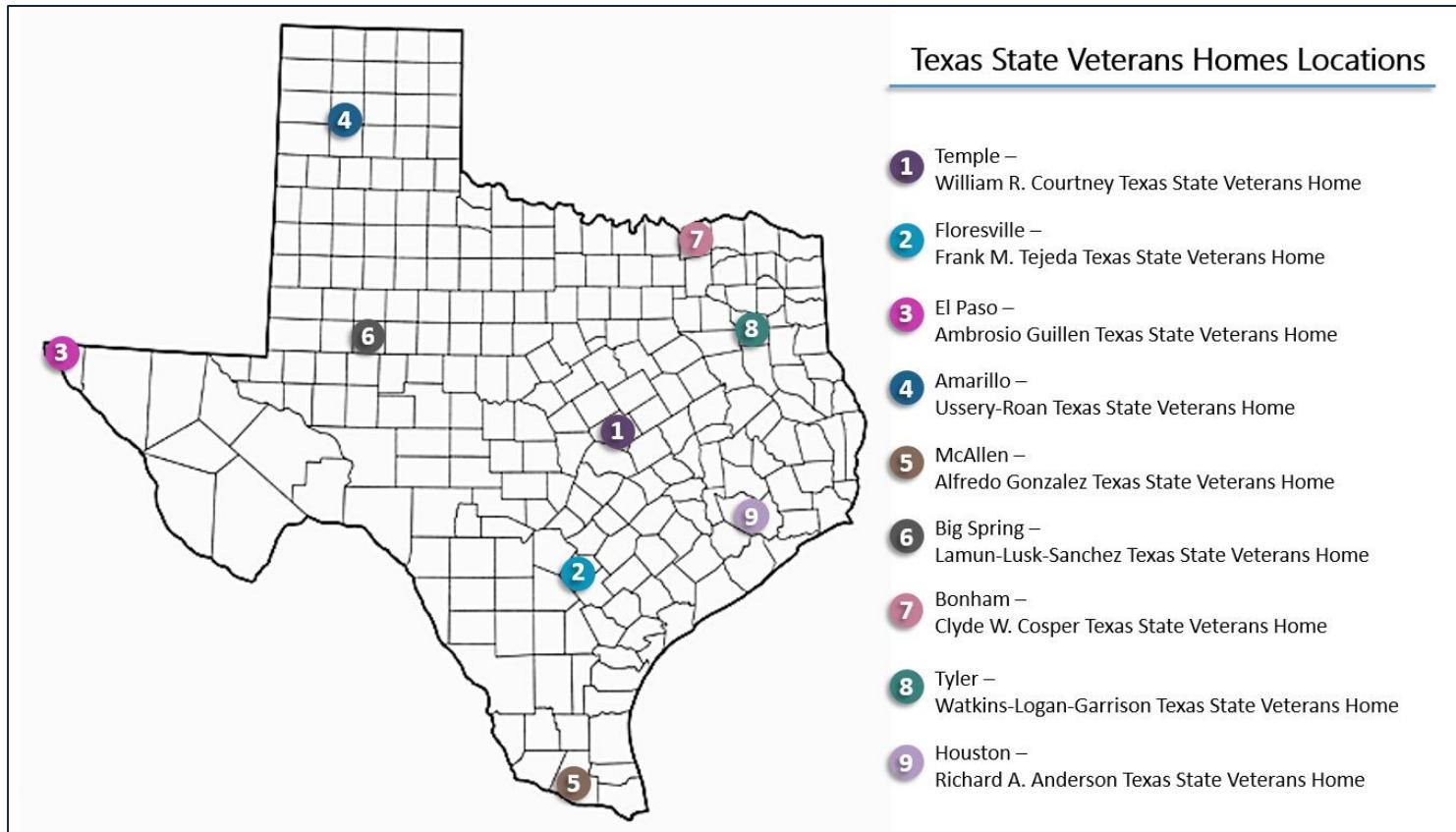
Internal Control Components and Principles		
Component	Component Description	Principles
Information and Communication	Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.	<ul style="list-style-type: none"> ▪ The organization obtains or generates and uses relevant, quality information to support the functioning of internal control. ▪ The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control. ▪ The organization communicates with external parties regarding matters affecting the functioning of internal control.
Monitoring Activities	Monitoring is a process that assesses the quality of internal control performance over time.	<ul style="list-style-type: none"> ▪ The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning. ▪ The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

Source: Internal Control - Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013.

Texas State Veterans Homes Locations as of January 31, 2021

Figure 3 shows the locations for the General Land Office and Veterans' Land Board's nine Texas State Veterans Homes as of January 31, 2021.

Figure 3



Sources: Based on information provided by the Sunset Commission and the General Land Office and Veterans' Land Board.

Appendix 5

Summary of the Agency's Active Operator Contracts and Total Payments as of January 31, 2021

Table 6 shows a summary of the following:

- Each of the General Land Office and Veterans' Land Board's (Agency) Texas State Veterans Homes (Veterans Homes) and the operators that had active management and operation contracts as of January 31, 2021.
- The contract term for each of the Agency's contracts with Veterans Homes operators.
- The Agency's total payments to each Veterans Homes operator as of January 31, 2021.

Table 6

The Agency's Active Veterans Homes Operator Contracts and Associated Total Payments As of January 31, 2021					
Location (City)	Veterans Homes Name	Operator	Contract Start Date	Contract End Date	Total Payments From Start Date to January 31, 2021 (in millions)
Amarillo	Ussery-Roan	Care Inns of Texas, LTD ^a	April 2018	August 2021	\$23.2 ^b
Big Spring	Lamun-Lusk-Sanchez	Touchstone Veterans Management, LTD ^a	December 2014	August 2022	\$52.2
Bonham	Clyde W. Cosper	Texas VSI, LLC	July 2016	August 2021	\$46.2
El Paso	Ambrosio Guillen	Texas VSI, LLC	May 2018	August 2021	\$29.8
Floresville	Frank M. Tejeda	Care Inns of Texas, LTD ^a	November 2019	August 2022	\$11.7 ^b
Houston	Richard A. Anderson	Touchstone Veterans Management, LTD ^a	June 2019	August 2022	\$5.6
McAllen	Alfredo Gonzalez	Touchstone Veterans Management, LTD ^a	December 2014	August 2022	\$66.3
Temple	William R. Courtney	Care Inns of Texas-Temple LTD ^a	November 2019	August 2022	\$11.9 ^b
Tyler	Watkins-Logan	Texas VSI, LLC	July 2016	August 2021	\$40.9
Total Payments					\$287.8

^a Care Inns of Texas, LTD; Care Inns of Texas-Temple, LTD; and Touchstone Veterans Management, LTD are part of the same business organization known as Touchstone Communities.

^b The amount shown may include payments from a prior contract with the operator.

Sources: The Agency and the Uniform Statewide Accounting System.

Appendix 6

Related State Auditor's Office Reports

Table 7

Related State Auditor's Office Reports		
Number	Report Name	Release Date
21-024	<i>A Report on Contract Monitoring Assessment at Certain State Agencies</i>	June 2021
21-010	<i>A Report on the Implementation Status of Sunset Advisory Commission Management Actions</i>	February 2021
20-028	<i>A Report on Contract Monitoring Assessment at Certain State Agencies</i>	April 2020

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dade Phelan, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Greg Bonnen, House Appropriations Committee
The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

General Land Office

The Honorable George P. Bush, Land Commissioner, and Chairman of the
Veterans' Land Board
Members of the Veterans' Land Board
Mr. Grant Moody
Mr. Judson Scott
Mr. Mark Havens, Deputy Land Commissioner/Chief Clerk



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