Executive letter and disclaimer from the EY engagement executive (1 of 2)

Ms. Jordan Dixon  
Deputy Executive Commissioner  
Office of Transformation and Innovation  
Health and Human Services Commission  
4900 North Lamar Boulevard  
Austin, Texas 78751

Dear Ms. Dixon,

We have completed our engagement to review the progress made by the Texas Health and Human Services Commission (HHSC or the Agency) in addressing issues described in Phase I and II and have provided HHSC this written Report. We have completed the Phase IV evaluation as per our engagement agreement/program plan. Our services were performed in accordance with our engagement agreement dated July 16, 2018 and our procedures were limited to those described in that agreement.

Our Phase IV Evaluation Report resulting from our work (engagement) is provided in this document. This Report has been prepared by EY from information and material supplied by HHSC (detailed in the Appendix) for the sole purpose of evaluating HHSC’s progress in addressing issues identified in the Phase I and II Report. Information related to the previous Phases I-III is available in the original Phase I-III final Report.

HHSC has undertaken a system-wide, cross-agency effort spearheaded by the Office of Transformation and Innovation (OTI) over the past two years to transform its procurement and contracting functions by targeting the most pressing issues highlighted in Phases I and II. As part of this Phase IV evaluation, HHSC provided EY with over 130 documents developed in the past two years to govern and enable HHSC, demonstrating the commitment and efforts of the Agency to improve procurement and contracting services. Throughout this report, you will see HHSC’s project accomplishments, such as improved communications, standardizing procedures and improved employee satisfaction. You will also see where EY has identified further or remaining improvements for HHSC to consider in its journey to continuous improvement.

During the period October 7, 2020 to December 8, 2020, EY conducted discussions with HHSC employees and reviewed documentation provided by management to provide information on HHSC’s progress in addressing the issues identified in the Phase I and II Report. In the preparation of this Report, EY relied on documentation provided by HHSC and access to HHSC stakeholders or publicly available resources, and such information was presumed to be current, accurate and complete. EY has not conducted an independent assessment or verification of the completeness, accuracy or validity of the information obtained. Any assumptions, forecasts or projections contained in this Report are solely those of HHSC and any underlying data was produced solely by HHSC. Management of HHSC has the knowledge, experience and ability to form its own conclusions.
Our work has been limited in scope and time and we stress that more detailed procedures may reveal issues that this engagement has not. The services we performed were advisory in nature. While EY’s work in connection with this Report was performed under the consulting standards of the American Institute of Certified Public Accountants (AICPA), the procedures summarized in our Phase IV Evaluation Report do not constitute an audit, a review or other form of assurance in accordance with any generally accepted auditing, review or other assurance standards, and accordingly we do not express any form of assurance. This Report is not being issued in connection with any issuance of debt or other financing transaction.

OTI developed the Procurement and Contracting Improvement Plan (PCIP) to prioritize projects from EY’s Phase III assessment Report dated October 31, 2018. EY did not participate in assisting HHSC with the implementation of the PCIP. Due to the agreed duration and scope of fieldwork as well as the timing of completion of certain PCIP projects, EY did not assess the effectiveness of HHSC’s implementation of the PCIP. Certain projects, including the adoption of the operating manual in October 2020, were completed at the onset of our fieldwork procedures. Accordingly, our evaluation of those projects was limited in nature due to those projects not being operational for a long enough time period for EY to assess the effectiveness of the implementation.

EY did not conduct a maturity assessment of HHSC’s implementation of the PCIP during Phase IV.

Consistent with our engagement agreement, the Phase IV Evaluation Report is intended solely for the information and use of the management of HHSC and is not intended to be and should not be used by anyone other than these specified parties. Other persons who read this Report who are not a party to the agreement do so at their own risk and are not entitled to rely on it for any purpose. We assume no duty, obligation or responsibility whatsoever to any other parties that may obtain access to the Report.

The project statuses in this Report do not represent a conclusion or assessment of the effectiveness of HHSC Procurement and Contracting Services (PCS), nor do any of the ratings constitute a legal opinion, advice or services.

We appreciate the opportunity to work with you and have noted the progress made by HHSC to improve its procurement and contracting processes in the two years since our initial assessment. We hope that the insights provided in this Phase IV assessment Report will be useful in HHSC’s journey to achieve excellence in your procurement and contracting functions and in providing increased value to the State of Texas.

Best regards,

[Signature]

Ernst & Young LLP

Ernst & Young LLP
Table of Contents

1. Executive summary
2. Status of HHSC Phase I-III remediation projects
3. Additional improvements performed by HHSC
4. Appendix
Executive summary
Executive summary
Background and current phase of work

HHSC engaged EY to perform an assessment of its procurement and contracting functions from July 2018 through October 2018. The overall scope of this engagement had three initial phases, which included an assessment, root-cause analysis and process re-design, and included 29 recommended projects to improve the maturity and performance of HHSC’s Procurement and Contracting functions. In October 2020, HHSC re-engaged EY to perform Phase IV - Evaluation, where EY evaluated the progress that HHSC had made in addressing the issues highlighted in Phases I and II. The four project phases are described below.

**Phase I - Assessment (2018)**
EY reviewed and analyzed HHSC's procurement and contracting functions, which served as a baseline for the remainder of the project.

**Phase II - Root-Cause Analysis (2018)**
EY analyzed and determined root causes underlying the identified gaps in HHSC's procurement and contracting processes.

**Phase III - Process Redesign (2018)**
EY delivered a written improvement plan to implement recommended leading practices in the form of a transformation road map with 29 improvement projects.

**Phase IV - Evaluation (2020)**
Two years after the conclusion of Phases I-III, HHSC engaged EY to complete Phase IV, whereby EY reviewed the progress made by HHSC in addressing issues described in Phases I and II. This Report is the result of the Phase IV assessment.
Executive summary
The state of the issues identified and the program

The Phase I-III assessment EY performed in 2018 identified several key improvements needed to HHSC’s procurement and contracting functions, including the following:

1) The Agency had suffered from a lack of investment in enterprise-capable skills, process, systems, governance and communications to help enable the procurement and contracting functions.

2) Partnership, accountability and interdependency from PCS, Program and Legal needed improvement.

3) Data, reporting and visibility were inadequate to run the procurement and contracting functions.

4) The traditional and heavily restricted approach for developing and maintaining suppliers, vendors and providers was holding back the Agency.

Since the original report in 2018, HHSC has invested in transformational improvements to address the most pressing issues within PCS.

The following are improvement strengths EY identified through the course of our evaluation of the progress HHSC has made in addressing issues in its procurement and contracting management policies and procedures. These themes are explained in detail in subsequent sections of the Report.

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Implemented improvements strengths

- In Phases I-II, our surveys and interviews indicated that stakeholders were dissatisfied with the lack of communication from PCS. With input from the Programs, PCS has now implemented customer service standards and a communications strategy and framework that provide guidelines to follow in various situations requiring communications. Additionally, PCS hired a communication specialist to oversee the communications strategy and framework. PCS customers and stakeholders interviewed have perceived improvement in the tone at the top of the procurement and contracting function at HHSC from 2018 to 2020, expressing that they feel more collaboration between PCS and the Programs (e.g., Children’s Health Insurance Program and Texas Women’s Health Program), driving to solutions that work for both parties.

Continued on next page...
Executive summary
The state of the issues identified and the program

Implemented improvements strengths continued

- In Phases I-II, EY noted that HHSC had no documented process maps to define and enable procurement and contracting activities. HHSC has now mapped the "as-is" end-to-end procurement processes and developed improved “to-be” process maps, which are now in operation. The mapping included milestones such as establishing a system-wide procurement planning schedule, implementing reporting tools with standardized data elements and establishing a schedule for renewing the process maps.

- HHSC revised the previously outdated and partial-scope Contract Management Handbook (CMH), developed procurement policies and procedures, then consolidated these into the 172-page Procurement and Contract Management Handbook (PCMH) which governs processes and procedures throughout the procurement and contract management life cycle. HHSC published the new handbook on October 1, 2020.

- HHSC has designed and launched CAPPS 3.0 enhancements, which allow users to view real-time status of procurement requisitions throughout the CAPPS workflow. HHSC management has shared plans to further increase this functionality and improve the CAPPS user experience.

- During Phases I and II, we noted that PCS training was targeted to PCS employees and meeting required procurement certifications. PCS has now developed a training repository that included content for Program employees and other PCS internal customers, and includes a library of prerecorded on-demand training covering a wider set of topics. PCS also implemented a training strategy and framework to define training goals and metrics to monitor training effectiveness.

- PCS hired an external party to conduct a workforce analysis and provide recommendations for restructuring its organization, utilizing the additional FTEs appropriated by the Legislature. Based on HHSC analyses, the PCS manager to staff ratio has reduced from 20:1 to 12:1 since October 2018, and the staffing vacancy rate within PCS has declined from 24.3% to 4.74%. Results based on 103 PCS employees in 2018 and 125 PCS employees in 2020 from the Survey of Employee Engagement (SEE), conducted by the University of Texas at Austin Institute of Organizational Excellence (IOE), illustrate significant improvements (i.e., an increase in score of 0.2 out of 5) in employee satisfaction in PCS from 2018 to 2020 in 94% (47 out of 50) of statements surveyed.

- PCS established the Contract Management Support (CMS) team in May 2020 to provide assistance and oversight by developing policies and procedures, creating tools and templates, monitoring and analyzing key success indicators, and working to support Program contract management areas when needed.
Executive summary
The state of the issues identified and the program

Although HHSC has undergone significant efforts to improve maturity within Procurement and Contract Management, we are recommending certain improvements to address remaining issues identified in Phases I and II. In addition to the recommendations provided in each project evaluation, the following is a high-level summary of improvement recommendations. As HHSC matures, HHSC should continue to identify opportunities to transform PCS and advance its maturity.

Further improvements recommended

- **Expand on existing performance measures and define fit-for-purpose key performance indicators (KPIs) and associated remediation plans to monitor progress towards strategic, operational, and compliance goals and objectives.** HHSC has developed and is monitoring certain operational measures for PCS. However, KPIs are not balanced across levers that drive Agency performance, defined at the role level or tied to the appraisal system. We recommend HHSC perform a focused project to define KPIs at the process level and each individual role level within PCS, and tie KPI achievement to the performance appraisal system. Additionally, KPIs should be set up to be automatically tracked and reported.

- **Establish an institutionalized procurement planning practice.** HHSC is developing the procurement planning policy and conducts the practice of retrieving forecasted upcoming procurements from the Programs. We recommend HHSC continue to develop the planning process by performing the following: 1) set up a system for planning to assess the forecast of upcoming procurements by program, 2) balance the upcoming procurement support needs from Programs with resource capacity within PCS, 3) monitor adherence to plan and 4) develop a planning structure with KPIs tied to forecast accuracy.

- **Strengthen Historically Underutilized Business (HUB) efforts to improve HUB utilization tracking, accountability procedures and reporting compliance.** The HUB Program Office has identified several gaps in HUB compliance tracking and reporting and developed a HUB Reform Plan to address these issues. Additionally, an institutionalized planning process can give HUBs more opportunity to participate in solicitations.

- **Perform a technology capability/functionality assessment to map HHSC’s current needs and gaps.** Existing technology and tools in the current configuration do not support tactical and strategic necessities. The expansion of supporting technology and the use of data analytics will support HHSC’s ability to track improvements, enhance processes, drive behaviors through KPI visibility, and report consistently and accurately.
Executive summary
Overview of project status

Below is a summary of the current status of the projects in the transformation road map, plus an additional five initiatives undertaken by HHSC outside of the original Phase III recommendations. In addition to evaluating the status, EY noted improvement considerations for each project, where applicable.

Summary of HHSC remediation project status and definitions*

<table>
<thead>
<tr>
<th>Number of Projects</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>22 projects concluded – projects deemed concluded by HHSC with no remaining steps planned</td>
</tr>
<tr>
<td>14</td>
<td>14 projects – issues addressed – Projects where HHSC’s implementation activities generally address issues described in the project activity recommendations from Phases I-III</td>
</tr>
<tr>
<td>8</td>
<td>8 projects – issues partially addressed – Projects where HHSC’s implementation activities only partially addressed issues in the project activity recommendations from Phases I-III</td>
</tr>
<tr>
<td>2</td>
<td>2 projects in progress – projects deemed in progress by HHSC with remaining steps planned</td>
</tr>
<tr>
<td>2</td>
<td>2 projects – issues partially addressed – Projects where HHSC’s implementation activities are in progress and therefore the steps completed to date have partially addressed issues described in the project activity recommendations from Phases I-III</td>
</tr>
<tr>
<td>1</td>
<td>1 project – issues partially addressed – Projects where HHSC did not perform a targeted project; however, issues in the project activity recommendations from Phases I-III were partially addressed</td>
</tr>
<tr>
<td>5</td>
<td>5 projects not performed – projects that HHSC elected not to perform</td>
</tr>
<tr>
<td>4</td>
<td>4 projects – issues not addressed – Projects that HHSC did not perform (reasons provided by HHSC for not performing these projects and EY’s improvement considerations are described in the status of HHSC remediation projects section)</td>
</tr>
</tbody>
</table>

Five (5) additional improvement initiatives were identified by HHSC outside of the 29 projects. EY did not evaluate these additional improvements; however, a summary of each initiative and associated accomplishments is on page 48. The additional initiatives have been included in this Report to demonstrate the efforts made by HHSC in addition to the 29 projects.

* Project status conclusions are based on the limited scope of this Phase IV engagement and did not include an assessment of the effectiveness of the implementation of any projects because 1) that was excluded from the scope of this Report, and 2) projects have not been operational long enough for effective assessment of implementation.
Status of HHSC remediation projects
Summary of progress status (1 of 2)

The following table presents a summary of the status of HHSC’s progress made towards addressing issues identified in EY's Phase I-III assessment Report.

<table>
<thead>
<tr>
<th>Page number</th>
<th>Project code</th>
<th>Project name</th>
<th>Project assessment</th>
<th>HHSC Project Status</th>
<th>Mapping notes</th>
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</thead>
<tbody>
<tr>
<td>13-14</td>
<td>1SD</td>
<td>Operating model creation</td>
<td>Issues partially addressed</td>
<td>Concluded</td>
<td></td>
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<tr>
<td>15</td>
<td>2SD</td>
<td>Data cleansing</td>
<td>Issues partially addressed</td>
<td>Concluded</td>
<td></td>
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<tr>
<td>16-17</td>
<td>3IM</td>
<td>Dashboard automation</td>
<td>Issues addressed</td>
<td>Concluded</td>
<td></td>
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<tr>
<td>18</td>
<td>5IM</td>
<td>Lessons learned touch point</td>
<td>Issues not addressed</td>
<td>Not Performed</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>6PO</td>
<td>PCS Organization re-design</td>
<td>Issues addressed</td>
<td>Concluded</td>
<td>Combined with project 4IM</td>
</tr>
<tr>
<td>4IM</td>
<td></td>
<td>Program liaison process</td>
<td>Issues partially addressed</td>
<td>Concluded</td>
<td>Combined into project 6PO</td>
</tr>
<tr>
<td>20</td>
<td>19PO</td>
<td>Communication framework</td>
<td>Issues addressed</td>
<td>Concluded</td>
<td></td>
</tr>
<tr>
<td>21-22</td>
<td>20PO</td>
<td>Training programs</td>
<td>Issues addressed</td>
<td>Concluded</td>
<td>Combined with project 8TE</td>
</tr>
<tr>
<td>8TE</td>
<td></td>
<td>CAPPS and SCOR training</td>
<td>Issues addressed</td>
<td>Concluded</td>
<td>Combined into project 20PO</td>
</tr>
<tr>
<td>23-24</td>
<td>28PO</td>
<td>Employee engagement plan</td>
<td>Issues addressed</td>
<td>Concluded</td>
<td></td>
</tr>
<tr>
<td>25-26</td>
<td>7PE</td>
<td>Performance management practice</td>
<td>Issues partially addressed</td>
<td>In progress</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>9TE</td>
<td>Immediate CAPPS needs</td>
<td>Issues addressed</td>
<td>Concluded</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>10TE</td>
<td>eSignature tools</td>
<td>Issues addressed</td>
<td>Concluded</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>21TE</td>
<td>Fit-gap analysis</td>
<td>Issues addressed</td>
<td>Concluded</td>
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<tr>
<td>30</td>
<td>29TE</td>
<td>Remaining procurement technology</td>
<td>Issues not addressed</td>
<td>Not performed</td>
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### Summary of progress status (2 of 2)

<table>
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<tr>
<th>Page number</th>
<th>Project code</th>
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<th>Mapping notes</th>
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</thead>
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<tr>
<td>31-32</td>
<td>11PP</td>
<td>Procurement and contract management manuals</td>
<td>Issues addressed</td>
<td>Concluded</td>
<td></td>
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<tr>
<td>33-34</td>
<td>22PP</td>
<td>Procurement end to end process</td>
<td>Issues addressed</td>
<td>Concluded</td>
<td>Combined with project 23PP</td>
</tr>
<tr>
<td></td>
<td>23PP</td>
<td>Complex services process</td>
<td>Issues addressed</td>
<td>Concluded</td>
<td>Combined into project 22PP</td>
</tr>
<tr>
<td>35-37</td>
<td>13GR</td>
<td>Compliance monitoring</td>
<td>Issues partially addressed</td>
<td>Concluded</td>
<td>Combined with projects 18SD and 12PP</td>
</tr>
<tr>
<td></td>
<td>18SD</td>
<td>Enhance policies</td>
<td>Issues addressed</td>
<td>Concluded</td>
<td>Combined into project 13GR</td>
</tr>
<tr>
<td></td>
<td>12PP</td>
<td>PCS forms, contract tools, contract templates</td>
<td>Issues addressed</td>
<td>Concluded</td>
<td>Combined into project 13GR</td>
</tr>
<tr>
<td>38</td>
<td>14GR</td>
<td>Align processes for managing external stakeholder governance</td>
<td>Issues partially addressed</td>
<td>Not performed</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>15GR</td>
<td>Lines of defense</td>
<td>Issues partially addressed</td>
<td>In progress</td>
<td></td>
</tr>
<tr>
<td>40-41</td>
<td>16GR</td>
<td>Procurement and contract risk assessment</td>
<td>Issues partially addressed</td>
<td>Concluded</td>
<td>Combined with project 24GR</td>
</tr>
<tr>
<td></td>
<td>24GR</td>
<td>Review and approval workflow</td>
<td>Issues partially addressed</td>
<td>Concluded</td>
<td>Combined into project 16GR</td>
</tr>
<tr>
<td>42</td>
<td>25GR</td>
<td>Control effectiveness testing program</td>
<td>Issues not addressed</td>
<td>Not performed</td>
<td></td>
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<tr>
<td>43-44</td>
<td>17PM</td>
<td>Standardize contract management and monitoring</td>
<td>Issues partially addressed</td>
<td>Concluded</td>
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<tr>
<td>45</td>
<td>26PM</td>
<td>Procurement spend analysis</td>
<td>Issues not addressed</td>
<td>Not performed</td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>27PM</td>
<td>Vendor outreach program</td>
<td>Issues partially addressed</td>
<td>Concluded</td>
<td></td>
</tr>
</tbody>
</table>
HHSC defined an operating model that covers five phases of procurement (Procurement Planning, Procurement Method Determination, Vendor Selection, Contract Formation and Award, and Contract Management) and includes the HHS Procurement and Contracts Management Lifecycle. This operating model is published within the Procurement and Contract Management Handbook (PCMH) with the objective to govern policies and procedures through the procurement lifecycle.

HHSC has developed a responsible, accountable, consulted, informed (RACI) matrix to describe the participation of procurement and contract stakeholders for each of the five phases.

Starting in 2020, HHSC collected forecasted procurements, plans to apply for grant funding, exceptional items requests that will result in a contract, and legislation that has been filed that will require contracts for the upcoming fiscal year from the Programs and is developing a Procurement Planning Policy that will require a five-year forecast and two-year action plan from the Programs.

Continued on next page ...
1SD: Operating model creation (2 of 2)

Project accomplishments and deliverables (2/2):

- Per inquiry with HHSC PCS and stakeholders, the operating model is considered a significant improvement. Per discussion with the Deputy Executive Commissioner of PCS, by performing activities described in the 1SD PCIP work plan, PCS established operating procedures, decreased open positions unfilled in PCS, improved the manager-to-staff ratio, established a library of On-Demand and monthly CAPPS/SCOR training classes and a training calendar for PCS and Program staff, developed a communication strategy framework, established the PCS SharePoint, developed checklists to help Programs remain compliant, and began supporting the Programs with increased visibility and collaboration.

To further increase access to information, such as policies, Standard Operating Procedures, training courses available, announcements and process maps, PCS has designated one full-time equivalent (FTE) to manage the PCS SharePoint, which houses these resources for all HHSC employees.

Observations and Phase IV improvement considerations (2/2):

- We recommend HHSC continue to develop the planning process by performing the following 1) setting up a system for planning to assess the forecast of upcoming procurements by program, 2) balance the upcoming procurement support needs from Programs with resource capacity within PCS, 3) monitor adherence to plan, and 4) develop a planning structure with KPIs tied to forecast accuracy.

Through inspection of the 1SD RACI, certain instances have multiple roles assigned as “accountable” for one process/row in the RACI. More than one position assigned as the “accountable” role may impede the ability to effectively oversee the activity, leading to inefficiencies such as a lack of ownership for the process.

Management reported that HHSC Legal has recently approved a draft addendum to the RACI to address overlapping accountability roles. As HHSC PCS stabilizes, PCS should review the operating model documentation annually, unless there is a trigger event that requires an immediate update.

*See page 9 for definitions of project status.

The situation and project description are from the Phase I-III: Assessment Report.

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Phase IV: Evaluation Report

2SD: Data cleansing

**Situation:**
Historical data within Centralized Accounting and Payroll/Personnel System (CAPPs), System of Contract Operation and Reporting (SCOR), Budget/Finance is not standardized or consistently populated.

**Project description:**
Conduct data-cleansing exercise across the organization to improve data integrity and accuracy.

<table>
<thead>
<tr>
<th>Project assessment*</th>
<th>Issues partially addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>HHSC project status</td>
<td>Concluded</td>
</tr>
<tr>
<td>Project implementation date</td>
<td>May 2020</td>
</tr>
<tr>
<td>Time in operation</td>
<td>~ 6 months</td>
</tr>
</tbody>
</table>

**Project accomplishments and deliverables:**

- Per discussion with members who served on the 2SD implementation workgroup, which was established by the PCIP Executive Steering Committee, HHSC:
  - Identified stakeholders to interview and gather information to develop a log of data issues
  - Performed data profiling of the information collected to categorize data issues (e.g., data integrity, enhancements, missing data fields)
  - Assessed and prioritized the identified issues and developed a data cleansing road map to address the high- and medium-ranked issues
  - Monitored the progress of data cleansing activities through status reporting

- Per discussion with members who served on the workgroup, through May 2020, 11 of 16 (69%) of identified data issues were fully completed and the remaining five issues had a road map to resolution.

- EY inspected selected weeks’ issues registers and noted that there was a defined methodology to score issues, track the status of issues and categorize issues based on the nature of the issue.

- Per inquiry with members who served on 2SD implementation workgroup, the team performs a monthly reconciliation of data migrating from CAPPs to SCOR.

**Observations and Phase IV improvement considerations:**

- HHSC does not have a consistent method to collect and track issues raised by stakeholders. Issues related to CAPPs are submitted to an email address that is monitored by the project managers, and issues related to SCOR are submitted to the ticketing system integrated with CAPPs. Tracking issues manually in email outside of a system may lead to inefficient response to issues raised or the inability to maintain and retain documentation related to issues raised. Per HHSC, the CAPPs Financials Steering Committee holds regular project management meetings where updates/changes to CAPPs are prioritized. This committee has representatives from IT, CFO, PCS, DSHS and DFPS. The committee acts as the main governance source and owns action items and projects that are approved. Further, the CAPPs Financials Steering Committee should consider using the ticketing system integrated with CAPPs to track issues and retain documentation related to issues that are directed to their team.

- The 2SD implementation workgroup assessed, scored and ranked data integrity issues in the 2SD Data Cleansing issue register. Per inspection of the May 2020 issue register, the highest ranked data integrity issues had not yet been resolved. PCS noted that the issues would be addressed in the CAPPs 3.0 release.

- EY did not evaluate HHSC’s data governance framework or its effectiveness; however, PCS should continue to evaluate and monitor its data governance policy. An updated data governance policy assists PCS in managing its data consistently and maintaining data quality.

- HHSC did not provide performance measures related to data cleansing. EY did not evaluate trends of issue categories currently raised or the effectiveness of ongoing procedures to address data integrity and quality. HHSC should continue to identify and establish performance measures on data quality. These definitions should be governed by the data governance policy.

*See page 9 for definitions of project status.

The situation and project description are from the Phase I-III: Assessment Report.

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### Project accomplishments and deliverables (1/2):

- HHSC elected not to include this project as part of the Procurement and Contracts Performance Improvement Plan (PCIP). Per inquiry with OTI management, the project was not included due to funding constraints when the PCIP was developed. HHCS received funding for CAPPS enhancements in FY19.

  The CAPPS enhancement workgroup developed a CAPPS requisition dashboard to provide users with visibility of where their requisitions are in the lifecycle. The requisition dashboard provides users with visibility into requisition status, where each requisition is in the CAPPS workflow and if there are other procurement documents associated with the requisition in its lifecycle. Per inquiry with the CAPPS workgroup, in addition to showing the requisition status and time stamps, the user can also view the “Budget Checking” status, which impacts the movement of that requisition further in its lifecycle.

  Per inquiry with the CAPPS workgroup, all existing CAPPS users were provided requisition dashboard access and security was not changed from previous settings.

  Per inquiry with the CAPPS workgroup and inspection of the Microsoft PowerPoint CAPPS FIN 3.0 enhancements overview dashboard, the following enhancements to the requisition dashboard were released as part of Product Increment 2: Dashboard (Part 2) on November 9, 2020:
  - Dashboard - Solicitation tracking
  - Dashboard - Purchase Order workflow tracking
  - Dashboard - Contract workflow tracking

  *Continued on next page...*
3IM: Dashboard automation (2 of 2)

Project accomplishments and deliverables (2/2):

In addition to HHSC’s declared rollout plan below, PCS stakeholders should use the new dashboard capability to continuously track and report KPIs, such as procurement cycle time and year-over-year (YoY) number of POs/contracts.

Per inquiry with the CAPPS workgroup and inspection of the Microsoft PowerPoint CAPPS FIN 3.0 enhancements overview dashboard, the following enhancements are planned:

Product Increment 3: Alerts and Notifications is planned for March 1, 2021 and will include the following:
- Alert creation
- Alerting prompts
- Alerts notification

Product Increment 4: Reports and Ad Hoc Queries is planned for May 24, 2021 and will include the following:
- Provide query naming convention
- Ad hoc query capability
- Aggregate data reporting

CAPPS 3.0 training has been initiated and is anticipated to continue in 2021 to introduce and train users on updated CAPPS functionality. While iteratively launching CAPPS 3.0 enhancements, the group is creating and providing voluntary training classes in the following forms for each rollout:
- Standing webcasts to walk users through pieces of new functionality
- “How-to” guides
- Resources library on PCS SharePoint

Observations and Phase IV improvement considerations (2/2):

Although PCS has implemented dashboard capabilities through CAPPS 3.0 go-live, we noted:
- PCS has not defined performance measures to monitor the effectiveness of enhancements the CAPPS workgroup has implemented.
- Collecting and analyzing data from CAPPS to measure performance is a manually intensive process, with limited use of automation. HHSC’s intention for CAPPS 3.0 Product Increment 4 is to reduce manual efforts in procurement tracking.
- CAPPS does not require explanations for cancelled requisitions, which limits PCS’s ability to identify trends and address process inefficiencies.

HHSC should continue to communicate training courses to PCS stakeholders and Programs to increase awareness and educate end users on CAPPS 3.0 enhancements.

PCS should consider implementing a required field for PCS employees to provide an explanation for any cancelled requisition to help enable PCS to identify and analyze trends in requisition cancellations. Further, PCS should continue to evaluate automation opportunities to collect and analyze data from CAPPS 3.0 to strengthen performance management. HHSC should evaluate whether any enhancements, including adding a field regarding reason for cancellation or automation opportunities, will require additional resources or budget.
5IM: Lessons learned touch point

**Situation:**
This project seeks to address the root causes; processes are often not written to support a large organization, limiting opportunities for economies of scale and optimization improvements. For instance, there is currently minimal process in place to help prevent problems from repeating themselves, such as the repeated evaluation mistakes. By establishing a lessons-learned touch point, PCS can seek to address this issue by having a published repository for new staff to refer to as well as the ability for PCS staff, PCS leadership and program staff to have an effective feedback loop.

**Project description:**
At the end of each complex solicitation, both PCS and Program should have the opportunity to provide feedback regarding what went well and what did not go well at key phases in the contract development process. Responses should be recorded for reference for future solicitations of the good or service. Any opportunities for learning regarding general process improvements should also be documented and shared for future reference.

**HHSC elected not to include this project as part of the PCIP.** There is no formal process for lessons learned to be captured and retained within a repository. Per OTI management, PCS leadership prioritized other projects due to the administrative burden of logging and maintaining a formal listing of lessons learned. Per OTI leadership, in lieu of a formal lessons-learned process, PCS has implemented the following:

- Weekly training sessions for the complex team staff and other interested staff, which include CQC’s fatal flaw list and other issues identified
- Pop-up training classes or providing policy updates when minor changes are needed due to lessons learned
- Specialized weekly training classes for Tier I complex team and Tier II purchasers, which includes reading and analyzing past procurements to prepare for the Agency’s largest complex procurements

Per HHSC, PCS conducts retroactive reviews when issues arise that could be applicable to future procurements. Process improvements are captured and included in training, communications to purchasing staff and through implementation of procedural or policy changes, where applicable. Lessons learned are captured informally through the purchasers’ experiences, CQC audits, external audits and protests.

**Explanation provided by PCS:**

Per the original 5IM project charter, HHSC should develop a lessons-learned closeout process that is available at the end of each complex solicitation to be used when applicable. While the original project charter recommends performing a “lessons-learned” review at the end of each complex procurement, HHSC determined it would not be economically feasible to conduct a touch point at the end of each complex procurement due to the volume of procurements that occur. We recommend HHSC establish a threshold defining which solicitations should culminate in a lessons-learned review, considering dollar thresholds and level of complexity. In addition to areas that need improvement, lessons learned should include logging positive lessons learned (e.g., sharing a “cheat sheet” or a more efficient way to complete a task).

Establishing a continuous improvement feedback loop is fundamental in achieving strategic objectives. Although PCS is retroactively tracking lessons learned when an issue arises, a proactive approach to capturing lessons learned should benefit procurement and contract staff in assessing inefficiencies and sharing helpful tips during each complex procurement to continuously improve its processes.

**Observations and Phase IV improvement considerations:**

+ Per the original 5IM project charter, HHSC should develop a lessons-learned closeout process that is available at the end of each complex solicitation to be used when applicable. While the original project charter recommends performing a “lessons-learned” review at the end of each complex procurement, HHSC determined it would not be economically feasible to conduct a touch point at the end of each complex procurement due to the volume of procurements that occur. We recommend HHSC establish a threshold defining which solicitations should culminate in a lessons-learned review, considering dollar thresholds and level of complexity. In addition to areas that need improvement, lessons learned should include logging positive lessons learned (e.g., sharing a “cheat sheet” or a more efficient way to complete a task).

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### 6PO: PCS organization re-design

**Combined with project 4IM: Program liaison process**

<table>
<thead>
<tr>
<th>6PO project assessment*</th>
<th>Issues addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>4IM project assessment*</td>
<td>Issues partially addressed</td>
</tr>
<tr>
<td>HHSC project status</td>
<td>Concluded</td>
</tr>
<tr>
<td>Project implementation date</td>
<td>December 2019</td>
</tr>
<tr>
<td>Time in operation</td>
<td>~12 months</td>
</tr>
</tbody>
</table>

**Situation:**

**6PO:** Unclear roles and responsibilities coupled with undefined KPIs and job openings keep the organization from being structured appropriately.

**4IM:** The root cause is HHSC operates in a “hero” environment - reliant on extraordinary individuals' efforts to compensate for inadequate technology and processes. Without a formal process PCS and Program noted that correct and efficient completion of tasks depends on an individual vs. the system. Programs noted that direction over process, next steps and status difficult to consistently obtain from PCS and they frequently rely on a few individuals to find the needed information.

**Project description:**

**6PO:** Develop an improved organization design for PCS by helping to define roles and responsibilities, balance workloads and staffing, create a function to oversee contract compliance and create a formal liaison process.

**4IM:** A new process has been instituted under new management; it should be extended to include regular embedded (on-site) support, better case management tools regarding status and a de-emphasis on escalation to leadership to approve procurement. Areas without enough liaisons need to review to right-size.

**Project accomplishments and deliverables:**

- PCS hired an external party to conduct business research services to investigate the current PCS org structure, the existing workload, time constraints and quality issues so that HHSC could best allocate the 32 new FTEs approved during the 86th Legislative Session. This included recommendations for restructuring its organization, which resulted in a reduced manager-to-staff ratio. Based on HHSC analyses, the PCS manager-to-staff ratio has reduced from 20:1 to 12:1 since October 2018, and the staffing vacancy rate within PCS has declined from 24.3% to 4.7%.

Per inspection of 6PO project-based job descriptions, PCS reviewed and updated all 270 PCS job descriptions and functions to clarify responsibilities and level of authority for the different procurement roles. PCS also identified vacancies in the organization chart, which facilitates PCS to monitor open positions. The organizational structure was also redesigned to have specialized teams for procurements related to construction, IT and grants.

Per inquiry with HHSC, PCS iteratively realigned skills of the employees to their current/future roles by using the work inventory (i.e., activities associated with requisite job roles) as the foundation for FTE allocation and organizational realignment.

Per inspection of the PCS Policy 151, the PCS Communications Specialist is responsible for maintaining the PCS organization chart at least weekly if there are staffing changes.

**Observations and Phase IV improvement considerations:**

- Per inquiry with HHSC, PCS requested funding for PCS Liaisons; however, funding was not authorized by the Texas Legislature. Instead, HHSC determined that purchasers or managers will fill the PCS Liaison role upon request. OTI and PCS are evaluating opportunities to engage PCS earlier for select Procurements. We recommend PCS continue to develop engagement models with the Programs to address their needs throughout the procurement life cycle.

Per inspection of the 7PE project evaluation for recommendations on establishing role-level KPIs.
**19PO: Communication framework**

**Situation:**
Currently, procurement-related communications are not actively and comprehensively planned and managed. Communication is unstructured, inconsistent and not properly cascaded. This has led to knowledge gaps for key roles, a systematic lack of end-user engagement and the inability to create a culture of cooperation and collaboration.

**Project description:**
Create a comprehensive and sustainable communication framework and plan for PCS to disseminate information both internally and externally.

<table>
<thead>
<tr>
<th>Project assessment*</th>
<th>Issues addressed</th>
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</thead>
<tbody>
<tr>
<td>HHSC project status</td>
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<tr>
<td>Project implementation date</td>
<td>December 2019</td>
</tr>
<tr>
<td>Time in operation</td>
<td>~12 months</td>
</tr>
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</table>

**Project accomplishments and deliverables:**
- PCS has adopted customer service principles and established a communications framework in collaboration with internal stakeholders that outlines a Communication Management Model, communication channels, communication timing and additional resources for reference. The framework provides guidelines to follow in various situations requiring communication, whether formal or informal.

The Communication Management Model states that HHSC PCS will conduct an annual survey to measure effectiveness of PCS communications, which will include the following dimensions: clarity of communication, strategic communication, timeliness of communication, customer service-oriented communication and opportunities for two-way communication.

The 19PO workgroups and representatives from PCS developed a transition and staffing plan with the goal to create a comprehensive and sustainable communication framework. Additionally, PCS hired a full-time Communications Specialist and SharePoint Liaison to drive communication improvements.

**Observations and Phase IV improvement considerations:**
- HHSC utilizes the 19PO Operationalization Plan to track the status of transition items from the long-term Transition and Staffing Plan. At the time of this assessment, 11 out of 28 transition items on the 19PO Operationalization Plan were not yet noted as completed/closed. We recommend that HHSC track the outstanding items to close out project 19PO. We recommend PCS track each outstanding item based on the designated responsible party and status. PCS should follow up on items deemed in progress, ongoing or not completed to support the team in executing the transition plan fully.

*See page 9 for definitions of project status.
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20PO: Training programs (1 of 2)
Combined with project 8TE: CAPPS and SCOR training

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<tr>
<th>20PO project assessment*</th>
<th>Issues addressed</th>
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</thead>
<tbody>
<tr>
<td>8TE project assessment*</td>
<td>Issued addressed</td>
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<tr>
<td>Project implementation date</td>
<td>Not provided</td>
</tr>
<tr>
<td>Time in operation</td>
<td>Not provided</td>
</tr>
</tbody>
</table>

Situation:
20PO: Although limited training has been provided to PCS employees, a formal training strategy, plan and program have not been developed or provided to procurement staff. Training programs are generally insufficient and there is limited designated support resources to provide compliance and technical guidance.

8TE: Training programs are insufficient in content and frequency and there are limited designated support resources to provide compliance and technical guidance. The existing training programs (onboarding and ongoing) do not provide employees with the knowledge and tools needed to be successful in their roles. The lack of training, coupled with excessive workloads and nonstandard processes, has contributed to staff often feeling overwhelmed and frustrated.

Project description:
20PO: Develop a formal training strategy and robust onboarding and ongoing development programs to support PCS staff.

8TE: Provide additional, immediate training in the use of CAPPS and SCOR in their current states to increase awareness and intended capacity.

Project accomplishments and deliverables (1/2):

- HHSC developed a Training Strategy and Framework in March 2020, which provides goals and measures of success. PCS has reported to EY that training materials, training schedule, and training objectives were prepared and are housed in a central SharePoint location based on PCS’s assessment of training needs.

- While, previously, PCS did not have dedicated employees for training, the agency now has five dedicated FTEs and two part-time staff who provide CAPPS, SOW, SB 20, SCOR and general training. Training on SOWs is currently in development.

- During Phases I and II, we noted that PCS trainings were targeted to PCS employees and meeting required procurement certifications. PCS has now developed a training repository that includes content for Program employees and other PCS internal customers, and includes a library of pre-recorded, on-demand training covering a wider set of topics. Per inquiry with OTI, there are 20 on-demand training courses through GoToWebinars and Microsoft Stream that are available to PCS and PCS stakeholders on its SharePoint site. Additionally, four monthly CAPPS and SCOR training courses are offered. PCS plans to introduce three live training courses in early 2021.

Continued on next page...

Observations and Phase IV improvement considerations (1/2):

- Per inquiry with PCS, HHSC has a Learning Management System (LMS); however, PCS learning content is not on that LMS yet. Per HHSC, PCS has plans to upload PCS learning content and begin using the HHSC LMS. Currently, PCS tracks training attendance through sign-in sheets, review of certification of attendance and Microsoft Excel training spreadsheets. Tracking training attendance outside of a system may lead to inefficiencies in training record administration. Utilizing HHSC’s LMS would allow PCS to manage training administration in a central environment, improving training record quality and integrity.

- PCS has established certain KPIs that measure operational performance, such as informally monitoring critical issues in procurement (e.g., noncompliance with statutory requirements or exclusion of certain critical terms and conditions) detected by CQC. However, we noted that the process of establishing KPIs to monitor effectiveness of training programs is not systematically enforced. HHSC should establish a systematic process for analyzing the effectiveness of training courses as part of the training strategy. See project 7PE for details on performance measures.

- As part of new employee orientation, we recommend that PCS establish a buddy system and define role-specific training classes. These improvements should then be formalized in the new orientation procedures in the PCS Employee Training Policy.
20PO: Training programs (2 of 2)

Combined with project 8TE: CAPPS and SCOR training

**Project accomplishments and deliverables (2/2):**

- Per the PCS Employee Training Policy, new employees should attend new employee orientation training within the first 60 days of employment. Further, the CAPPS workgroup has created mandatory training courses for CAPPS 2.0. CAPPS 3.0 training will continue to be made available in 2021 to provide training on the new functionality of CAPPS. Per GoToWebinars attendance records, CAPPS 3.0 Product Increment training courses have been provided to approximately 2,700 individuals and will continue to be offered as enhancements are rolled out. The CAPPS workgroup holds training classes monthly to provide employees with updated information on CAPPS 3.0 enhancements.

- Additionally, to improve customer service interactions, PCS notified all PCS staff that the Agency will be crafting a specific PCS training curriculum to include email etiquette, conflict resolution and communication.
### Executive summary

**Status of HHSC remediation projects**

<table>
<thead>
<tr>
<th>Project assessment*</th>
<th>Issues addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>HHSC project status</td>
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<tr>
<td>Project implementation date</td>
<td>October 2020</td>
</tr>
<tr>
<td>Time in operation</td>
<td>~2 months</td>
</tr>
</tbody>
</table>

**Phase IV: Employee engagement plan (1 of 2)**

**Situation:**
Good performance and success are rewarded much less frequently than bad behavior and failure are punished. This significantly impacts morale and prevents employees from feeling empowered and engaged. Given the preexisting fear culture in PCS, action is warranted.

**Project description:**
Develop an employee engagement plan to improve trust and develop a continuous learning culture within PCS.

#### Project accomplishments and deliverables (1/2):

- PCS established an employee incentive program in August 2020 which outlines monetary, non-monetary, employee recognition and work environment incentives. Improvements include:
  - Establishing employee appreciation events to display thanks to PCS employees
  - Incorporating team-building events and activities to develop relationships within PCS

PCS prioritized improving employee experience and engagement by creating various policies including the Communications Policy, Employee Incentive Policy, PCS Core Customer Service Principals and PCS Employee Training. HHSC also created an active website to promote employee engagement within PCS, which allows employees to give “kudos” to help further establish the rewarding of good performance.

Additionally, PCS held a workshop with 82 staff members to receive staff input for a set of customer service principles for how the PCS mission is carried out and business is conducted. Based on the core mission and employee feedback, PCS developed eight core customer service principles to guide every interaction.

*Continued on next page...*

**Additional improvements summary**

**Observations and Phase IV improvement considerations:**

Per inquiry with HHSC, leadership did not receive coaching or instruction on purpose-led leadership/high-performing teams due to the COVID-19 pandemic. The PCS Training Team is identifying online opportunities to provide curriculum on the PCS Core Customer Service Principles. HHSC should develop and deliver a purpose-led leadership course and high-performing teams course for the PCS leadership team. These two courses are designed to create alignment on what a positive work culture should look like and how to best achieve one. The courses are not only valuable to the current leadership but are important to transitioning to new leadership over time.

To continue to make improvements identified from HHSC’s comparative analysis of the 2018 and 2020 SEE reports, HHSC should follow the project charter recommended activities to develop a step-by-step plan to address the lowest-scoring statements with the largest impact and track improvements on those statements on the next HHSC SEE report.
These principles include “Be Consistent,” “Be Resourceful,” “Be Accountable and Reliable,” “Set Clear and Realistic Expectations,” “Be Responsive,” “Be Courteous” and “Continuous Improvement.” In addition to the eight core principles, PCS identified tools, resources and training considerations to build a customer service-based culture. These include opportunities to knowledge-share, problem-solve and cross-collaborate to improve overall customer performance. The PCS Customer Service workshop committee also submitted new themes (e.g., consistency, resourcefulness and accountability) and concepts for consideration to guide further developments, as well as updates to existing themes (e.g., adding “realistic” to the existing theme “Set Clear Expectations” to become “Set Clear and Realistic Expectations”).

In 2018 and 2020, HHSC participated in the Survey of Employee Engagement (SEE) conducted by the University of Texas Institute of Organizational Excellence (IOE). The SEE focuses on key drivers relative to the ability to engage employees towards successfully fulfilling the vision of the organization. Based on the 103 respondents’ results in 2018 and 125 respondents’ comparative results in the 2020 survey, employees, on average, responded more positively to each statement surveyed in 2020 than in 2018. According to the IOE, a change in score by at least 0.2 represents significant change, and we noted scores for 47 of 50 statements increased by at least 0.2 from 2018 to 2020. The table below presents the changes in scores from 2018 and 2020 for scores above 3.75 and below 3.25 (thresholds that are defined in the survey).

<table>
<thead>
<tr>
<th>Measure (1.0-5.0)</th>
<th>Survey response employee engagement indication</th>
<th>Number of survey questions with this score in 2018</th>
<th>Number of survey questions with this score in 2020</th>
<th>% change from 2018 to 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 3.75</td>
<td>Positive perception</td>
<td>5</td>
<td>28</td>
<td>460%</td>
</tr>
<tr>
<td>&lt; 3.25</td>
<td>General dissatisfaction</td>
<td>13</td>
<td>3</td>
<td>(77%)</td>
</tr>
</tbody>
</table>

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7PE: Performance management practice (1 of 2)

**Situation:**
Current systems do not facilitate visibility and extraction of data to support procurement-related business decisions. HHSC program areas are performing ad hoc and manual reporting to track and manage the status of their procurement requests. The lack of integration among procurement-related systems combined with the lack of properly configured reporting functionality in CAPPS frustrates users, precludes data-driven procurement practices and hampers statewide transparency efforts.

**Project description:**
Coordinating with the Office of Performance Management (OPM) of the Chief Policy Office, the project will establish a continuous improvement initiative to identify, measure and act on performance data across the procurement life cycle. Using a data-driven approach, PCS and OPM will work with stakeholders to identify KPIs and establish methods to track and report on process and subprocess indicator cycle times, among other measures relevant to the procurement function. PCS will work with project stakeholders to establish standards for the type of performance information that will be collected and published, and will coordinate with OPM to establish publishing frequency, format and platform.

**Project accomplishments and deliverables:**
- HHSC elected not to include this project as part of the PCIP. Per inquiry with OTI, in late 2018, HHSC was developing the Performance Management and Analytics System (PMAS) for data needs, data analytics and reporting for HHSC.
- Per discussion with PCS leadership and inspection of documents including PCS Dashboard Reporting Forms, the PCS Executive Dashboard is in development, containing defined KPIs that primarily focus on compliance across the procurement and contracting lifecycle. Monthly revisions of the PCS Executive Dashboard are conducted to enhance SCOR, target initiatives and remove duplicate KPIs. With the PCS Executive Dashboard, developed KPIs can be monitored against targets.
- HHSC’s Office of Performance is currently engaged to develop visualizations of operational reporting measures in the Performance Management System. The office has completed development of 38 measures and has an additional 77 that it is targeting. Additionally, the office intends to automate the calculation of measures at the end of the measure development. PCS has held review sessions with the executive leadership of PCS for informal feedback. The team elicits input from procurement and contract management subject matter experts to assist in drafting the performance measures.

**Observations and Phase IV improvement considerations (1/2):**
- HHSC has established primarily compliance-centric KPIs. We recommend a complete balance scorecard approach that includes KPIs for compliance, efficiency, operational excellence, and commercial strength. A balanced scorecard measures both efficiency and effectiveness of the procurement organization. A sample of balanced KPIs can include metrics such as:
  - Year-over-year number of POs/contracts
  - Staff load vs. number of contracts/bids/POs
  - Time from requisition to PO
  - Cost of procurement operations as a % of spend
  - Savings as a percentage of spend, Savings as a percentage of total operating budget
  - On-contract vs. off-contract spend

*Continued on next page...*
Observations and Phase IV improvement considerations (2/2):

EY did not evaluate the completeness of HHSC’s chosen measures and selected compliance KPIs that are in development; however, measures do not necessarily drive or indicate performance like KPIs do. KPIs are used to indicate how HHSC is performing against targets and show how effective HHSC is at achieving strategic and business objectives. Metrics or measures typically track the status or operational data of a business process. The HHSC Office of Performance has shared that it has plans to propose KPIs to PCS in the future.

We recommend HHSC assess the chosen measures and define KPIs at the process level and at each individual role level (e.g., 3-5 KPIs per role), and tie KPIs to the performance appraisal system. Without comprehensively defined KPIs, HHSC cannot act on performance data across the procurement lifecycle. HHSC should continue to evaluate opportunities to automate the KPI calculation and reporting process to reduce manual effort and human error.
### 9TE: Immediate CAPPS needs

<table>
<thead>
<tr>
<th>Project assessment*</th>
<th>Issues addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Situation:</td>
<td>Business needs and volume are not sufficiently synchronized to process/technology. CAPPS has been heavily modified to accommodate State of Texas statutory contracting requirements, as well as HHSC-specific contracting needs; however, the system is not configured to support a specific set of Agency or program purchasing processes and procedures.</td>
</tr>
</tbody>
</table>

| HHSC project status | Concluded |

| Project implementation date | October 2019 |

| Time in operation | ~14 months |

### Executive summary

#### Status of HHSC remediation projects

HHSC has taken the preliminary steps in improving functionality in CAPPS by establishing new roles, responsibilities, tools and processes. HHSC deployed CAPPS web-based and instructor-led training courses that covered CAPPS 2.0 functionality. CAPPS 2.0 enhancements included:

- Procurement planning and PCS Liaison
- Controlled and standardized procurement/contract templates, forms and exhibits
- Requisition wizard questions completed by program and no longer generating procurement templates
- Standardized evaluation tools and controls that accommodate all levels of RFx (Request for x) and formal Invitation for Bid complexities

The CAPPS workgroup is responsible for designing and implementing enhancements to CAPPS, which allow users to view the approval workflow for all requisitions that are pending, approved or denied (see project 3IM for the Requisition Dashboard evaluation detail). User access is provisioned to the dashboard based on a user’s role at the enterprise level (e.g., users with access to DSHS at the enterprise level are only provisioned access to the DSHS view).

Per inquiry with the CAPPS workgroup, the workgroup created mandatory training for CAPPS 2.0.

### Additional improvements summary

### Project accomplishments and deliverables:

- HHSC should establish and continuously monitor KPIs to measure the effectiveness of CAPPS enhancements. See project 7PE for further details on KPI-related recommendations.

### Observations and Phase IV improvement considerations:
10TE: eSignature tools

**Situation:**
The lack of visibility within, and integration among, procurement-related systems (e.g., CAPPS and digital signature tool) creates risk for policy compliance issues and undermines statewide transparency efforts.

**Project description:**
Solution digital signature tools for integration or end of life. Assess digital signature tools that have similar functionality and potentially superior integration/costs and determine a plan going forward.

**Project assessment**
- **Issues addressed**

**HHSC project status**
- Concluded

**Project implementation date**
- Not provided

**Time in operation**
- Not provided

**Project accomplishments and deliverables:**
- HHSC elected not to include this project as part of the PCIP.
- Per PCS management, support for the Agency’s eSignature tool was transferred to the IT Administrative Application team from PCS. HHSC now offers the tool as a service to be used across HHS rather than just within PCS. The eSignature tool is now currently supported by an IT support team.
- Per PCS management, HHSC uses the eSignature tool to evidence authorized signatories approval of purchase requisitions and to execute contract agreements.

**Observations and Phase IV improvement considerations:**
- Per inquiry with PCS, HHSC is submitting an Exceptional Item request in the FY22-23 Legislative Appropriations Request to upgrade CAPPS FIN in line with the Comptroller’s requirement. If funded, this will include interoperability between the eSignature tool and CAPPS Financials. The integration of the eSignature tool was not accomplished enterprise-wide due to funding limitations.
### Project assessment*

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<th>Project assessment*</th>
<th>Issues addressed</th>
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### HHSC project status

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<tr>
<th>HHSC project status</th>
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### Project implementation date

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<tr>
<th>Project implementation date</th>
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### Time in operation

<table>
<thead>
<tr>
<th>Time in operation</th>
<th>Not provided</th>
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#### Situation:

CAPPs has not been configured to serve many important procurement-related purposes (i.e., complex contract proposal evaluation, vendor performance tracking, document management, spend analysis and public data transparency) in function or in HHSC-level volume.

#### Project description:

Perform a comprehensive fit-gap analysis to align CAPPs and SCOR system functionality with fit-for-purpose processes.

#### Project accomplishments and deliverables:

- HHSC elected not to include this project as part of the PCIP. No documentation was provided by HHSC for evaluation of this project.

  Per PCS, a cross-divisional group of Programs met to discuss CAPPs functionality and needs in 2018 to perform a fit-gap-analysis for the original CAPPs system and define the scope for the CAPPs 2.0 system revision. The workgroup discussed the current CAPPs functionality including requisition approvals, contract routing and contract approvals; the eSignature tool process; requisition processing; bid processing and responses; and the contract award process. Elements identified for CAPPs 2.0 included the following: procurement planning, PCS Liaison and the procurement method determination, maintenance and management of templates or solicitations and contracts, forms and inquiries imbedded in the CAPPs system, solicitation collaboration, approval, scoring, outlier processes and the supplier portal.

  Per inquiry with PCS and OTI, representatives from more than 20 areas and divisions comprised the CAPPs 2.0 team.

#### Observations and Phase IV improvement considerations:

- The scope of this project defined in the Phase I-III assessment was related to CAPPs 2.0, which has been implemented. HHSC has since designed and implemented further system functionalities through the launch of CAPPs 3.0. See project 3IM for recommendations on enhancements related to CAPPs 3.0.

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*See page 9 for definitions of project status.

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## 29TE: Remaining procurement technology

<table>
<thead>
<tr>
<th>Project assessment*</th>
<th>Issues not addressed</th>
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<tr>
<td>HHSC project status</td>
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<tr>
<td>Project implementation date</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Time in operation</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

### Situation:
The lack of integration among procurement-related systems combined with the lack of properly configured reporting functionality in CAPPS frustrates users, precludes data-driven procurement practices and undermines statewide transparency efforts.

### Project description:
Review other procurement-related technology solutions (i.e., digital signature tool and Excel spreadsheets) outside of the CAPPS system to verify fit and identify potential alternative solutions.

### Explanation provided by PCS:
- HHSC elected not to include this project as part of the PCIP. Per HHSC, the project would be costly and resource-intensive. Limited funding and FTEs did not allow HHS to undertake this project.
- HHSC received $5 million total in appropriations to address CAPPS needs identified through PCIP. This funding is being used to address immediate needs including reporting and dashboard capabilities, increasing visibility to allow users to understand where their requisition is in the process and improving workflow through improved alerts to users.

### Observations and Phase IV improvement considerations:
- HHSC did not perform a technology capability/functionality assessment.
- We recommend that HHSC perform an assessment to map out PCS’s digital needs, technology capability inventory, gaps and a path to establish the necessary technology architecture to support the organization's processes. Understanding PCS’s technical needs and gaps is fundamental to defining the path to maturing PCS’s data and technology environment and requesting funding for justified needs.

Without performing a technology capability/functionality assessment, HHSC will continue to have staff utilizing offline spreadsheets, performing manual work and not sufficiently progressing in technology capabilities in order to increase efficiency, improve visibility and data reliability, and make data-driven decisions.
11PP: Procurement and contract management manuals (1 of 2)

**Executive summary**

**Status of HHSC remediation projects**

- **Project assessment***
  - Issues addressed

- **HHSC project status**
  - Concluded

- **Project implementation date**
  - October 2020

- **Time in operation**
  - ~2 months

**Situation:**
Processes are often inconsistent across similar requisitions, causing inefficiencies and increasing errors and noncompliance; workarounds are prevalent in part because of lack of knowledge. Current manuals are more than two years old and have not been updated with current information, including no specificity to HHSC procedures which drive audit exposure.

**Project description:**
Update and refine procurement and contract management manuals and identify administrative rule requirements for a consistent and compliant practice. The short-term requirement is to bring manuals to the current state to achieve audit requirements. Long term, project will include an updated manual based on new procurement processes.

**Observations and Phase IV improvement considerations (1/2):**

- Per Section 8.5 of the PCMH, Contract Value Estimate, the Programs are responsible for developing a contract value estimate for each procurement. It is important that these estimates are created in good faith because they drive the approval path and determine applicable statutory requirements. Currently, there is no systemic control to limit staff from underestimating contract value in order to circumvent required reviews and steps in the process. If a contract is under execution, HHSC should define a process for identifying contracts with spend that is over the estimated value and an action plan to remediate those contracts. Underestimating the value of a contract can cause contracts to go through the wrong approval path, receive an inadequate risk mitigation plan, establish the wrong supplier relationship management level or develop a contract for a lower threshold style service.

- A current issue for HHSC is that contract value amount cannot be edited within CAPPS. If the value is incorrect or pricing changes, the entire requisition must be restarted. HHSC is currently undergoing an effort to institute a price allowance threshold to allow price fluctuations during the procurement process where necessary. Upon request, HHSC was not able to provide a report of contract value estimates in comparison with actual awarded contract value due to the manual nature of retrieving the data. We recommend that HHSC establish a monitoring process for comparing contract value estimates, awarded value, and spend to date to identify variances.

*Continued on next page ...*
11PP: Procurement and contract management manuals (2 of 2)

Observations and Phase IV improvement considerations (2/2):

One of the root-cause issues referenced in the 11PP project charter is that processes are often inconsistent across requisitions, causing inefficiencies and increasing errors and noncompliance. The requisition sits at the origin of a sourcing event, and when it is submitted incorrectly, the rest of the process may experience inaccuracies and rework. Per inquiry with HHSC, there are inconsistencies in the requisition process, causing slowdowns such as requisitions being assigned to the incorrect team. To address the requisition issue, we recommend that HHSC implement planning recommendations from project 1SD, improve the PCS Liaison role per project 6PO, continue to deploy and reevaluate the requisition training effectiveness per project 7PE and reference all supporting tools in the process maps per project 22PP. To address requisition entry issues, PCS has received approval from the Executive Commissioner to develop a Requisition Entry Training that will be required every two years for staff who enter requisitions in CAPPS. Additionally, OTI has recently received approval from the Chief Operating Officer, Deputy Executive Commissioner of PCS and the Chief Financial Officer to complete the following projects to improve requisitions:

- Develop a requisitioner toolkit for correct completion of requisitions
- Create checklists for requisition submissions
- Require supporting documentation attachments for requisition submissions
- Review Requisition Wizard questions for clarity
- Require a budget check earlier in the requisition process
- Increase the Agency’s capacity to review requisitions prior to submittal
### Situation:

**22PP:** Due to significant changes in procurement-related organization, roles, responsibilities, policies and processes that will be put in place in light of this report, it will be necessary for PCS to establish a consistent procure-to-pay process so that current SOPs are tailored to align with changes as they are implemented.

**23PP:** Lack of documentation standardization, evaluation process that does not meet the needs of the Agency.

### Project description:

**22PP:** Build a standard, repeatable process for identification, review and optimization of PCS as procurement-related changes are implemented at HHSC to remain aligned to implemented policies, processes, technology and organization.

**23PP:** Establish and document policies, processes and templates for the development and documentation of a complex solicitation.

### Project accomplishments and deliverables:

In Phases I-II, EY noted that HHSC had no documented process maps to define and enable procurement and contracting activities. HHSC has now mapped the "as-is" end-to-end procurement processes and developed improved "to-be" process maps, which are now in operation.

As a part of this process, the 22PP Workgroup developed a listing of recommendations with milestones such as establishing a system-wide procurement planning schedule, implementing reporting tools with standardized data elements and establishing a review schedule for the end-to-end process maps. Per the recommendations document, HHSC recommends that process maps be reviewed yearly in conjunction with a stakeholder survey; however, there is no set policy and accountable party to perform this review.

### Observations and Phase IV improvement considerations (1/2):

Based on documents EY inspected, the process maps do not contain the necessary details that are represented throughout the PCMH, such as decision points and threshold values that alter the process. HHSC should reevaluate the process maps against the critical steps incorporated throughout the PCMH and establish a policy for reviews and ad hoc updates similar to the PCMH change management process. Examples of improvements may include:

- Link required forms and enabling tools (checklists, operating procedures, etc.) within the process maps to increase compliance within the process.
- Include decision nodes based on thresholds to indicate varying processes and requirements.
- Detail the requirements from the Programs into subprocesses, such as needs assessment and SOW creation.
- Include process maps for procurement types that require unique processes (e.g., emergency procurements, HUB, Information Technology Purchasing Plan (ITPP) and consulting).

As noted in the project 7PE evaluation, HHSC does not have KPIs defined across the processes and subprocesses within the process maps. Process KPIs will support HHSC’s ability to identify areas of improvement throughout the end-to-end process.

*Continued on next page...*
22PP: Procurement end to end process (2 of 2)

Combined with project 23PP: Complex services process

Observations and Phase IV improvement considerations (2/2):

The PCMH provides tips for writing SOWs, and PCS is developing a training for writing SOWs; however, there is a lack of required structure Agency-wide for the SOW creation process. While HHSC has available SOW templates, with the exception of construction solicitations, there is no requirement for Programs to use the available templates. Additionally, the available templates are not referenced in the PCMH and process maps. Per inquiry with PCS, on certain procurement, PCS supports Programs with multiple iterations of rework on the SOWs before the solicitations are released. PCS CMS recognizes that contract managers and staff that support contracting in the Programs may lack the understanding of the SOW creation process to develop quality SOWs. We recommend that PCS continue to identify types of procurements that can be enabled by standardized SOW templates and require the use of templates for these procurements. In addition, HHSC should more clearly promote (and require, where applicable) the use of SOW templates through the PCMH and training content.
### Executive summary

#### Status of HHSC remediation projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
<th>Project implementation date</th>
<th>Time in operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>13GR</td>
<td>Concluded</td>
<td>December 2019</td>
<td>~12 months</td>
</tr>
<tr>
<td>18SD</td>
<td>Concluded</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12PP</td>
<td>Concluded</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Additional improvements summary

*See page 9 for definitions of project status.
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### 13GR: Compliance monitoring (1 of 3)

**Combined with project 18SD: Enhance policies**

**Combined with project 12PP: PCS forms, contract tools, contract templates**

<table>
<thead>
<tr>
<th>Project assessment*</th>
<th>Situation:</th>
<th>Project description:</th>
</tr>
</thead>
<tbody>
<tr>
<td>13GR</td>
<td>13GR: Inconsistencies in compliance processes were noted both during the current-state assessment and in previously issued audit reports. A methodical approach to addressing these issues will increase confidence in the integrity of the process and reduce the risk of control failures and repeated audit findings.</td>
<td>13GR: Rigor in the review and audit processes to improve enforcement and consistency of compliance.</td>
</tr>
<tr>
<td>18SD</td>
<td>18SD: Constant change in management priorities drove suboptimal policies with frequent revision. HHSC needs clarity.</td>
<td>18SD: Align capacities to manage policies governing key components of the business (to support efforts of the Chief Policy Officer).</td>
</tr>
<tr>
<td>12PP</td>
<td>12PP: Processes are often not written to support a large organization, limiting opportunities for economies of scale and optimization improvements. PCS and Programs have different templates that are created outside of CAPPSS that are then imported into CAPPSS. Some forms may have the ability to be created inside CAPPSS.</td>
<td>12PP: Develop and/or refine PCS forms, contract tools and contract templates that are aligned with the revised manual to facilitate efficient and effective procurement lifecycle processes and compliance with state-required processes.</td>
</tr>
</tbody>
</table>
13GR: Compliance monitoring (2 of 3)
Combined with project 18SD: Enhance policies
Combined with project 12PP: PCS forms, contract tools, contract templates

Project accomplishments and deliverables:

In response to project 13GR, HHSC established four work groups: Compliance, Policies and Procedures; Senate Bill (SB) 20; Rules; and Historically Underutilized Business (HUB) Program. Each work group prepared its separate Project Work Plan to define project milestones and activities and responsible parties, and to track status. Per inquiry and inspection of documentation, PCS has performed the following as of our evaluation fieldwork:

<table>
<thead>
<tr>
<th>Compliance, Policies and Procedures</th>
<th>SB 20</th>
<th>Rules</th>
<th>HUB Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Incorporated PCIP process</td>
<td>• Revised RFx standard operating procedures for PCS Contract Reporting, including posting to Agency website and submission of contract documentation with the Legislative Budget Board (LBB)</td>
<td>• Engaged Rules Coordination Office (RCO) and procurement stakeholders to provide a list of Texas Administrative Code (TAC) rules applicable to PCS</td>
<td>• Established the HUB Reform Plan to enhance HUB participation and increase HUB expenditures</td>
</tr>
<tr>
<td>• In early 2020, established a Rule Review Subcommittee</td>
<td>• Included guidance in the PCMH on enhanced contract and performance monitoring and required contract reporting with references to applicable PCS operating procedures</td>
<td>• Coordinated with RCO to update policies and procedures to reflect identified rule changes</td>
<td>• Included procedures related to HUB Subcontracting Plan evaluation and reporting in the PCMH and updated RFx standard operating procedures</td>
</tr>
<tr>
<td>• Created 21 required procedural checklists for solicitations and different types of procurements</td>
<td>• Reviewed weekly SB 20 reports to monitor compliance</td>
<td>• Created and then led HUB trainings with over 180 participants to date</td>
<td>• Created and then led HUB trainings with over 180 participants to date</td>
</tr>
<tr>
<td>• Updated terms and conditions in the RFx template and affirmations in contract templates</td>
<td>• Note: PCS Policy 100 and 151 outlines the communication strategy and framework to display the statutory requirements and methodology of communicating changes to the requirements.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Implemented standard operating procedures for grants</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*See page 9 for definitions of project status.

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13GR: Compliance monitoring (3 of 3)
*Combined with project 18SD: Enhance policies
Combined with project 12PP: PCS forms, contract tools, contract templates*

Observations and Phase IV improvement considerations:

### Compliance, Policies and Procedures

- Per inquiry with PCS, HHSC is not currently performing periodic segregation of duties (SOD) analyses. The lack of periodic SOD analysis may result in users with incompatible roles leading to unauthorized access to data or the potential to perpetuate fraud schemes.

- Per HHSC, contractor screening and onboarding processes were not included in this project. Required screening for potential contractors and existing contractors are referenced in the PCMH (sections 15.12 and 16.9 respectively). See project 11PP for further details on the PCMH.

- PCS should perform an SOD review to detect users that have incompatible roles as defined by the business. Additionally, a role conflicts check should be included as a procedure in user access provisioning to prevent users from having incompatible roles.

### SB 20

- SCOR functionality flags contracts that are required to be uploaded to the Agency’s website and submitted to the LBB. PCS manually exports the contract documentation to post to the Agency website and the LBB when necessary, after reviewing for any data requiring redaction if necessary, in compliance with Chapter 552 of the Texas Government Code.

- Per inspection of CQC’s roles and responsibilities as documented in an activity-based risk matrix, monitoring of compliance with SB 20 is not included as an activity performed by CQC.

- The absence of monitoring procedures may limit PCS’s ability to accurately report compliance to HHSC management and detect instances of noncompliance.

We recommend that CQC establish compliance monitoring activities to detect instances of noncompliance with SB 20.

### HUB Program

- Per inspection of the HUB Reform August 2020 update, we noted the following:
  - The HHS HUB Program identified variances in FY 2019 internal HUB expenditures to the Comptroller data. The lack of complete and accurate data may result in inaccurate reporting of HUB expenditures to management or the inability to perform trend analysis.
  - The HUB Program reported that the HUB Portal system may not be reliable or effective in meeting the needs of the Agency.
  - The data within the system used to track HUB expenditures may be unreliable or not effective to monitor HUB subcontracting.
  - HUB staff currently enter data manually into the system from hard-copy reports, as the system used to track HUB compliance lacks the functionality to communicate to third parties.

We recommend that the HUB Program continue to review the Agency’s HUB compliance policies and procedures to identify and remediate issues raised, including the inability to reconcile variances in internal HUB expenditure data to the Comptroller’s data and inefficient use of technology to help enable HUB reporting and tracking.

### Rules

Not applicable

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14GR: Align processes for managing external stakeholder governance

**Situation:**
Processes and controls for identifying and coordinating reporting to third-party governance entities are not defined and may lead to inaccurate or noncompliant external reporting, resulting in unnecessary rework and loss of confidence in reports provided to third parties to HHSC.

**Project description:**
Identify, develop and document tailored business and governance review processes related to the function of external reporting requirements related to procurement, contract management and vendor performance for the Agency. Establish a role responsible for identifying and managing governance processes, to help meet the external reporting requirements of the Agency.

**Explanation provided by PCS:**
- HHSC elected not to include this project as part of the PCIP. The External Reporting Team within Business Operations is responsible for the creation of and upload of the daily/monthly external reporting into LBB (Legislative Budget Board) and TPPD (Texas Purchasing from People with Disabilities). HHSC has two external reports that are not considered routine which follow the Agency guidelines for approval. Due to the limited resources required for effective external reporting, HHSC determined that a reporting governance process is not required.
- HHSC also maintains a report of all key external reports required, including due dates and reporting elements required.

**Observations and Phase IV improvement considerations:**
- While EY observed evidence of manual reporting, EY did not observe evidence of a systemic, data-governed environment that includes defined controls over data inputs, quality review processes and deadline monitoring to drive accurate and timely external reporting.
## 15GR: Lines of defense

### Situation:

Roles and responsibilities for risk ownership and oversight across PCS, CQC, Programs, Legal and Budget/Finance are not clearly defined and may result in inefficiencies, gaps in monitoring responsibilities and objectivity concerns of CQC auditing its own work. Without clearly delineated roles, the risk of control failures or management override is increased.

### Project description:

Clarify the roles and accountabilities for risk ownership and risk oversight. Strengthen PCS’s accountability to own risks, clarify CQC’s mandate to oversee and monitor risks, and clarify roles of a management-level oversight committee for key decisions and governance activities over procurement and contracting.

### Project accomplishments and deliverables:

- HHSC created an activity-based risk matrix which assigns the first and second lines of defense (LOD) to various activities throughout the contract lifecycle. Per inquiry with HHSC, with the differing structures of the divisions within HHSC, divisions were responsible for identifying the responsibilities of the first and second LOD within the guidelines set forth in the M10-Lines of Defense policy. HHS created an oversight committee to monitor the establishment of the lines of defense within the Agency and review policies and procedures. Per inquiry with PCS, the matrix went into effect on October 1, 2020 in conjunction with the PCMH.
- Per the PCMH, CQC was established in April 2018 as an independent division that reported directly to the HHSC Chief Operating Officer (COO). CQC provides compliance and oversight review of PCS and other Agency functions to help organizational resources and processes align with and satisfy all purchasing and contracting requirements. In March 2020, oversight of the CQC division changed from the COO to the HHSC Chief Policy and Regulatory Officer (CPRO) to strengthen CQC’s integrity as a procurement and contract management oversight body by establishing greater operational independence from PCS.
- Per the PCMH, the third line of defense is performed by Internal Audit and provides a disciplined approach when reviewing processes assessing governance, risk management and internal controls.

### Observations and Phase IV improvement considerations:

Although HHSC has prepared an activity-based risk matrix, EY did not assess the effectiveness of the second line of defense as its roles and responsibilities went into effect on October 1, 2020. Additionally, the activity-based risk matrix does not define owners that are responsible for the activities, but rather which divisions have the responsibility (i.e., PCS, Program, CQC). We recommend that HHSC update the risk matrix to include the responsible owner of each activity to help enable more effective management and oversight of procurement and contract management activities.

Per discussion with OTI leadership, CQC is in progress with two initiatives to continue to strengthen its role as a second line of defense. See initiatives 1-3 on page 48 for details on the initiatives.

Due to the recency of the Agency’s formalization of roles and responsibilities of CQC, we recommend that CQC continue to monitor the performance of procurement and contracting operations. An effective second line of defense promotes risk management activities, strengthens control procedures and supports the first line of defense. Incomplete second line of defense activities, including the lack of oversight of management’s operations, may result in noncompliance with state and federal law, inefficient procurement procedures or inconsistency in applying PCS’s policies and procedures.

### Additional improvements summary

- HHSC project status: In progress
- Project implementation date: Not applicable
- Time in operation: Not applicable

### Executive summary

- Project assessment: Issues partially addressed

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16GR: Procurement and contract risk assessment (1 of 2)

**Combined with project 24GR: Review and approval workflow**

### Executive summary

**Status of HHSC remediation projects**

**HHSC project status**

- Concluded

**Project implementation date**

- February 2020

**Time in operation**

- ~10 months

### Project accomplishments and deliverables:

- HHSC has prepared and deployed the Procurement Risk Assessment Form (PCS 148) that lists a series of multiple-choice questions and calculates the risk level, risk value and risk score accordingly. PCS 148 is to be completed by Program staff for solicitations.

- Contract managers have to complete a contract risk assessment in SCOR containing six questions. Certain programs have additional risk assessment questions they are required to answer.

- The Approval and Signature Authority for HHS Agency Contracts circular (C-046) establishes approval and signature guidelines for contracts and also defines contracts that require an Attestation Letter to be sent to the LBB.

- See project 9TE for CAPPS 2.0 enhancements related to the requisition workflow.

### Observations and Phase IV improvement considerations (1/2):

- While PCS considered revisiting the contracting activities to improve efficiency, PCS concluded that the number of reviewers and the role of the reviewers was necessary to manage risk exposure in contract execution. Per inquiry with PCS, the justification for procurements to follow the same process and rigor was due to the nature of procurements and the risk inherent in the procurements at the Agency. The lack of a risk-based review and approval process may lead to inefficient use of procurement and contract management stakeholders.

- We recommend that PCS engage with Program-level stakeholders to identify opportunities to apply risk-based review and approval requirements for individual procurements, with the objective of eliminating unnecessary additional approvals for lower-risk/small-value procurement events. Additional risk factors to consider when evaluating the number and level of reviewers are financial, quality, reputational, nature of services and additional fees risks.

*Continued on next page ...*
**Phase IV: Evaluation Report**

**16GR: Procurement and contract risk assessment (2 of 2)**

*Combined with project 24GR: Review and approval workflow*

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**Observations and Phase IV improvement considerations (2/2):**

- The integration of the procurement risk assessment into CAPPS was deemed too costly by HHSC against other priorities, such as the requisition dashboard (see details related to the requisition dashboard in the project 3IM evaluation).

- Once a requisition has been approved within CAPPS, contract managers manually identify the authorized signatories of contracts and input the signatories into the eSignature tool in accordance with C-046. Contracts are signed electronically through an eSignature tool. The absence of a system-generated workflow to facilitate contract execution in accordance with the Signature Authority could result in delays in contract execution or misaligned signatories of contracts.

- The form PCS 148 is prepared outside of CAPPS. Once completed, the form is attached to the related procurement file. Per inquiry with HHSC, integrating the form with CAPPS was not prioritized by HHSC because of the high cost of integration. The lack of the use of technology may result in unauthorized access to the forms or improper retention of the forms.

- PCS should continue to assess the benefits of integrating form PCS 148 as well as the contract execution approval matrix in CAPPS and pursue Legislative Appropriations Requests for the CAPPS integration functionality if necessary.

- Step 3 in PCS 148 requires the preparer to identify the number of external parties involved in the solicitation. We noted that the PCS 148 form does not include a guide on identifying required external party review. The absence of the external party guide may result in the preparer inaccurately completing the form. The risk is magnified as low or medium risk-rated solicitations do not require review and approval of the form.

- PCS has not clearly defined an end-to-end procurement risk assessment process. While PCS management has created the procurement risk assessment form to identify the level of risk and review required for solicitations, we recommend that PCS add to existing process maps the required actions for segmenting and assigning risk to procurements based on level of risk (qualitative and quantitative criteria) and the required actions that follow the risk assessment. This process map should reference supporting materials (e.g., an external party matrix by transaction type) to support activities, such as the PCS 148 form to assist preparers in accurately completing the solicitation risk assessment. PCS management should establish communication plans to inform PCS stakeholders of the process maps to help address compliance with PCS policy and procedures. Periodically (annually or as needed), PCS management, with assistance from the Programs, should review and update the process maps to reflect changes in policy and procedures. PCS should communicate changes to its stakeholders as they occur. PCS should retain the process maps in a central location.

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*See page 9 for definitions of project status.
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**25GR: Control effectiveness testing program**

<table>
<thead>
<tr>
<th>Situation:</th>
<th>While the CQC function has recently been established, a process has not been consistently implemented to assess compliance with processes and procedures across the Agency. Without a rigorous quality control testing program, the ability of the Agency to consistently execute new and redesigned controls consistently will be limited, increasing the risk of process and policy noncompliance.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project description:</td>
<td>Perform continuous testing of procurement and contracting compliance with established policies and procedures.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project assessment*</th>
<th>Issues not addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>HHSC project status</td>
<td>Not performed</td>
</tr>
<tr>
<td>Project implementation date</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Time in operation</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

**Explanation provided by PCS:**

- HHSC elected not to include this project as part of the PCIP.

  Per HHSC, this project was not included because foundational projects were of a higher priority and this project would be resource-intensive.

  Additionally, OTI is engaged in a multipronged project with CQC to further formalize business processes and use risk assessments to identify trends and activities for enhanced controls and/or staff training.

  See the evaluation on project 15GR for information on the work HHSC is undergoing to define and place into operation the three lines of defense model.

**Observations and Phase IV improvement considerations:**

- Per inquiry with PCS, CQC has not yet tested procurement and contracting compliance with policies, procedures and statutory requirements. See project 15GR for observations identified and improvement considerations.

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17PM: Standardize contract management and monitoring (1 of 2)

**Situation:**
As a consequence of transformation, the approach to contract management and monitoring at HHSC has not been unified into a standardized set of policy, practice and process guidance for Programs to utilize. More recently, HHSC policy and guidance on contract management and monitoring practices and processes have not been updated and aligned to the state guidance on contract management. As such, contract management and monitoring practices vary dramatically by Program.

**Project description:**
Identify, develop and document fit-for-purpose business processes for contract administration and oversight in order to develop contract management best-practices guidance that provides a framework to standardize contract management and monitoring processes and practices for the enterprise. The guidance should provide practical suggestions as well as best practices to improve Agency contracting practices; assist contract managers in leveraging technology, metrics, training and lessons learned for the purpose of minimizing project risks; and clearly define roles and responsibilities of all players in the process.

**Project assessment***
Issues partially addressed

**HHSC project status**
Concluded

**Project implementation date**
March 2020

**Time in operation**
~9 months

**Project accomplishments and deliverables (1/2):**

- HHSC updated its contract management lifecycle through the operating model, PCMH, RACI and process maps. HHSC established the PCIP 17PM Workgroup, which developed a Contract Management and Monitoring Recommendations document to identify significant issues and to highlight changes that could lead to contract management and monitoring improvements. The document listed 21 issues with associated recommendations in the contract management and monitoring process. These issues address topics such as systems (CAPPS and SCOR), training, proposed procurement and management handbook updates, budget and accounts payable, forms, contract remedies and general. EY did not evaluate which recommendations in this document were implemented and did not evaluate if the issues were addressed.

- As a result of the 17PM project, HHSC PCS established the CMS team in May 2020. Per the PCMH, this team provides contract management support assistance and oversight for HHS staff, leaders and business units with contract management-related responsibilities. PCS CMS focuses on strengthening contract management practices by developing policies and procedures, creating tools and templates, monitoring and analyzing key success indicators, and working to support Program contract management areas when needed.

*Continued on next page ...
17PM: Standardize contract management and monitoring (2 of 2)

Project accomplishments and deliverables (2/2):

Per discussion with CMS, the work that CMS has completed and planned but not yet completed intends to introduce foundational-level standardization of contract management and monitoring for the Agency. Per EY’s evaluation fieldwork, CMS has established procedural documents such as:

- The Contract File Checklist that lists the requirements in PCMH
- Budget Roster Requirement that helps the Agency track receipts of invoices and avoid incurring interest on late payments
- Expenditure Tracking Requirement that supports the Programs in knowing the budget and not exceeding contract spend limits

In addition, CMS has planned initiatives that are documented in the PCS CMS Projects.xlsx document or on the PCS SharePoint.

Per inquiry with HHSC, HHSC has provided training classes to the PCS Procurement Teams and contract managers across the Agency on the contract management checklist, budget roster and invoice tracking, with each training having 350-450 participants. Training classes have been provided through live and recorded webinars. In addition, there is a CAPPS Contract Manager training. EY did not review or evaluate the effectiveness of each training.

*See page 9 for definitions of project status.
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# 26PM: Procurement spend analysis

<table>
<thead>
<tr>
<th>Project assessment*</th>
<th>Issues not addressed</th>
</tr>
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<tbody>
<tr>
<td>HHSC project status</td>
<td>Not performed</td>
</tr>
<tr>
<td>Project implementation date</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Time in operation</td>
<td>Not applicable</td>
</tr>
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</table>

**Situation:**
PCS does not currently utilize data to help it to identify and execute strategic contracting opportunities for the Agency. This, coupled with the current limitations in data integrity, accuracy and access lead to a need to establish a consistent methodology and practice for spend analysis at the Agency to support improved data-driven decision-making regarding procurement activities.

**Project description:**
PCS should establish a strategy and associated practices related to employing portfolio and spend management practices appropriate for a large agency operating within state-level master contracts and individual agency purchases to help the Commission to receive maximum economies of scale.

**Explanation provided by PCS:**
- HHSC elected not to include this project as part of the PCIP, as HHSC was unable to capture detailed spend data from CAPPS to effectively perform a spend analysis.
- Per the 26PM PCS Response document, the only means for PCS to obtain spend data is through CAPPS, which allows the query of spend by Program and by commodity code at a high level. HHSC stated that the data captured at this level does not support strategic sourcing practices. While PCS has used the Program spend data to activate Group Purchasing Organization contracts, it is unable to be used for any other sourcing insights. Accordingly, there is little to no use of data and strategic sourcing practices to drive maximum economy of scale.
- Per HHSC PCS, PCS uses National Institute of Governmental Purchasing (NIGP) commodity book codes as the standard commodity code category taxonomy.

**Observations and Phase IV improvement considerations:**
- HHSC has not established a strategy to employ portfolio and spend management practices appropriate for an Agency of its size. Spend analysis and strategic management of spend as a sourcing portfolio have become standard practice across private, public and governmental agencies. EY recommends HHSC run a report of spend for a past fiscal year from CAPPS and perform a baseline spend analysis and seek to identify a means to capture the required data elements (e.g., spend by Program, YoY procurement spending by vendor, percentage spend against contracts). With this data, HHSC should establish processes for reviewing, reporting and acting on strategic sourcing activities.
- Once a report of spend data for a past fiscal year is established, we recommend that HHSC conduct training classes to instruct PCS Procurement Teams how to utilize spend analysis to maximize strategic sourcing.

*See page 9 for definitions of project status.*

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Phase IV: Evaluation Report

27PM: Vendor outreach program

**Executive summary**

**Situation:**
Hindering communication and engagement throughout procurement planning and contracting hampers meaningful outcomes for complex, high-risk contracts. This limits vendor input because a new vendor is more challenged in its ability to communicate emerging practices or unique products or services that the vendor may be able to offer the state agency. Agency vendor management policies and practices reflect unnecessarily limited vendor interaction that is not aligned with statewide guidance that creates collaboration opportunities. For example, TGC 2155.081 directs the CPA to establish a vendor advisory community to provide input into state procurement practices and serve as a channel of communication among the vendor community.

**Project description:**
The vendor outreach program will create a framework for structured engagement between HHSC system procurement and Program personnel and the vendor community. The project establishes policies and implements practices that strengthen accountability, transparency and uniformity in vendor interaction, communication, collaboration and management. This project comprises two phases, with the development of a preliminary schedule for outreach events based on review of the HHSC System Strategic Procurement Plan.

**HHSC project status**
Concluded

**Project implementation date**
Not provided

**Time in operation**
Not provided

**Additional improvements summary**

**Project accomplishments and deliverables:**
- HHSC elected not to include this project as part of the PCIP.
- Per HHSC, PCS has undertaken the following activities to improve outreach and communications with vendors and potential vendors:
  - Established a vendor portal with access to online resources to support the vendor community
  - Published the HHS Vendor Interaction Policy to promote and guide communications between the vendor community and HHS staff, while maintaining the integrity of the Agency procurement process
  - Posted a forecast of upcoming complex procurements and grants to the HHSC public-facing website to make vendors aware of upcoming opportunities to do business with the Agency
  - Published a guide for vendors called “How to Do Business with HHSC” to foster more engagement with current vendors and to provide more information for prospective vendors
  - Successfully completed a webinar for vendors seeking to do business with State Supported Living Centers (SSLCs) and State Hospitals, with over 150 vendors participating
  - Updated HUB solicitation templates to provide better guidance to respondents, and expanded Post-Contract Award Meetings between HUB, PCS and Programs to solidify the HUB Subcontracting Plan (HSP) and support compliance

**Observations and Phase IV improvement considerations :**
- We recommend HHSC continue to expand the scope and number of vendor outreach events to engage the vendor community and to collect feedback on HHSC’s procurement practices for continuous improvement. HHSC should monitor the level of engagement with vendors by the Programs to promote compliance with policies and effective communication with the vendor community.

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Additional improvements summary
HHSC has undertaken additional improvement initiatives impacting PCS. The table below presents the project description and related objectives of the projects. EY did not evaluate the additional improvement initiatives. The information in the table was provided by HHSC. The additional initiatives have been included in this Report to demonstrate additional efforts beyond the original 29 EY recommendations that are being performed by HHSC to improve PCS.

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Status per HHSC</th>
<th>Project description</th>
<th>Issues addressed</th>
<th>Deliverables</th>
</tr>
</thead>
<tbody>
<tr>
<td>CQC Organizational Changes</td>
<td>Complete</td>
<td>Further delineate CQC from PCS to strengthen its independence and oversight capabilities.</td>
<td>CQC and PCS leadership reported to the COO, limiting CQC’s independence as a second line of defense. CQC leadership was elevated and transitioned from an Associate Commissioner reporting to the COO (which oversees PCS) to a Deputy Exec Commissioner reporting to the CPRO.</td>
<td>New org chart approved in April 2020.</td>
</tr>
<tr>
<td>CQC Review Report and Data Analytics Project</td>
<td>In progress</td>
<td>Develop standard responses for errors/risks in complex solicitations submitted to CQC for final approval and collect aggregate data to identify trends in errors and risks.</td>
<td>There is no way to consistently track or categorize errors and other issues that pose risk to the Agency that are identified by CQC in their final review before an RFP is posted. This tool will provide valuable feedback to PCS and Programs, and it will allow CQC to identify common errors to inform future training and technical support opportunities.</td>
<td>Standard Response Template created in MS Forms; tool is being created in SharePoint. Both will be launched as a pilot within PCS in Jan. 2021, with full release planned in fall 2021.</td>
</tr>
<tr>
<td>CQC Risk Assessment Tool</td>
<td>In progress</td>
<td>This tool will allow CQC to plug in key data on major complex procurements to determine the level of risk, which will inform the timing and intensity of review by CQC during the procurement process.</td>
<td>Currently, CQC review and approval of the solicitation takes place at the end of the solicitation development process. Assessing and prioritizing risk in real-time to should help enable CQC’s review of high-risk complex procurements throughout the solicitation development process to prevent unnecessary rework.</td>
<td>Draft tool is complete. OTI will work with CQC to finalize and pilot in 2021.</td>
</tr>
<tr>
<td>Invoice and Requisition Improvements</td>
<td>In progress</td>
<td>The Chief Financial Officer and OTI are working with Programs and PCS to improve invoicing in an effort to prevent late payments and resulting interest to vendors and to improve the accuracy and completeness of requisitions entered into the system.</td>
<td>Late payments to vendors cause frustration and cash flow issues and in many cases incur late-payment interest for the Agency. Significant rework currently takes place across the Agency to correctly submit requisitions for purchases. OTI, CFO and PCS are working on several fronts to create policies, templates and tools to improve these processes.</td>
<td>A/P Invoice Late Payment Tool is final and live. Additional improvements are in development and will be launched in 2021.</td>
</tr>
<tr>
<td>PCS Training</td>
<td>In progress</td>
<td>To increase competency in the procurement process, PCS recently received approval to launch a Procurement 101 Training and a Requisition Entry Training required for any individuals who enters requisitions into the CAPPS Financial System.</td>
<td>This will build on the Training Strategy developed by the PCIP Project 20 PO by increasing competency and awareness among all those involved in the procurement process.</td>
<td>Training expected to be launched in 2021.</td>
</tr>
</tbody>
</table>
Appendix
Roles of participants interviewed

The table below includes the roles of HHSC participants interviewed during the Phase IV evaluation.

<table>
<thead>
<tr>
<th>Assessment participants</th>
</tr>
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<tbody>
<tr>
<td><strong>Role</strong></td>
</tr>
<tr>
<td>Associate Commissioner, CQC</td>
</tr>
<tr>
<td>Business Analyst</td>
</tr>
<tr>
<td>CFO Operations Support Director</td>
</tr>
<tr>
<td>Contract Administration Director</td>
</tr>
<tr>
<td>Contract Administration Managers, PCS CMS</td>
</tr>
<tr>
<td>Contract Specialist and PCS Liaison, Contracts Purchasing Team</td>
</tr>
<tr>
<td>Deputy Associate Commissioner and Deputy CIO</td>
</tr>
<tr>
<td>Deputy Associate Commissioner, PCS</td>
</tr>
<tr>
<td>Deputy Associate Commissioner, PCS Business Operations</td>
</tr>
<tr>
<td>Deputy Associate Commissioner, PCS Business Operations</td>
</tr>
<tr>
<td>Deputy Executive Commissioner, OTI</td>
</tr>
<tr>
<td>Deputy Executive Commissioner, PCS</td>
</tr>
<tr>
<td>Director, IT Contract Management</td>
</tr>
<tr>
<td>Director, Procurement and Project Support</td>
</tr>
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</table>

The table below lists the documentation that we reviewed and analyzed as part of the Phase IV evaluation.

<table>
<thead>
<tr>
<th>Document name</th>
<th>Assessment documentation</th>
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<tr>
<td>1SD_RACI</td>
<td>CAPPS 3.0_PCIP 2SD Reconciliation v3</td>
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<td>1SD_Strategic_Plan</td>
<td>1.20_All-PCS-11-22-2019_Org_Chart.vsdx</td>
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<td>HHS ProCntrSystem Strategic Plan</td>
<td>PCSMasterOrgChart_2020.pdf</td>
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<td>HHS_ProCentrcSystem_Strategic_Plan Amendment_2019_1203_final</td>
<td>2.10_PCS_Major_Workstreams_RACI_KeyRoles_Responsibilities.docx</td>
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<td>Procurement Planning and Forecast Policy.10 26 2020.docx</td>
<td>2.20 RACI.xlsx</td>
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<td>PCS RACI Amendments_December 2019_Final</td>
<td>DRAFT PCS Customer Service Evaluation Criterion.docx</td>
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<td>2SD-Data Cleansing Issues Register week ending 09132019-Copy</td>
<td>HHS FTE Report Draft v8.pptx</td>
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<td>2SD-Data Cleansing Issues Register week_end_20190531v1.0</td>
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<td>HHS Human Resources Manual_Chapter 1_Section E1-E3.pdf</td>
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<td>Business Operations As-is.vsdx</td>
<td>4.10-Management Dashboard Reporting Structure_FINAL_041720.docx</td>
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<td>CAOS As-is.vsdx</td>
<td>5.10-SCOR Enhancements_FINAL_041720.docx</td>
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<td>DEC As-is.vsdx</td>
<td>Budget Roster Webinar Training_Final.pptx</td>
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<td>FY20-FY21 Aging 080720.xlsx</td>
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<td>3.10 Contract Management and Monitoring Activities for RFx.pdf</td>
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<td>2SD Data Cleansing Project Team Update-March 25 2020</td>
<td>PCS-11.16.2020 Statement of Work.docx</td>
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<td>PerformanceMeasuresInventoryRev-2020-11-23ar.xlsx</td>
<td>Communications Policy.pdf</td>
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# Documentation reviewed during evaluation (2 of 3)

## Assessment documentation

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<td>RACI.xlsx</td>
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<td>11PP Refine Manuals_Deliverable for Milestone 6_00_PCHB_Change Management Request Form REV 2019 0927 CLEAN VERSION.DOCX</td>
<td>7.12_Nondisclosure and Conflict of Interest Policy.pdf</td>
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<td>NA</td>
<td>7.2_PCS Procurement and Contract Management Handbook.pdf</td>
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<td>3.10_3.20_3.30_3.80_Milestone_Activities_6PO_job_descriptions.xlsx</td>
<td>7.4_HUB Program Office Work Activities Tracking Sheet - FY 2020 (SR).xlsx</td>
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<td>7.1_OP 572 RFA Contract Procedures.pdf</td>
<td>7.5_Framework and Governance.pdf</td>
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<td>7.5_Records-management-policy.pdf</td>
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<td>7.7_DADS IT Standard Operating Procedure (SOP).pdf</td>
<td>7.8_IA_Audit of PCS Procurement Process.pdf</td>
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<td>7.7_Legal Entity Screening Guide.pdf</td>
<td>7.8_PCS Approval Process Audit.pdf</td>
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<td>7.7_PCS OP 791 Vendor Performance Reporting.pdf</td>
<td>7.8_Post-payment audit report for Texas Health and Human Services Commission.pdf</td>
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<td>7.8_SAO_Audit on HHSC's System of Contract Operation and Reporting.pdf</td>
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<td>7.8_An Audit Report on a Selected Contract at the Department of State Health Services.pdf</td>
<td>HUB_Reform_August 2020 Update.xlsx</td>
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<td>7.8_An Audit Report on Scoring and Evaluation of Selected Procurements at the Health and Human Services Commission.pdf</td>
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## Phase IV: Evaluation Report

### Documentation reviewed during evaluation (3 of 3)

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<td>Supporting attendance records (multiple files)</td>
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<td>Support Services Agreement-16.3 Folder-Multiple documents</td>
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<td>pcs-performance measures.docx</td>
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