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An Audit Report on

Facilities Management at the Texas Military Department

August 2022
Report No. 22-040



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Overall Conclusion

The Texas Military Department (Department) developed Facilities Master Plans (FMPs) for fiscal years 2019-2023 and fiscal years 2021-2025 in its biennial Strategic Plans, as required by Rider 16, page V-44, the General Appropriations Act (85th Legislature) and Rider 16, page V-43, the General Appropriations Act (86th Legislature). (See text box for details on the Department's FMPs.) However, the Department did not ensure that funds appropriated for capital construction were spent on projects included in the FMPs. Additionally, the Department did not maintain documentation to support the initial estimates in the FMPs.

FMP Project Monitoring. The Department monitored capital projects in its FMPs in accordance with requirements by conducting inspections and reviews of projects during their construction phase and by ensuring that projects' change orders were properly supported and approved. However, the Department should (1) consistently perform required reviews during the design phase of projects, (2) accurately track project expenditures, and (3) appropriately limit access to its project tracking spreadsheets.

Follow-up on Prior State Auditor's Office Audit Recommendations. The Department fully implemented corrective action for 8 (73 percent) of 11 recommendations related to contracting made by the State Auditor's Office in Chapter 1 of *An Audit Report on Financial Processes at the Military Department* (State Auditor's Office Report No. 18-010, December 2017). Corrective action was substantially implemented for two of the other three recommendations and was incomplete or ongoing for the remaining recommendation.

Facilities Master Plans

Rider 16, page V-44, the General Appropriations Act (85th Legislature) and Rider 16, page V-43, the General Appropriations Act (86th Legislature) require the Texas Military Department (Department) to prepare a Facilities Master Plan (FMP) to include in its Strategic Plan for each biennium. Each rider further states that funds appropriated to the Department for capital construction are intended to be expended for projects that are part of the agency's FMP. According to the Department's Strategic Plan, the purpose of the FMP is to assist the Department in determining capital project priorities, allocating resources, and providing general guidance for facility requirements.

The FMP includes information about the Department's facilities requirements, the Department's planning process, funding sources, and how the Department executes the FMP. The FMP also includes a five-year project listing, which consists of facility needs in the following work categories:

- New construction (by specific location).
- Major renovation (by specific location).
- Repair/rehabilitation (by specific location).
- Roof replacements (by specific location or for multiple locations).
- Energy efficiency improvements (by specific location or for multiple locations).
- Facility sustainment (statewide).
- Facility operations (statewide).

Each project in the five-year listing includes a cost estimate. Each cost estimate identifies federal funding and state funding amounts.

Sources: Rider 16, page V-44, the General Appropriations Act (85th Legislature); Rider 16, page V-43, the General Appropriations Act (86th Legislature); and the Department's Strategic Plans for fiscal years 2019-2023 and fiscal years 2021-2025.

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

Table 1

| Summary of Chapters and Related Issue Ratings | | |
|---|---|---------------------------|
| Chapter | Title | Issue Rating ^a |
| 1 | The Department Created Facilities Master Plans in Accordance with Requirements | Low |
| 2 | The Department Did Not Ensure That Funds Appropriated for Capital Construction Were Expended for Projects Listed in the FMPs, and It Did Not Maintain Documentation to Support Estimates Included in the FMPs | High |
| 3 | The Department Monitored Projects in Its FMPs as Required, But It Should Strengthen Some of Its Monitoring Processes | Medium |
| 4 | The Department Fully Implemented Corrective Action in Response to Most of the Recommendations Related to Contracting in a Prior Audit Report | Medium |

^a A chapter 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(s) and reduce risks to the audited entity.

A chapter 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(s) and reduce risks to the audited entity.

A chapter 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(s) and reduce risks to a more desirable level.

A chapter 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.

Summary of Management's Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The Department's management agreed with the recommendations.

Audit Objectives and Scope

The objectives of this audit were to determine whether the Department:

- Prioritizes and monitors facility and armory construction, rehabilitation, sustainment, maintenance, and disposal in compliance with its FMP and applicable requirements.
- Implemented corrective action on recommendations related to contracting made by the State Auditor's Office in *An Audit Report on Financial Processes at the Military Department* (State Auditor's Office Report No. 18-010, December 2017).

The scope of this audit covered projects on the two most recent FMPs (for fiscal years 2019-2023 and fiscal years 2021-2025), as well as follow up on the Department's implementation of recommendations made in Chapter 1 of State Auditor's Office Report No. 18-010. The scope also included a review of significant internal control components related to the Department's facilities master planning process.

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Detailed Results

Chapter 1

The Department Created Facilities Master Plans in Accordance with Requirements

**Chapter 1
Rating:
Low ¹**

The Texas Military Department (Department) developed and approved Facilities Master Plans (FMPs) for fiscal years 2019-2023 and fiscal years 2021-2025 to include in its biennial Strategic Plans, as required by Rider 16, page V-44, the General Appropriations Act (85th Legislature) and Rider 16, page V-43, the General Appropriations Act (86th Legislature).

The Department organized projects in the FMPs for fiscal years 2019-2023 and fiscal years 2021-2025 into several work categories. Some projects were facility-specific; others addressed statewide needs.

Table 2 shows the cost estimates for facility-specific and statewide projects and the numbers of facility-specific projects by work category in the FMPs for fiscal years 2019-2023 and fiscal years 2021-2025. The projects on the FMPs are funded from state appropriations and/or federal funding through the National Guard.

Table 2

| Cost Estimates and Numbers of Facility-specific Projects by Work Category in FMPs for Fiscal Years 2019-2023 and Fiscal Years 2021-2025 | | | | |
|---|--------------------------------|--------------------------------------|---|--------------------------------------|
| Work Category | FMP for Fiscal Years 2019-2023 | | FMP for Fiscal Years 2021-2025 ^a | |
| | Cost Estimate | Number of Facility-specific Projects | Cost Estimate | Number of Facility-specific Projects |
| New Construction | \$10,302,000 | 2 | \$16,479,000 | 7 |
| Major Renovation | \$25,040,000 | 4 | \$14,505,000 | 7 |
| Repair/Rehabilitation | \$125,300,000 | 21 | \$80,505,800 | 12 |
| Roof Replacements ^b | \$6,485,000 | 9 | \$11,529,714 | 15 |
| Facility Operations ^c | \$72,020,000 | Not Applicable | \$73,100,000 | Not Applicable |
| Facility Sustainment ^c | \$102,635,002 | Not Applicable | \$89,600,000 | Not Applicable |

¹ The risk related to the issues discussed in Chapter 1 is rated as Low because 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.

| Cost Estimates and Numbers of Facility-specific Projects by Work Category in FMPs for Fiscal Years 2019-2023 and Fiscal Years 2021-2025 | | | | |
|---|--------------------------------|--------------------------------------|---|--------------------------------------|
| Work Category | FMP for Fiscal Years 2019-2023 | | FMP for Fiscal Years 2021-2025 ^a | |
| | Cost Estimate | Number of Facility-specific Projects | Cost Estimate | Number of Facility-specific Projects |
| Energy Efficiency Improvements ^d | \$23,038,050 | Not Applicable | \$9,656,000 | 7 |
| Totals | \$364,820,052 | 36 | \$295,375,514 | 48 |

^a This table includes 16 projects that are in both FMPs.

^b The Roof Replacements in the FMPs included both facility-specific projects and projects that address statewide needs. The number of projects reported in this table include only the facility-specific projects; the cost estimate amounts include both facility-specific projects and the projects to address statewide needs.

^c The Facility Operations and Facility Sustainment work categories are reported on a statewide level and are not associated with facility-specific projects.

^d The Energy Efficiency Improvements work category in the FMP for fiscal years 2019-2023 was reported on a statewide level and was not associated with individual facility-specific projects. Energy Efficiency Improvements in the FMP for fiscal years 2021-2025 included both facility-specific projects and projects to address statewide needs. The cost estimates reported in this table include both facility-specific projects and projects to address statewide needs.

Sources: FMPs for fiscal years 2019-2023 and fiscal years 2021-2025.

The Department’s self-reported completion status as of May 2022 for the facility-specific projects from the FMPs for fiscal years 2019-2023 and fiscal years 2021-2025 is shown in Table 3.

Table 3

| Completion Status of Facility-specific Projects in the FMPs for Fiscal Years 2019-2023 and Fiscal Years 2021-2025 | | | | |
|---|---------------------|-----------------|-----------|-----------------|
| FMP | Number of Projects: | | | |
| | Included in the FMP | Started | Completed | Not Started |
| Fiscal Years 2019-2023 | 36 | 13 ^a | 3 | 20 ^b |
| Fiscal Years 2021-2025 | 48 | 19 | 0 | 29 |
| Totals | 84 | 32 | 3 | 49 |

^a Of the 13 projects started in the FMP for fiscal years 2019-2023, the Department carried over 12 projects to the FMP for fiscal years 2021-2025 and reconfigured work on the remaining project to include only the roof replacement portion of the project.

^b Of the 20 projects not started in the FMP for fiscal years 2019-2023, the Department carried over 4 projects to the FMP for fiscal years 2021-2025 and did not carry over the remaining 16 projects to the FMP for fiscal years 2021-2025. The Department stated that it did not carry over the remaining projects because they had not received federal funding.

Sources: The Department and the FMPs for fiscal years 2019-2023 and fiscal years 2021-2025.

The Department Did Not Ensure That Funds Appropriated for Capital Construction Were Expended for Projects Listed in the FMPs, and It Did Not Maintain Documentation to Support Estimates Included in the FMPs

**Chapter 2
Rating:
High ²**

The Department did not ensure that funds appropriated for capital construction were spent on projects included in FMPs as required by Rider 16, page V-44, the General Appropriations Act (85th Legislature) and Rider 16, page V-43, the General Appropriations Act (86th Legislature). Additionally, the Department did not maintain documentation to support the initial estimates in the FMPs.

The Department used appropriated funds for capital construction projects that were not included in FMPs.

The Department has three plans to track capital construction projects: one required by the State and two to comply with National Guard requirements.

- **State Plan (FMP).** Rider 16, page V-44, the General Appropriations Act (85th Legislature) and Rider 16, page V-43, the General Appropriations Act (86th Legislature) require the Department to prepare an FMP every two years and states that funds appropriated to the Department for capital construction are intended to be expended for projects that are part of an FMP.
- **National Guard Plans.** National Guard Pamphlet 210-20, paragraph 3-2, requires the Department to manage its facilities using a real property development plan. To comply with this requirement, the Department tracks approved capital projects on its Annual Work Plan and its Long Range Construction Plan (National Guard Plans). (See text box for more information about those plans.) The National Guard Plans contain prioritized lists of the recommended capital projects for which the Department has requested federal funding. Those plans are continuously updated.

National Guard Plans

Annual Work Plan. The Department develops the Annual Work Plan to manage the Sustainment, Restoration and Modernization Program. It contains shorter-term capital projects, such as major renovations and roof replacements.

Long Range Construction Plan. The Department develops the Long Range Construction Plan for its Military Construction Program projects. It contains longer-term, new construction projects.

Sources: The Department and National Guard Pamphlet 210-20, paragraphs 3-2, 3-5, 4-4, and 4-5.

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

However, the FMPs and the Annual Work Plan do not fully reconcile. Auditors identified the following inconsistencies:

- The FMPs did not contain all of the capital projects included in the Annual Work Plan. As of May 2022, the Department had initiated 7 capital projects with a cost of \$23.6 million that were not on the FMPs for fiscal years 2019-2023 or fiscal years 2021-2025. According to the Department, 4 of these 7 projects have been completed, and the remaining 3 projects were in progress as of May 2022.
- Auditors were unable to determine the total number of approved capital projects that were not carried forward from the Annual Work Plans to the biennial FMPs. This is because (1) the Annual Work Plan is continuously updated and (2) the Department did not maintain the Annual Work Plans that were in place when it developed the FMPs.

The Department stated that the inclusion of capital projects on FMPs was based on how much state and federal funding it estimated would be available. In addition, the Department stated that it initiated projects that were not on an FMP when additional federal funds became available or circumstances required that FMP projects be put on hold.

By using appropriated funds for capital construction projects that are not included in FMPs, the Department risks starting projects that have not been communicated to the Legislature.

The Department did not have documentation for estimates reported on FMPs.

The Department did not maintain documentation to support the estimated costs of capital projects and statewide facility work that were included in the FMPs for fiscal years 2019-2023 and fiscal years 2021-2025. Specifically, documentation was not maintained for the following:

- Statewide Facility Operations and Facility Sustainment work categories (see text box for details about those areas).
- Four (80 percent) of the 5 capital projects tested.

**Facility Operations
and Facility Sustainment**

Facility Operations and Facility Sustainment are work categories included on the FMPs. Costs for those two categories on FMPs are estimated at a statewide level and are not facility-specific.

Facility Operations represents expenses such as utilities, grounds maintenance, and pest control.

Facility Sustainment represents expenses for preventive and routine maintenance and inspections of the Department's facilities.

Sources: The Department and the FMPs for fiscal years 2019-2023 and fiscal years 2021-2025.

Although the Department provided support that it had obtained cost estimates for the capital projects, the estimates that it provided did not match the estimates included in the FMPs. The Department stated that it did

not maintain the support for the estimates included in the FMPs and that it estimated a capital project's cost based on market prices when an FMP was created.

By not maintaining supporting documentation for a capital project's initial cost estimate, the Department risks reporting inaccurate costs in its Strategic Plan, which is sent to the Legislature.

Recommendations

The Department should:

- Ensure that funds appropriated to the Department for capital construction projects are expended for projects listed in the agency's FMPs.
- Maintain documentation to support all information reported on FMPs, including capital projects' initial estimates.

Management's Response

The Department agrees with the recommendations. The audit found the Department had seven projects that were not on the FMP. However, the two FMPs that were audited covered an 8-year period and have a combined total of 84 projects. The FMP is a dynamic document that can change due to emerging requirements, such as emergency response, change in mission requirements, or emerging opportunities. One of the seven projects identified, the Camp Swift 3D Printed Barrack Construction project, needed to be implemented outside of the normal FMP cycle due to unexpected available grant funding and R&D partnerships.

The Department will continue to investigate options to refine its processes to ensure that federal National Guard Plans (Annual Work Plan (AWP) and Long-Range Construction Plan (LRCP) remain aligned with the State Plan (FMP) and has already developed and implemented procedures which will ensure that all projects are captured within the current or future FMPs.

The Department will implement a standardized project cost estimation process that will be updated at specific stages throughout the project lifecycle to ensure staff captures and documents any changes to project estimates.

Implementation Date: December 31, 2022

Responsible Party: TMD CFMO Master Planner

The Department Monitored Projects in Its FMPs as Required, But It Should Strengthen Some of Its Monitoring Processes

**Chapter 3
Rating:
Medium³**

The Department monitored capital projects in its FMPs in accordance with its policies and procedures and contract provisions by (1) conducting inspections and reviews of projects during their construction phase and (2) ensuring that projects' change orders were properly supported and approved.

However, the Department should ensure that it:

- Consistently performs required reviews during the design phase of projects.
- Accurately tracks project expenditures.
- Appropriately limits access to project tracking spreadsheets.

Construction Phase Monitoring. For the three construction projects tested,⁴ the Department performed the construction phase inspections and reviews required by its construction contracts. (See the text box for information about capital project phases.)

Contract Change Orders. The Department processed contract change orders in accordance with its policies and procedures for all five capital projects tested. The Department's policies and procedures require change orders to include supporting documentation, such as pricing information and justification for the change, as well as proper approval. For the five projects tested, the Department processed 32 change orders totaling \$2.8 million as of May 2022.

Design Phase Monitoring. The Department should consistently perform required reviews of the design phase of capital projects.

Capital Project Phases

Design and construction are two main phases of a capital project.

The **design phase** includes creating the drawings and specifications needed to complete a capital construction project. The Department typically enters into a contract with a professional architectural/engineering firm that it has pre-screened to complete the design phase of a capital project. Design phase reviews can occur at five different stages of completion: 10 percent, 35 percent, 65 percent, 95 percent, and 100 percent. Review requirements differ between projects; therefore, some projects do not require reviews at all five stages.

The **construction phase** is the physical process of completing the work associated with a capital project. The Department enters into a contract with contractors to complete the construction phase of a capital project. Construction phase reviews are performed throughout the project and are on-site inspections, which include (1) observing the construction site to ensure that the work completed meets all contractual requirements, (2) documenting the work completed, and (3) following up on deficiencies noted during previous on-site inspections.

Sources: The Department and National Guard Regulation 415-5, Chapter 5, Sections II and III.

³ The risk related to the issues discussed in Chapter 3 is rated as Medium because they 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(s) and reduce risks to a more desirable level.

⁴ Two of the five capital projects tested were not yet in the construction phase.

The Department's agreements with project design contractors require contractors to submit plans and specifications for review at specific times during a project. For 2 (40 percent) of the 5 projects tested, the Department did not complete the required design phase reviews. By not conducting reviews during the design phase, the Department risks having contractors not comply with all requirements, which could create problems during construction and increase project costs.

Tracking of Project Expenditures. The Department should ensure that it accurately tracks project expenditures and limits user access to its tracking documents.

The Department used multiple spreadsheets to manually track expenditures for capital projects on the FMPs. For 1 (20 percent) of 5 projects tested, the Department did not accurately record all activity on one of its expenditure tracking spreadsheets due to data entry errors; specifically, the Department (1) listed an incorrect amount for a change order and (2) listed an incorrect contractor for one of the expenditures. Although the tracking spreadsheet was inaccurate, the Department ultimately paid the correct amount to the correct contractor.

The Department's policies and procedures require personnel to properly perform contract management tasks, including updating contract data. By not updating contract data appropriately, the Department risks not having accurate information to make decisions regarding capital projects.

In addition, the Department did not ensure that access to its tracking spreadsheets was limited to appropriate personnel. The Department also did not provide all of the information needed to completely test access to the tracking spreadsheets. To minimize security risks, auditors communicated details about these issues directly to the Department's management in writing.

Recommendations

The Department should ensure that it:

- Performs and maintains documentation to support all the required reviews of the design phase of capital projects.
- Accurately tracks project expenditures.
- Limits access to its project tracking spreadsheets to appropriate personnel.

Management's Response

The Department agrees with the recommendations. Based on guidance in NGR 415-5, design reviews are required for all Military Construction (MILCON) projects at the 30%, 60%, 90% and 100% bid final phases. As best practice, the Construction and Facilities Management Office (CFMO) conducts similar reviews for Sustainment, Restoration, and Modernization (SRM) projects. On occasion, this review schedule may be revised. This typically occurs either when the project scope is so well defined that a review would not provide additional value (i.e. – roof replacements) or if design delivery needs to be compressed to allow for construction award in the correct Fiscal Year. In the latter instance, it is usually a single review that is omitted in the series to ensure there are other opportunities to refine scope prior to issuance. To document these cases more accurately in the future, the CFMO Project Managers will include a Memorandum for Record (MFR) in the project folder that outlines justification for the change. Further, the CFMO has already taken steps to revise and improve the file storage structure at the project SharePoint sites to ensure necessary documentation is maintained in consistent locations and can be more readily available when requested.

The Department currently has established procedures in place to accurately track expenditures for Construction projects that are processed through CFMO's Contracting Branch. We plan to implement these same procedures for Troop Labor and Maintenance projects that are processed through OSA Procurement methods.

We currently have extremely limited access to our CASHFLOW and FINMAN spreadsheets and will take steps to mimic that access with our BAND AID and individual project spreadsheets.

Implementation Date: December 31, 2022

Responsible Party: TMD CFMO Director of Projects and Facility Operations (capital projects review) and TMD CFMO Director of Support and Business Operations (tracking project expenditures)

The Department Fully Implemented Corrective Action in Response to Most of the Recommendations Related to Contracting in a Prior Audit Report

Chapter 4 Rating:
Medium ⁵

The Department fully implemented corrective action for 8 (73 percent) of 11 recommendations related to contracting made by the State Auditor’s Office in Chapter 1 of *An Audit Report on Financial Processes at the Military Department* (State Auditor’s Office Report No. 18-010, December 2017). Corrective action was substantially implemented for two of the other three recommendations and was incomplete or ongoing for the remaining recommendation.

Table 4 below shows the implementation status determined by auditors for each of the 11 recommendations related to contracting from the prior audit report.

Definition of Implementation Status

Each implementation status is defined as follows:

-  **Fully Implemented:** Successful development and use of a process, system, or policy to implement a recommendation.
-  **Substantially Implemented:** Successful development but inconsistent use of a process, system, or policy to implement a recommendation.
-  **Incomplete or Ongoing:** Ongoing development of a process, system, or policy to address a recommendation.
-  **Not Implemented:** Lack of a formal process, system, or policy to address a recommendation.

Source: State Auditor’s Office instructions to state agencies and higher education institutions for reporting the implementation status of recommendations.

Table 4

| Implementation Status of Recommendation in <i>An Audit Report on Financial Processes at the Military Department</i> State Auditor’s Office Report No. 18-010, December 2017 | |
|---|--|
| Recommendation | Implementation Status Determined by Auditors |
| The Department should: | |
| <ul style="list-style-type: none"> ▪ Document which state laws and regulations it will follow for construction contracts. |  |
| <ul style="list-style-type: none"> ▪ Develop and implement documented policies and procedures for contracts that, at a minimum: <ul style="list-style-type: none"> ○ Require a needs assessment and cost estimate be performed. ○ Require employees involved in the solicitation to sign a non-disclosure and conflict of interest statement. |   |

⁵ The risk related to the issues discussed in Chapter 4 is rated as Medium because they 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(s) and reduce risks to a more desirable level.

**Implementation Status of Recommendation in
An Audit Report on Financial Processes at the Military Department
State Auditor's Office Report No. 18-010, December 2017**

| Recommendation | Implementation Status Determined by Auditors |
|--|---|
| ○ For contracts that exceed \$1 million, require employees involved with the procurement to sign the SAO nepotism form and require and verify that vendors file certificates of interested parties with the Texas Ethics Commission. |  |
| ○ Require a written justification for the selection of architectural and engineering vendors for projects. |  |
| ○ Require more than one person to evaluate vendor proposals. |  |
| ○ Establish a process to ensure that contracts contain all essential clauses. ^a |  |
| ▪ Develop and implement contracting policies and procedures for assessing the risk of fraud, abuse, or waste as Texas Government Code, Section 2261.256(a)(1) requires. |  |
| ▪ Develop and implement policies and procedures to ensure that it has a complete and accurate list of all contracts it awarded. ^b |  |
| ▪ Report contracts on its website and to the Legislative Budget Board (LBB) as required. ^c |  |
| ▪ Include terms and conditions and detailed pricing information in each of its purchases and contracts, including purchase orders for emergency procurements. |  |

Auditor Comments:

^a The Department did not include in its policies and procedures and templates three essential clauses that are required in the *State of Texas Procurement and Contract Management Guide*. The contracts and terms and conditions for all five FMP projects tested did not include all of the essential clauses.

^b The Department developed policies and procedures that require all contracts to be entered into the Centralized Accounting and Payroll/Personnel System (CAPPS). However, the contract list that the Department pulled from CAPPS was not accurate. Specifically, for 644 contracts:

- 324 (50 percent) included a contract end date but were still listed as open.
- 49 (8 percent) had a renewal start date but did not have renewal numbers or number of renewals available.
- 7 (1 percent) had renewal numbers but did not have renewal start dates.
- 51 (8 percent) did not have an end date.

^c The Department implemented a policy to report contracts on its website and to the LBB. The Department reported its contract list on its website; however, the Department did not report 133 (21 percent) of the 644 contracts in its contract list to the LBB as required. The Department stated it had entered 37 of those contracts into the LBB database but had not submitted them, resulting in the contracts being in an edit status and not fully submitted.

Recommendations

The Department should:

- Ensure that its policies and procedures, templates, and contracts contain all essential clauses.
- Ensure that it has a complete and accurate list of all contracts it awarded.
- Report contracts to the LBB as required.

Management's Response

TMD agrees with each of the above recommendations. The Department's Purchasing and Contracting and CFMO offices are currently working to fully implement these recommendations including:

- *Reviewing all contracting and procurement-related documents to ensure they are updated to include all essential clauses and that they are reviewed and approved by TMD's General Counsel's Office.*
- *Updating all contracts in the Centralized Accounting and Payroll/Personnel System (CAPPS).*
- *Reviewing and reconciling all CAPPS contracts to ensure that they are properly uploaded and reported to the LBB as required.*

Implementation Date: December 31, 2022

Responsible Party: TMD [OSA] Procurement Director

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether the Texas Military Department (Department):

- Prioritizes and monitors facility and armory construction, rehabilitation, sustainment, maintenance, and disposal in compliance with its Facilities Master Plan (FMP) and applicable requirements.
- Implemented corrective action on recommendations related to contracting made by the State Auditor’s Office in *An Audit Report on Financial Processes at the Military Department* (State Auditor’s Office Report No. 18-010, December 2017).

Scope

The scope of this audit covered projects on the two most recent FMPs (for fiscal years 2019-2023 and fiscal years 2021-2025), as well as follow up on the Department’s implementation of recommendations made in Chapter 1 of State Auditor’s Office Report No. 18-010. The scope also included a review of significant internal control components related to the Department’s facilities master planning process (see Appendix 3 for more information about internal control components).

Methodology

The audit methodology included collecting and reviewing information and documentation; interviewing Department staff; testing documentation related to capital projects; performing data analysis; and evaluating the results of audit tests. Auditors also reviewed selected general controls over the Department’s project tracking spreadsheets. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to the Department’s management for consideration.

Data Reliability and Completeness

Centralized Accounting and Payroll/Personnel System (CAPPS). To assess the reliability of the data sets extracted from CAPPS, which is the Department’s system of record for contracts and purchase orders, auditors (1) observed Department staff extract the data sets, (2) reviewed queries, (3) analyzed the

data sets for reasonableness and completeness, and (4) compared the data to information in the Legislative Budget Board contract database and on the Department's website.

Project Management Spreadsheet. To assess the reliability of the spreadsheet that the Department uses to manage its Annual Work Plan, Long Range Construction Plan, projects not in either of those two plans, and project funding, auditors (1) compared the data to project information in the FMPs and (2) tested whether the Department limited user access to the spreadsheet to appropriate personnel.

Facilities Master Plan Spreadsheet. To assess the reliability of the spreadsheet, auditors (1) compared the data to project information in the Project Management Spreadsheet and (2) compared the data to the FMPs in the Department's Strategic Plans.

Auditors determined the data sets above were sufficiently reliable for the purposes of this audit.

Expenditure Tracking Spreadsheet. To assess the reliability of the spreadsheet that the Department uses to track federal and state expenditures, auditors (1) compared the data to supporting documentation from the project files, (2) compared the data to payment information from CAPPs, and (3) tested whether the Department limited user access to the spreadsheet to appropriate personnel.

Sustainment and Operations Expenditure Tracking Spreadsheet. To assess the reliability of the spreadsheet that the Department uses to track sustainment and operations expenditures, auditors tested whether the Department limited user access to the spreadsheet to appropriate personnel.

Auditors determined the data sets above were not sufficiently reliable for the purposes of this audit due to the following:

- There were data entry errors in the Expenditure Tracking Spreadsheet.
- The Department did not limit access to both of the expenditure tracking spreadsheets to appropriate personnel.
- The Department did not provide auditors with information about users with high-level access to the shared drive that houses the spreadsheets. As a result, auditors were not able to determine whether individual users had appropriate levels of access.

However, auditors used the data because it was the best available source of information. To the extent possible, auditors considered the data's reliability

in designing audit procedures and compared the data to corroborating sources of information.

Sampling Methodology

Table 5 provides the specific populations and sample sizes used in the audit.

Table 5

| Total Populations and Samples Selected for Testing Projects and Emergency Purchases | | | |
|--|-------------------------------------|-------------|--|
| Description | Population | Sample Size | Sample Methodology ^a |
| Capital Projects from Facilities Master Plans for fiscal years 2019-2023 and fiscal years 2021-2025 | 21 capital projects with progress | 5 | Five directed samples, 1 per work category (New Construction, Major Renovations, Repair/Rehabilitation, Roof Replacements, and Energy Efficiency Improvements) |
| Emergency Purchases from March 2019 to March 2022 ^b | 66 contracts and 37 purchase orders | 11 | Eleven representative random samples (7 contracts and 4 purchase orders). |
| ^a Directed sample design was chosen to ensure the sample included specific characteristics, such as that one project from each capital project work category was selected and to ensure that projects that had significant progress in each of the project phases were selected. Representative Random sample design was chosen so that the sample could be evaluated in the context of the population. ^b To address recommendations in <i>An Audit Report on Financial Processes at the Military Department</i> (SAO Report 18-010, December 2017), the Department self-reported that it had implemented corrective action effective February 28, 2019. As a result, auditors defined the population of emergency purchases as those entered into from March 1, 2019, through March 9, 2022. | | | |

The capital project samples were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population. The test results for the emergency purchase testing may be projected to the population, but the accuracy cannot be measured.

Information collected and reviewed included the following:

- Strategic Plans, FMPs, and supporting documentation for fiscal years 2019-2023 and fiscal years 2021-2025.
- Department policies and procedures, contracting templates, and contract terms and conditions.
- Contract and purchase order data from CAPPs, the system the Department uses to maintain contract information, from March 1, 2019, through March 9, 2022.
- Capital project expenditure data from CAPPs for the five capital projects tested.

- Contract data from the Legislative Budget Board database.
- Capital project supporting documentation, including contracts and change orders, inspections and reviews, and pricing and cost information.
- Emergency purchase documentation, including purchase orders, contracts, and contractor pricing information.
- User access data from the Department's systems used to maintain its project tracking spreadsheets.

Procedures and tests conducted included the following:

- Interviewed Department management and staff.
- Analyzed data on the two most recent FMPs to determine the flow of projects between plans.
- Tested documentation related to projects in the Department's FMPs to determine whether the information is supported and for compliance with the Department's policies and procedures and federal and state laws and regulations.
- Tested documentation related to contracts and emergency purchases to determine whether the Department implemented corrective action to address prior audit recommendations.
- Performed analysis of contract data to determine whether the Department implemented corrective action to address prior audit recommendations.
- Tested user access to the systems the Department used to maintain its project tracking spreadsheets.

Criteria used included the following:

- Department policies and procedures.
- National Guard regulations.
- National Guard Bureau Master Cooperative Agreement.
- Rider 16, page V-44, the General Appropriations Act (85th Legislature) and Rider 16, page V-43, the General Appropriations Act (86th Legislature).
- Texas Government Code, Chapters 418, 437, 771, 2056, 2155, 2165, 2166, 2167, 2261, and 2269.

- *State of Texas Procurement and Contract Management Guide*, versions 1.3 and 2.0.
- *State of Texas Contract Management Guide*, version 1.16.
- Texas Department of Information Resources' *Security Controls Standards Catalog*, version 1.3.
- Legislative Budget Board contract reporting requirements.

Project Information

Audit fieldwork was conducted from November 2021 through August 2022. 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:

- Jennifer Lehman, MBA, CIA, CFE, CGAP (Project Manager)
- Alexander Sumners (Assistant Project Manager)
- Eric Ladejo, MPA, CFE, CIA
- Susana Preciado
- Daniel Aung Thu
- Mary Ann Wise, CPA, CFE (Quality Control Reviewer)
- Ann E. Karnes, CPA (Quality Control Reviewer)
- Hillary Eckford, 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 6 provides a description of the issue ratings presented in this report.

Table 6

| 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 of internal control, which are listed in Table 7.

Table 7

| Internal Control Components | |
|-------------------------------|---|
| Component | Component Description |
| 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. |
| 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. |
| Control Activities | Control activities are the policies and procedures that help ensure that management's directives are carried out. |
| 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. |
| Monitoring Activities | Monitoring is a process that assesses the quality of internal control performance over time. |

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

Related State Auditor's Office Report

Table 8

| Related State Auditor's Office Report | | |
|---------------------------------------|--|---------------|
| Number | Report Name | Release Date |
| 18-010 | <i>An Audit Report on Financial Processes at the Military Department</i> | December 2017 |

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 Joan Huffman, 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

Texas Military Department

Major General Thomas Suelzer, Adjutant General

Ms. Shelia Bailey Taylor, Director of State Administration



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