

Procurement and Management Process for Staffing Service Contractors

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Andrew D. Dimas
Director of Internal Audit



Texas Department of Information Resources

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Executive Summary

This report discusses the details of the Procurement and Management Process for Staffing Services Contractors audit. The purpose of the audit was to review DIR's procurement and managing process for obtaining contractors for augmenting staffing needs. This included information on the process for selecting vendors and contractors.

The objective of the audit was to determine if written policies and procedures exist, if DIR follows purchasing guidelines, and if DIR monitors the contract staffing services process to ensure it achieves its goals and objectives and meets the needs of the agency. The scope of the audit included a review of the agency's policies and procedures regarding the procurement and administration of contract staffing services, and purchasing activities from FY 2008 to May of 2010. The methodology used consisted of reviewing policies and procedures, interviewing staff, and analyzing data from the Contracting and Procurement and Accounting Divisions.

The review revealed that DIR should strengthen its controls when procuring staffing services. Internal Audit made the following recommendations:

- DIR should develop and implement written policies and procedures that establish controls for the procurement and administration of contracted staffing services.
- DIR should thoroughly document the justification for selecting a vendor solution, and the individual contractor.
- DIR should standardize contractor timesheets for consistent use throughout the agency and look at the feasibility of acquiring a computerized timekeeping system.
- When procuring staffing services, DIR should determine if they can negotiate a lower rate from the vendor than the ICT agreed rate.
- DIR should develop policies for the oversight of augmented staffing services that ensures consistent monitoring of the work and the calculation of time.

DIR management agreed with all the recommendations.

Introduction

Department of Information Resources (DIR) management requested a review of the staff augmentation process based on concerns they had after responding to an open records request. This request asked for information concerning DIR's procurement and managing process for obtaining contractors, including information on the process for selecting vendors and contractors.

Objective, Scope, and Methodology of Work

The objective of the audit is to answer the following questions:

- Does the agency follow and have written policy and procedures for contracted staffing services?
- Does DIR follow purchasing guidelines regarding contracted staffing services?
- Does DIR monitor the contract staffing services process to ensure it achieves its goals and objectives and meets the needs of the agency?

The scope of the audit includes a review of the agency's policies and procedures regarding the procurement and administration of contracted staffing services. In addition, the scope includes a review of the agency's purchasing activities for staffing services from FY2008 to May of FY2010.

The audit methodology consists of reviewing the policy and procedures, questioning agency staff involved in the procurement and payment process for acquiring contracted staffing services, collecting and reviewing documents, and documenting the process. It also included acquiring and analyzing data from the Contracting and Procurement Division and the invoicing data from the Accounting Division.

Background

DIR selects staffing service vendors from contracts awarded through a competitive bidding process by DIR's Information and Communication Technology (ICT) Cooperative Contracts program. Staffing services contracts temporarily augment DIR's current staff based on hourly rates for services provided, by defining time and materials and do not require a statement of work and deliverables.

DIR uses the Cooperative Contracts for its temporary staffing services needs, including providing services for governing the Health and Human Services Commission's Integrated Eligibility and Enrollment Program. When purchasing staffing services, the agency can choose to go through a second round of competitive bidding or use a best value method. The

competitive method involves soliciting multiple vendors (from the approved vendor list) or contractors and ranking them based on a predefined set of criteria. The non-competitive or ‘best value’ method requires written justification describing why a particular vendor or contractor provides the best solution, and using a pricing matrix to set the hourly rate with vendor.

After selecting a contractor, Human Resources (HR) performs a criminal history background check to ensure the contractor meets agency security standards.¹ The hiring authority also requests the contractors to complete nepotism disclosure and non-disclosure forms.

The contractor uses timesheets to document the hours worked. The hiring authority reviews and approves the timesheets for the contractor, and then forwards them to the vendor for invoicing. DIR usually pays contractors on a monthly basis for billable work hours. In addition, staffing service contractors can also count toward the agency’s full-time equivalent employee (FTE) cap if they meet certain criteria.² Currently, DIR’s FTE cap is set at 234.9 and staffing service contractors’ impact on the cap averages seven FTE’s.

Policies and Procedures

The agency follows state procurement guidelines to purchase staffing services through ICT; however, the audit found that there are no written internal policies and procedures guiding management’s decision to use staffing services as a staffing solution. As a result, managers interpret how to administer procured staffing services with limited guidance. In one case, it was apparent that a contractor was involved in the staffing services solicitation process. From a sample of purchase order requisitions for FY2010, Internal Audit (IA) found four requested by a contractor for best value and renewal. The requisitions were for six contractors, five from one vendor and one from another, and approved by DIR management. IA found that best value and renewal justification letters associated with the requisitions were typed and not signed or initialed, indicating the possibility that the contractor could have prepared the letters. This contractor also gave DIR staff directives or guidance. A discussion with DIR management indicates that these were among duties the contractor had been hired to perform along with other responsibilities and at the time were acceptable to executive management.

When reviewing requisitions and “best value” justification letters, IA found that the requisitions did not include a description of the job function, and the best value justification letters only

¹ All DIR employees must go through an annual background check.

²From the State of Texas Classification Office’s Contract Worker Guidelines. To count toward the full-time equivalent employee (FTE) cap, temporary and contract workers must meet the following four criteria, they must: 1) support or supplement and entity’s existing workforce, 2) perform duties customarily accomplished by agency staff, 3) work for more than half the workdays of the 12-month period preceding the final day of the reporting quarter, and 4) be paid with appropriated funds.

indicated the work history of the contractor. The letters did not give reasons for choosing a particular contractor based on the task needed or the skill level. Most contractors hired under the best value process were hired at a job title and hourly rate at the higher end of the range, but because the best value letters only included the individuals’ work history and not the job description, IA could not determine if the pricing level was necessary for the job. IA also reviewed rates used. While most rates were traceable back to the pricing matrix, some were not. Those that were not have the rate as the stated amount on the purchase requisition, but it was not possible to determine why it was different from what was on the contract pricing schedule.

In addition, DIR acquired the majority of contractors using the best value or renewal methods as opposed to the secondary competitive method. DIR uses best value or renewal when there is a need for a specific contractor. Reasons for choosing these methods are that the contractor is familiar with the agency, has a short learning curve, or has the skills needed for the job. However, the agency does not have an independent process in place to determine the validity of the request, or whether the agency can provide the services in-house.

Below is a table that shows the number of contractors that DIR hired per acquisition method during the auditing period. (See: Appendix A, Table 1-3)

Acquisition Method	FY2008	FY2009	FY2010*
Best Value	51	43	13
Competitive	2	19	11
Renewal	8	24	31
* As of May FY2010			

Table 1

DIR requires contractors to fill out and sign a statement that discloses any relationship that would be a conflict of interest while working for DIR and a statement that they will not disclose any confidential information with outside entities. This form is called the Nepotism Disclosure and Non-disclosure Statement. DIR has no written procedures for handling the nepotism disclosure and non-disclosure statements for contractors. However, the review found that each area that hires a staffing services contractor keeps the signed statements. These signed statements do not go through HR or another objective body for verification which does not allow for an independent evaluation of the potential for conflict of interest.

Staffing Services Contractors

Review of data indicated that DIR hired on average 34 staff service contractors to augment DIR’s staff, with a cost of \$1.6 million in FY2008 and \$2.6 million in FY2009. For the last three fiscal years, 49% of the contractors hired were for the telecommunication division.

To determine this, IA gathered data from DIR’s Contract and Procurement Division and Accounting Division. The data from Contracts and Procurement comes from their Salesforce

system. The vendors are required to remit to DIR sales data related to the ICT program. Contracts and Procurement then loads the data into Salesforce. The data from the Accounting Division is from vendor invoices. IA used the invoice data for statistical information, because the invoice data is in DIR’s control.

As mentioned earlier in this report, DIR also has an interagency contract with the Health and Human Services Commission (HHSC) to provide contracted staffing services for the Integrated Eligibility and Enrollment Program. HHSC reimburses DIR for the cost of the contractors, which includes a cost recovery fee of 7% for DIR. These contractors do not count towards DIR’s FTE cap. HHSC’s staffing services cost of goods sold expenses are included in DIR’s operating budget and annual financial report under the professional fees category. These professional fees also include outsourcing and other related categories.

Professional fees were \$13,222,482 in FY2008 and \$17,022,696 in FY2009³ as shown in Table 2. Based on invoiced amounts staffing services totals were \$4,539,362 in FY2008 and \$6,165,040 in FY2009 or 34% and 36% of professional fees.

Professional Fees and Staffing Services Contractor Expenses				
	Professional Fees	DIR	HHSC	DIR and HHSC Combined
FY2008	\$13,222,482.00	\$1,642,556.00	\$2,896,805.00	\$4,539,361.00
		12.42%	21.91%	34.33%
FY2009	\$17,022,696.00	\$2,586,230.00	\$3,578,810.00	\$6,165,040.00
		15.19%	21.02%	36.22%

Table 2

³ Excluding Data Center IBM contractors.

Table 3 below compares DIR’s Salary and Benefit Cost with staffing services cost for DIR, along with Professional Fees as a whole. It shows that augmented staffing services are averaging between 10% and 13 % of DIR’s payroll, while total professional services are between 77% and 86%. (See: Appendix A Table 4)

Staffing Services as a Percentage of DIR Salaries and Benefits		
	DIR Staffing Services Contractors	Professional Fees
FY2008	10%	77%
FY2009	13%	86%
FY2010 (May)	13%	Not Available

Table3

Chart 1 shows the number of contractors hired under staffing services contracts compared with DIR’s FTE cap. DIR’s FTE cap is set at 234.9 FTE’s, and as of July 2010 DIR had three positions unfilled.

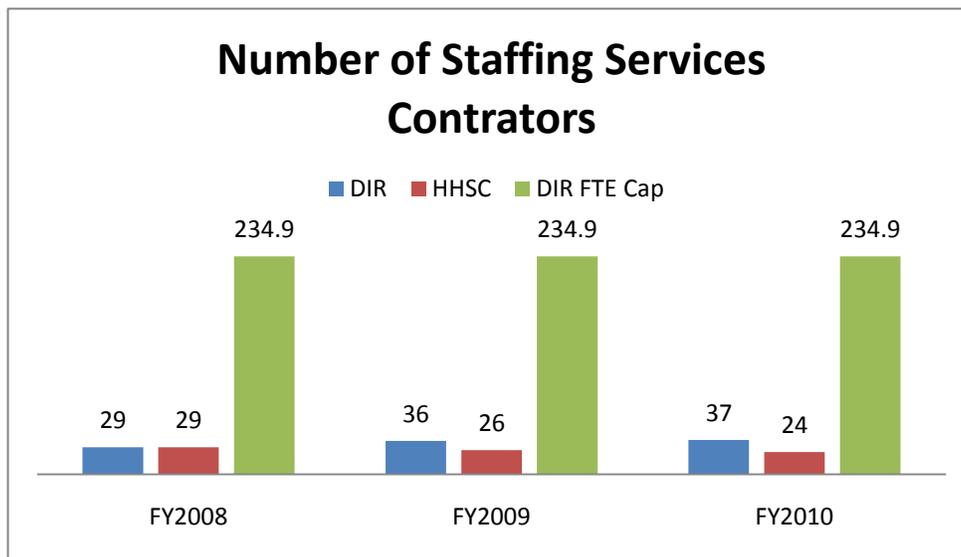


Chart 1

Reviewing DIR’s augmented staff service purchases showed that some vendors were used more than others and that DIR hired back contractors who had changed employers (vendors). The division within DIR that used the most contractors was the Communications and Technology Services (CTS) Division.

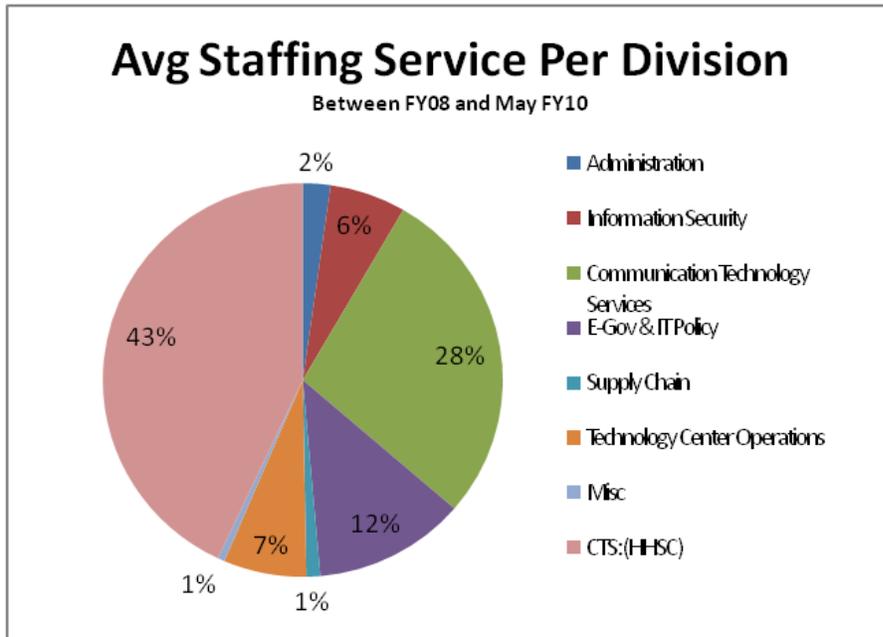


Chart 2

This division tended to hire contractors from Active Strategies, more often than from other vendors. The majority are working for the HHSC’s Integrated Eligibility and Enrollment Program, which falls under the responsibility of CTS. In addition, Active Strategies has the most sales with DIR associated with staffing services. (See Appendix A)

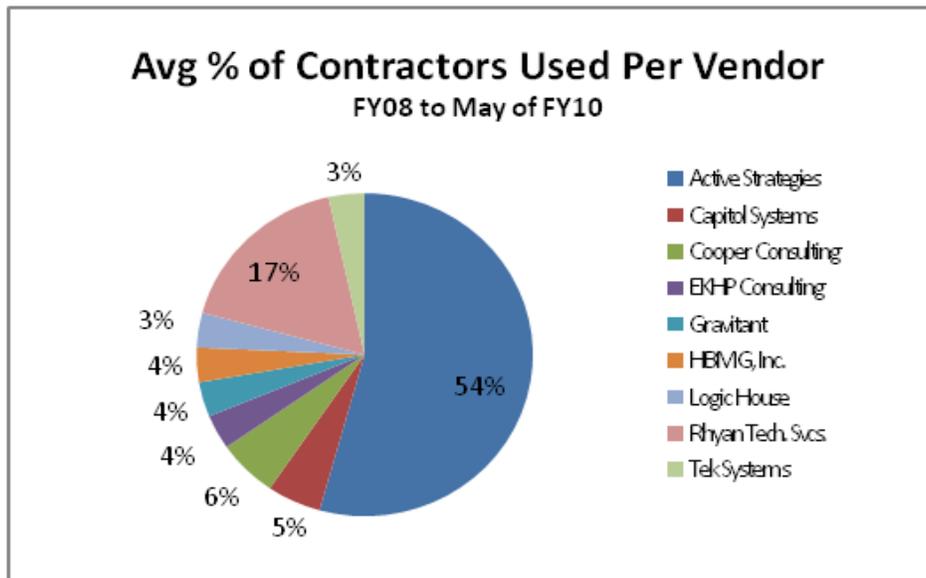


Chart 3

The HHSC contractors are known as the Technical Solutions Group and are housed at the Southfield Building in South Austin. When DIR signed the agreement with HHSC, DIR management determined that the best solution for hiring contractors was staffing services.

Currently there are approximately 24 contractors at the site. At the time of the review, IA found that they manage themselves and that no one from CTS regularly visits the site. While there have been no documented complaints about service provided, it wasn't until April of 2010 that DIR began monitoring the group. To record their work, the contractors complete and sign timesheets, and forward them to CTS management for approval. To manage this function, CTS assigned a contractor that is paid at a manager rate of \$110.00 an hour, for the administrative role of compiling the time reports in a spreadsheet. CTS sends these spreadsheets to the Accounting Division to invoice HHSC.

Conclusion

The concerns management had regarding the staffing service process are valid. In order to ensure that management meets its goals and objective for an efficient and effective staffing service solution, the agency should develop internal controls for assessing the need and cost-effectiveness by developing internal procedures for procuring and managing contractors. Since, DIR relies heavily on contractors in order to operate, the stronger controls should minimize risk and provide reasonable assurance that the use of the contractors is in the best interest of the State.

Finding 1

The agency does not have written policies and procedures for overseeing its contract staffing services. Thus, the approach used by the agency can be inconsistent, inefficient, costly and inappropriate. Originally, there seems to have been an understanding of how to procure staffing services. Over time, there has been a misunderstanding of the original directive due to not documenting the policies and procedures. Well-written and followed policies and procedures ensure consistency, and are essential for accountability, proper expenditures, efficiency, and effectiveness.

Recommendation

DIR management should develop and implement written policies and procedures that establish controls for the procurement and the administering of contracted staffing services. Management should include language that addresses the following:

- appropriate roles and responsibilities of contractors
- a process to ensure an independent review of the signed statements of Nepotism Disclosure and Non-Disclosure agreements

- a conflict of interest statement and review for those DIR employees who are requesting or approving staffing services
- specific criteria and guidelines (besides those required by purchasing guidelines) for documenting and selecting best value candidates or best value renewals
- guidelines for best value justification letters
- determining if a cost benefit analysis should be performed

Management Response

Management Response: Agree. DIR will establish well defined policies and procedures for the procurement and administration of contracted staffing services no later than March, 2011. DIR will then provide training to all divisions on the new policies by April, 2011. The Director of Enterprise Contracts is responsible for implementation.

Finding 2

DIR augments its staff using staffing service contractors in order to meet statutory obligations and maintain services. Managers using the best value method do not always fully document the justification and do not document that other options have been considered and fully explored. Incomplete written justification may not support the decision to contract out for staff augmentation, and there are no formal guidelines on documenting justification to hire staffing services contractors.

Recommendation

When making the determination to augment staff DIR should thoroughly document the justification for choosing a staffing services solution, and/or the vendor, especially when using the best value procurement method. Best value justification letters should include a description of the tasks, the qualification of the contractor, and an explanation of why it justifies the classification title with the hourly rate. Management should evaluate cost effective alternatives to determine the best solution for the agency.

Management Response

Agree. This recommendation will be included in the written policies and procedures, which will be complete by March 2011. The Director of Enterprise Contracts is responsible for implementation.

Finding 3

DIR has no standards for contractors to report time. Depending on the division, the contractor uses an in-house time card or the vendor's own time card. Due to this, time cards are not consistent. Without a standardized time card format, it may be harder to discover discrepancies, patterns, or obtain other valuable information. Since standards do not exist, each division determines how to best report contractor hours for payment of work performed. Standards for recording contractor work hours will allow the agency to manage and review contractors' time, cost, and scope of work.

Recommendation

DIR should develop a standard form that will capture all required information to pay a contractor along with any additional information to manage the contracted service. Additionally, DIR should determine if it is feasible to acquire a computerized timekeeping system that would meet DIR criteria and manage contractors. An automated time system would allow for consistent information and greater controls for checks and balances, and the ability to generate reports. Additionally, any time worked over the agreed amount of time or over the 40 hour work week, should require documented approval by the overseeing DIR manager.

Managements Response

Agree. DIR will develop a standard time card to be used by all contracted staff. This form will be incorporated into the written policies and procedures. DIR is scheduled to convert to a new Oracle ERP system in January, 2012. DIR will first look to consider the new ERP system as an automated solution for the timekeeping system. Should automated timekeeping not be possible through the ERP system, DIR will explore the feasibility of other options for an automated timekeeping. This analysis will be complete by August 2011. The Director of Enterprise Contracts is responsible for implementation.

Finding 4

There is no evidence in the purchasing documents reviewed indicating that anyone requested or negotiated a reduced hourly rate. Reports indicated that the majority of the time DIR pays at the ICT agreed upon rate. DIR employees should negotiate the best rate possible.

Recommendation

When requesting service the hiring authority should request negotiate a lower rate with the vendor and document the results.

Managements Response:

Agree. DIR will address negotiations of the hourly rate and documentation of the negotiations in the written policies and procedures developed in response to Finding 1. The Director of Enterprise Contracts is responsible for implementation.

Finding 5

The agency selected one vendor to supply the majority of contractors needed for the Health and Human Services Commission's Integrated Eligibility and Enrollment Program. While this may be justified, there can be a perception that one contractor or vendor is being favored. IA also found there was not effective oversight in managing these contractors. Not having the appropriate oversight could result in the misuse and abuse of State resources. Also, there needs to be a distinction regarding the distinct roles and responsibilities of contractors and DIR employees, including responsibilities relating to contract management.

Recommendation

DIR should develop policies to ensure that the staffing services process is based on business needs when using staffing augmentation to provide services to external entities. All alternatives to meet the business needs of the agency should be evaluated and the decision documented. The agency should develop policies for the oversight of augmented staffing services that ensures consistent monitoring of the work and the calculation of time.

Management Response

Agree. DIR will include in its written policies and procedures a process for determining when staffing services is used to provide services to external agencies, as well as the oversight associated with all staffing services contractors, whether used for external customers or internal business needs. The Director of Enterprise Contracts is responsible for implementation.

Appendix A – Tables and Charts

The following charts and tables provide added detail or general information to the topics discussed in this report.

The tables below, tables 1-3 show the methods and frequency used by DIR to acquire staff services contractors by category. This shows that the majority of acquisitions are best value or renewal.

Staffing Service for Fiscal Year 2008		
SS Technology Category	Acquisition Type	Count
Applications	Best Value	18
Applications	Competitive	1
Applications	Renewal	2
Customer Technical Support	Best Value	2
Data Management	Best Value	1
Project Management	Best Value	23
Project Management	Competitive	1
Project Management	Renewal	6
Telecom/Networking	Best Value	7

Table 1

Staffing Service for Fiscal Year 2009		
SS Technology Category	Acquisition Type	Count
Applications	Best Value	12
Applications	Competitive	6
Applications	Renewal	6
Customer Technical Support	Best Value	3
Customer Technical Support	Competitive	3
Data Management	Best Value	1
Project Management	Best Value	22
Project Management	Competitive	8
Project Management	Renewal	16
Telecom/Networking	Best Value	5
Telecom/Networking	Competitive	2
Telecom/Networking	Renewal	2

Table 2

Staffing Service for Fiscal Year 2010		
SS Technology Category	Acquisition Type	Count
Applications	Best Value	7
Applications	Competitive	4
Applications	Renewal	6
Customer Technical Support	Best Value	2
Customer Technical Support	Renewal	2
Data Management	Best Value	2
Project Management	Best Value	2
Project Management	Competitive	5
Project Management	Renewal	20
Telecom/Networking	Competitive	2
Telecom/Networking	Renewal	5

Table 3

Table 4 shows the total dollars spent per fiscal year for Staffing Services and Professional Fees compared to DIR salaries and benefits.

Professional Fees and Staffing Services Compared to DIR Salaries and Benefits			
	DIR Salary and Benefits	Staffing Services Contractors DIR	Professional Fees (excluding IBM)
FY2008	\$17,237,934	\$1,642,557	\$13,222,482
FY2009	\$19,765,733	\$2,586,230	\$17,002,696
FY2010 (May est.)	\$14,719,935	\$1,850,438	Not Available

Table 4

Chart 1 shows the frequency in sales to vendors as a whole for all DIR purchases including HHSC services.



Chart 1

Chart 2 below shows the total dollar amount per fiscal year spent on staffing services by DIR.

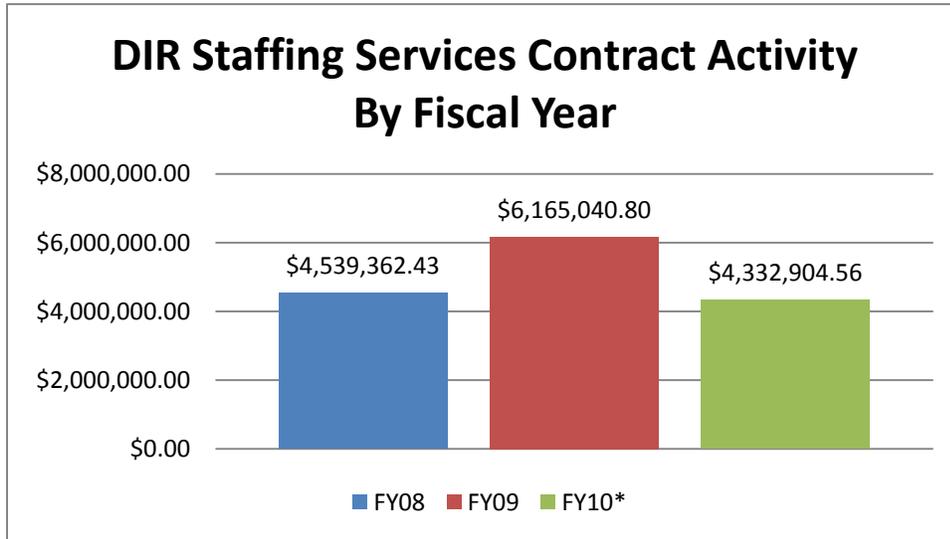


Chart 2

Chart 3 shows DIR Staffing Services Contractor vendor sales by fiscal year.

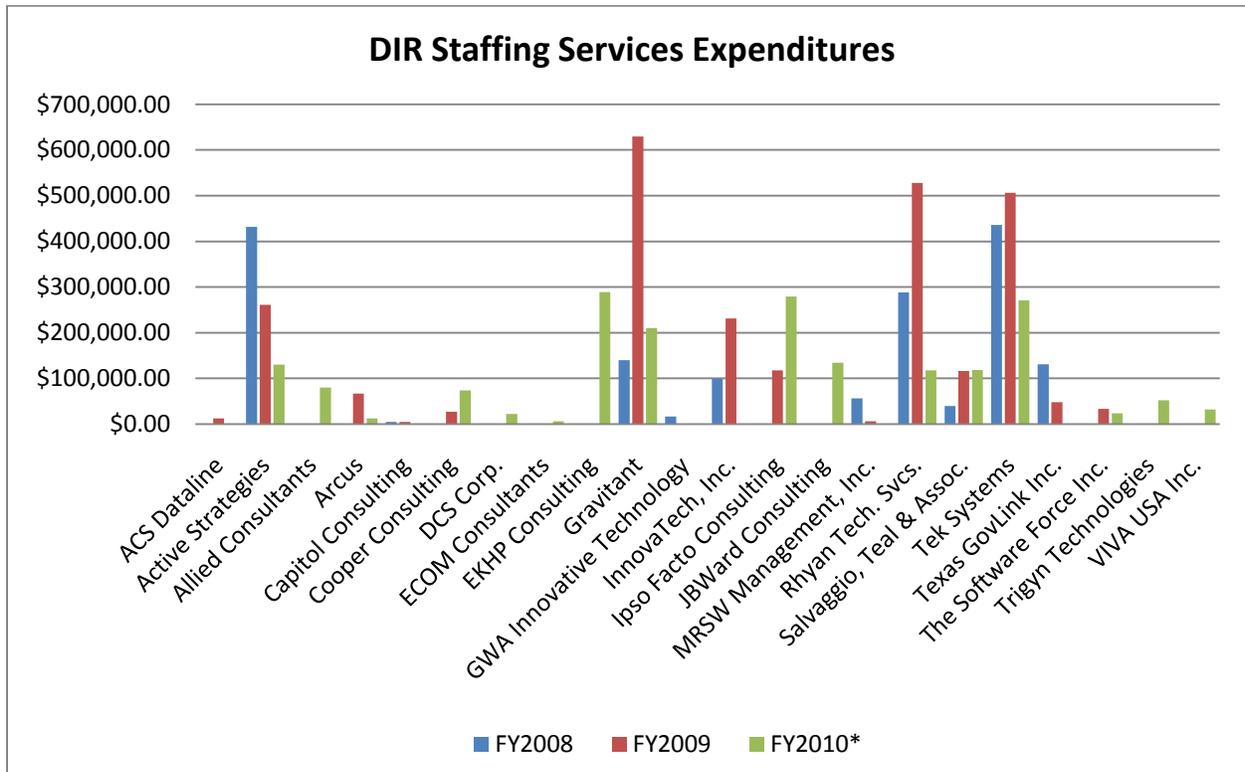


Chart 3

Chart 4 shows the frequency of vendor use by fiscal year for DIR.

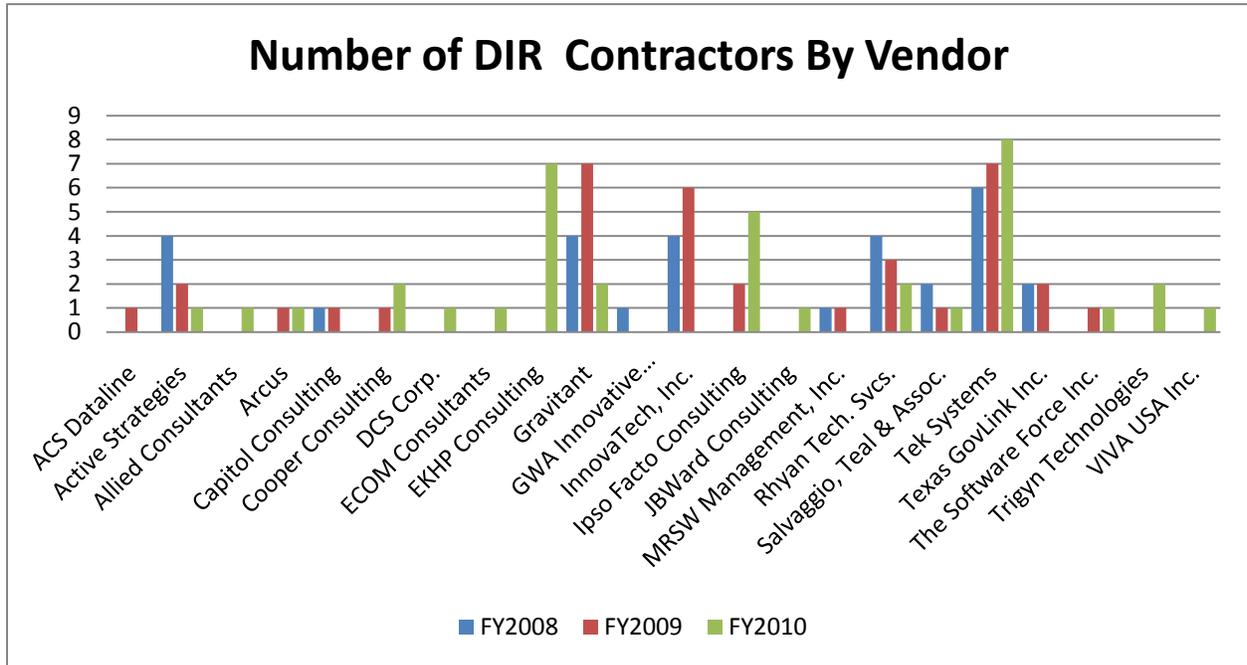


Chart 4

Chart 5 shows the number of hours worked by Staff Services Contractors by vendor.

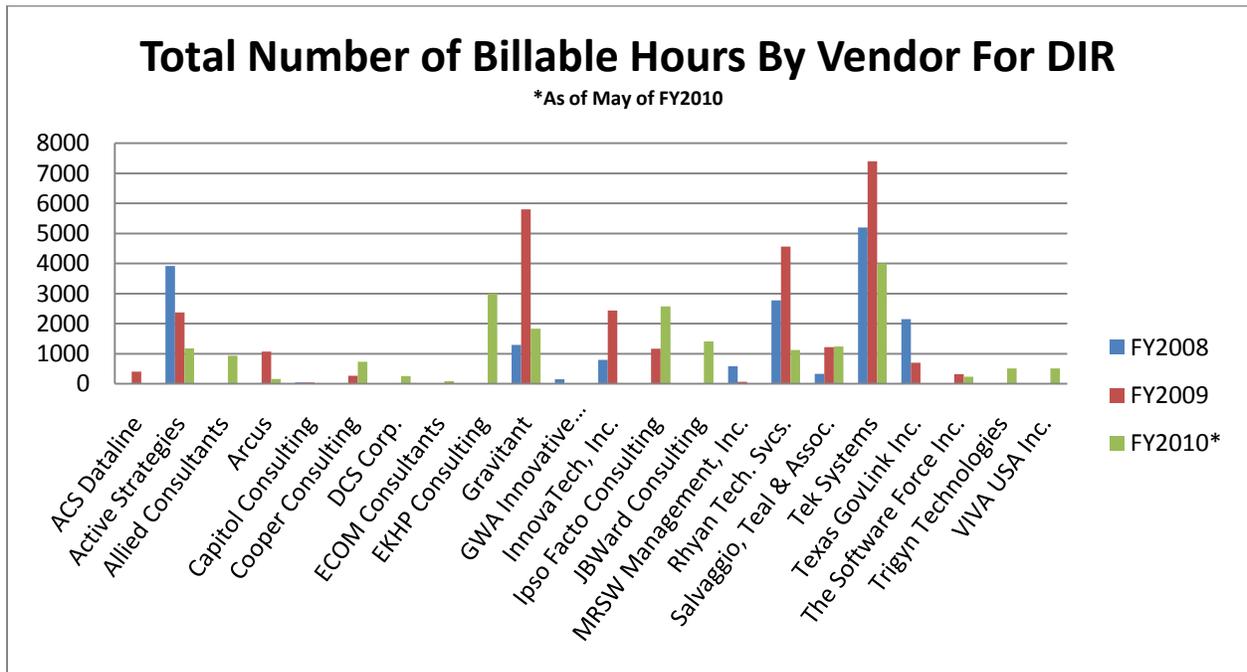


Chart 5

Appendix B – HHSC Tables and Charts

DIR administers the IT staffing services for HHSC’s Integrated Eligibility and Enrollment Program. This appendix has four charts that show the purchase activity associated with overseeing the interagency agreement.

Chart 6 shows the frequency of vendor use by fiscal year. You can see that the majority of contractors come from Active Strategies and Rhyan Tech Svcs. From Chart 7 you can see that due to the number of contractors coming from the two vendors, they earn the largest income from staffing services contractors. Chart 8 shows the number of hours worked by vendors.

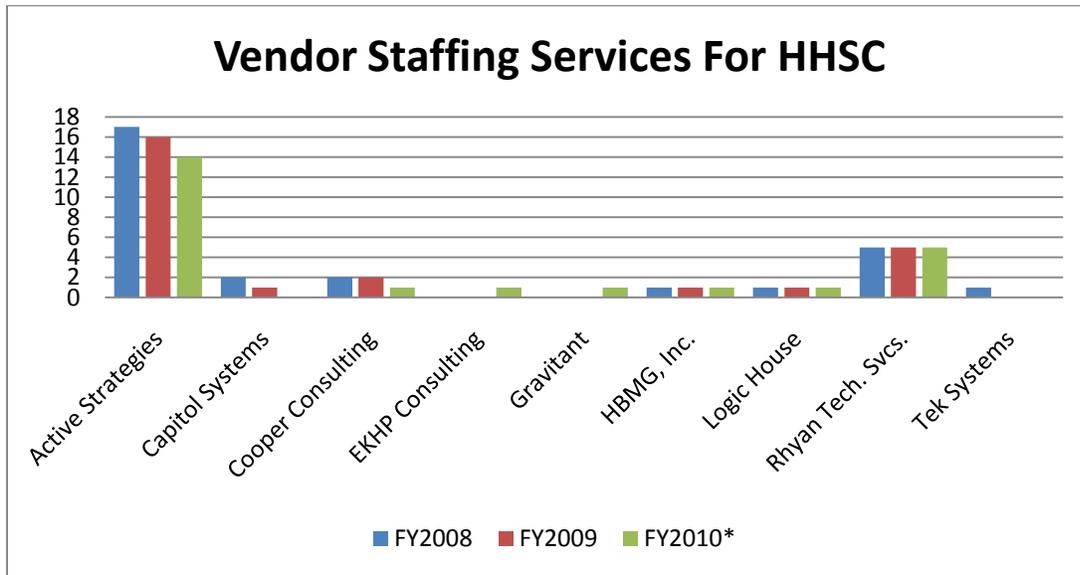


Chart 6

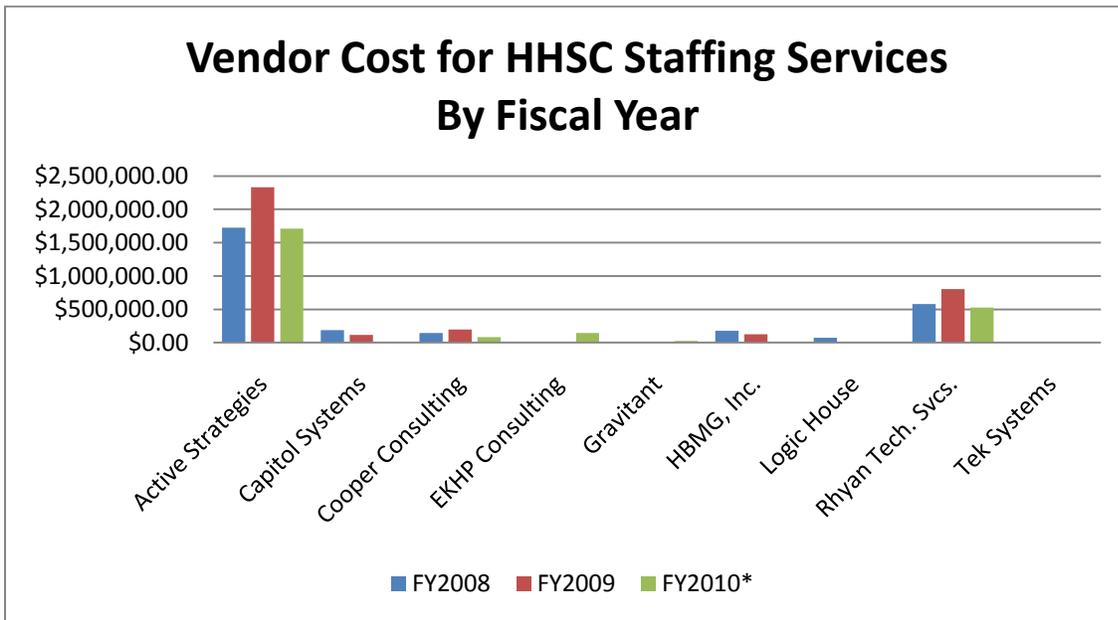


Chart 7

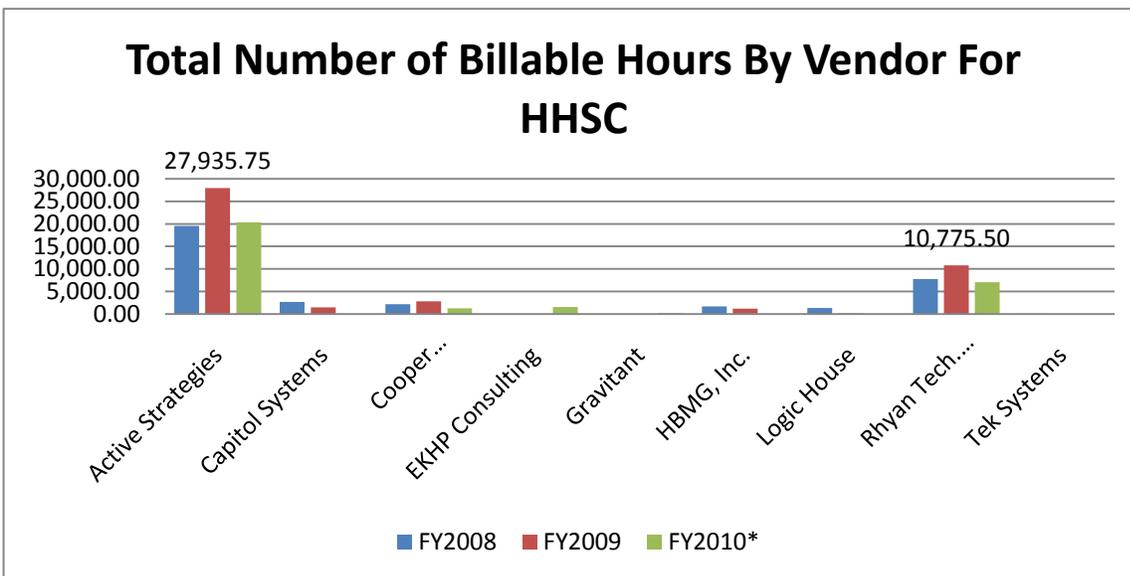


Chart 8