Overall Conclusion

Administration of major contracts funded and operated through partnerships between Texas A&M University and private sector companies requires significant improvement in certain areas to ensure that contract risks and compliance are being managed. These are typically high dollar contracts that impact many areas of the university; thus, strong monitoring and oversight processes are critical. Centralized coordination and formal assignment of oversight responsibilities for these contracts is focused primarily on contract revenue requirements resulting in inconsistent monitoring of other significant contract terms.

In addition, adequate resources have not been dedicated to oversee contract compliance for the outsourced dining, building maintenance, landscape maintenance, and custodial services’ contracts. This includes implementation of required performance management tools to ensure adequate vendor performance and development of required detailed work plans. These work plans are critical in determining the scope of outsourced services to be provided and the responsibilities of each party. Opportunities for improvement were also noted related to the verification of revenue received from the university’s student disbursement services program agreement.

Summary of Significant Results

Centralized Contract Coordination and Administration

Coordination and assignment of oversight responsibilities at the university requires improvement for major contracts involving partnerships between Texas A&M University and private sector companies as well as A&M System contracts that involve the university. Centralized coordination and assignment of oversight responsibilities is focused primarily on contract revenue requirements only. As a result, it is not clear who in management is responsible for overseeing compliance with the other significant contract terms. These contracts have a monetary value

<table>
<thead>
<tr>
<th>Major Contracts Selected for Review</th>
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<tbody>
<tr>
<td>Chartwells Dining Services</td>
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<tr>
<td>SSC Building Maintenance Services</td>
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<tr>
<td>SSC Landscape Maintenance Services</td>
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<tr>
<td>SSC Custodial Services</td>
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<tr>
<td>Barnes and Noble Bookstore Services</td>
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<tr>
<td>Pepsi Beverage Company Vending Contract</td>
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<td>Sterling Management Golf Course Operation</td>
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<td>Adidas Athletic Apparel</td>
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<td>Learfield Communications Athletic Contracts</td>
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<tr>
<td>Wells Fargo Student Disbursement Program</td>
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in the millions of dollars annually. Noncompliance with contracts terms and inadequate vendor performance could have a significant financial and operational impact on the university.

Management of Outsourced Dining, Building Maintenance, Landscape Maintenance, and Custodial Services’ Contracts

Insufficient resources have been dedicated to overseeing outsourced dining, building maintenance, landscape maintenance, and custodial services’ contracts by the university. To date, there has only been one individual with 75% effort assigned to administer these four outsourced contracts which have a significant financial and operational impact to the university. Key portions of the contract such as implementation of vendor performance measurement tools and detailed work plans have not been completed even though the contract has been in place since August 2012. Adequate oversight and completion of key contract terms are critical to the overall success of these outsourced initiatives.

Summary of Management’s Response

Texas A&M University acknowledges the importance of centralized contract coordination and administration and will standardize the assignment of oversight responsibilities for contracts involving major university partnerships with private companies. In addition, the university will work with A&M System Offices’ personnel to establish a process that involves the university in the drafting of agreements initiated by the A&M System. This early inclusion will allow the university to gain a more comprehensive understanding of all terms and conditions of any draft agreements initiated by the A&M System and to formally assign a contract administrator as early as possible.

In addition, the university is committed to providing appropriate resources for the oversight and monitoring of the outsourced contracts to ensure the overall success of these outsourced initiatives.

Additional detail is provided within the individual audit response.
Detailed Results

1. Centralized Contract Coordination and Administration

Coordination and assignment of oversight responsibilities for major contracts that involve partnerships between Texas A&M University and private sector companies requires significant improvement to ensure compliance with contract terms and adequate vendor performance. Centralized coordination and assignment of oversight responsibilities is focused primarily on contract revenue requirements only. As a result, it is not clear who in management is responsible for overseeing compliance with the other significant contract terms.

The auditors identified over twenty-five of these types of contracts at the university that are either currently in place or in the process of being established. These contracts have a monetary value in the millions of dollars annually and often impact many areas of the university. Although most of these partnering contracts are included in a centralized database, it was often unclear who is responsible for overseeing general contract compliance and vendor performance. We noted several instances in which general contract terms were not being sufficiently monitored or complied with for the contracts tested. Details of these instances are noted below or within the other audit observations in this audit report:

- Barnes and Noble - Pricing of textbooks in compliance with contract terms is not being monitored.
- Pepsi - Marketing support amounts required to be incurred by the vendor are not consistently provided to the university to facilitate monitoring. In addition, product purchases by university departments and student organizations are not being monitored to ensure they receive the pricing in the agreement.
- Sterling Golf Management - A nutrient and pest management program was developed by Sterling Golf, but a copy of the program was not submitted to Texas A&M Environmental Health and Safety for review and approval as required.

University rules do not address administration of contracts subsequent to their execution. A&M System Policy 25.07, Contract Administration was updated in October 2013 to broaden the scope of the contract administration rules required for each member to include administration of the contracts once they have been executed along with contract closeouts and contract reporting requirements. The
university Contract Administration rule has not yet been updated to address these
ew contract administration requirements. Noncompliance with contract terms and
inadequate vendor performance related to these major contracts could have a
significant financial and operational impact on the university.

Recommendation

Formally assign oversight responsibilities for contracts involving university
partnerships with private companies to ensure these contracts are monitored for
compliance with all contract terms including adequate vendor performance.
Periodically report the results of contract compliance monitoring to executive
management.

Update the university’s existing Contract Administration rule to provide guidance
related to administration of contracts after execution as well as closeout of
contracts and contract reporting requirements as required by A&M System policy.

Management’s Response

The Department of Contract Administration will continue to provide oversight on
university-wide major contracts. Contract Administration will coordinate with
senior administration on assignment of appropriate responsibility for departmental
specific major contracts and engage with the department to ensure contract
compliance. Routine reporting will be provided to senior administration.

Texas A&M Standard Administrative Procedure (SAP) 25.07.01.M0.01, Contract
Administration will be updated to align with the most recent changes to System
Policy 25.07, Contract Administration as it relates to administration and contract
close-out.

Both enhancement actions will be completed by December 31, 2014.

2. Management of Outsourced Dining, Building Maintenance,
Landscape Maintenance, and Custodial Services’ Contracts

Contracts were executed in August 2012 to outsource the university’s dining,
building maintenance, landscape maintenance, and custodial services to Compass
Group USA, Incorporated’s Chartwells Division (Chartwells) and Southeast Service
Corporation’s Service Solutions (SSC). These contracts total more than $50
million in annual expenditures and have a significant impact on university
operations. Due primarily to a lack of adequate resources dedicated to
administering and overseeing these contracts, there are still critical aspects of
these contracts which have not been fully implemented including vendor performance tools and detailed work plans which are both critical to the success of these outsourced arrangements.

2a. **Adequate Resources to Manage Outsourced Dining, Building Maintenance, Landscape Maintenance, and Custodial Services**

The university has not dedicated sufficient resources to oversee outsourced dining, building maintenance, landscape maintenance, and custodial services' contracts. Prior to outsourcing these university operations, an assessment was performed to identify responsibilities and functions that should be managed by the university related to the outsourcings. A proposal was prepared which included a vendor management program to serve several functions related to the success of the outsourced initiative and provide continuity of functions not encompassed by outsourcing. Specifically, the management program was to provide coordination of the contracted outsourced services with vendors, expertise necessary for appropriate oversight, management functions, and roles related to quality assurance and compliance.

To date, there has been one individual with 75% effort dedicated to administering these four outsourced contracts. Three personnel were originally approved and budgeted to help perform contract administration duties, but a decision was made to not take any action due to various management changes at the university along with the administrative review being performed by the A&M System. Key portions of the contract such as vendor performance measurement tools and detailed work plans have not been completed even though the contract has been in place since August 2012. Adequate oversight and completion of key contract terms are critical to the overall success of these outsourced initiatives.

Steps were taken by the university in February 2014 to begin filling the following positions to assist with administering the outsourced contracts:

- One project administrator to assist in overseeing construction inspections and administration for construction projects currently performed through SSC which total more than $120 million according to university personnel.

- One contract administrator to assist in overseeing compliance with contract terms and oversight of vendor performance for the SSC Building Maintenance Services’ contract.

- One contract administrator to assist in overseeing compliance with contract terms and oversight of vendor performance for the SSC Landscape Maintenance Services and SSC Custodial Services’ contracts.
Recommendation

Ensure sufficient resources are available to effectively monitor the dining, building maintenance, landscape maintenance, and custodial services’ outsourced contracts for compliance and adequate vendor performance given the magnitude and significance of these contracts to university operations. Reassess the monitoring workload several months after the three positions have been filled to determine if the university’s needs are being achieved.

Management’s Response

To assist with the oversight and monitoring responsibilities of the outsourced contracts, a Project Coordinator was hired on February 1, 2014 and an Assistant Director was hired on May 26, 2014. Management will monitor and assess the workload requirements to ensure the necessary resources are devoted to appropriately monitor and provide oversight to the dining, building maintenance, landscape maintenance, and custodial services’ outsourced contracts by December 31, 2014.

2b. Vendor Performance Management for Outsourced Dining, Building Maintenance, Landscape Maintenance, and Custodial Services’ Contracts

Vendor performance tools included in the dining, building maintenance, landscape maintenance, and custodial services’ contracts have not been implemented to monitor vendor performance. A performance measure evaluation tool has been created and agreed upon by both parties as required by the outsourced contracts. However, this tool has not yet been used by the university to measure vendor performance and create action plans to address problem areas. In addition, formal monitoring for quality assurance is not being performed for building maintenance (including construction projects), landscape maintenance, and custodial services by a representative of the university as stipulated in the outsourced contracts. Contracts with SSC include a quality assurance section which states that a representative of Texas A&M shall perform a monthly inspection of the premises to ensure compliance with the agreement.

Feedback received during the audit from various university constituencies indicated a general need for better communication and oversight by the university related to vendor activities. Most individuals were not aware of a formal mechanism to report problems or provide feedback related to vendor performance other than contacting the individual responsible for administering these contracts for the university. However, upon discussion with SSC management, it was determined that SSC
employees are available to handle issues and surveys are sent out with each work order. Although work order surveys are being sent out, the survey goes to the individual that initiates the work order who is often an assistant within the department. SSC management indicated that the assistant does not always complete the survey or forward it to departmental management to complete. As a result, SSC is working to better ensure surveys are sent to the appropriate individuals for feedback.

Without adequate oversight and monitoring of vendor performance, there could be a significant negative impact on university operations in the following areas:

- Increased cost and reputational risk due to disruption of university operations.
- Increased levels of employee, student, and visitor risk due to unsafe conditions.
- Employee discontent/low morale due to poor vendor quality and service.

**Recommendation**

Fully implement the performance measurement evaluation tools created to manage vendor performance related to these outsourced contracts and take action as necessary to address any problem areas in a timely manner. This includes assessing corresponding penalties for poor vendor performance and/or providing bonus payments to vendors for superior performance. Use this vendor performance information to determine the extent to which additional monitoring is needed by the university.

Educate university personnel on formal mechanisms available for reporting problems and work with SSC to enhance their current customer survey process related to work orders to ensure the survey is sent to the appropriate individuals for feedback.

**Management’s Response**

Texas A&M personnel will continue to communicate with key groups/individuals to ensure the campus community understands the process for reporting problems and/or providing feedback on all the outsourced activities. SSC will also hire a Customer Service Manager to address this issue and Texas A&M personnel will work closely with this manager on campus communications. This includes reassessing the current customer service process related to work orders to ensure the survey is sent to the appropriate individuals for feedback.
As the workload needs are addressed in management’s response to recommendation 2(a), the associated staff will assist in the implementation of the performance measurement tools by December 31, 2014. This information will be used to help determine areas where additional monitoring may be needed by the university.

2c. Vendor Work Plans for Outsourced Dining, Building Maintenance, Landscape Maintenance, and Custodial Services’ Contracts

Work plans critical to defining the scope of vendor services and the responsibilities of each party have not yet been finalized for the dining, building maintenance, landscape maintenance, and custodial services’ contracts. Detailed work plans were provided by Chartwells for dining services and by SSC for building maintenance, landscape maintenance, and custodial services in May 2013 as required; however, the work plans have not yet been accepted by the university approximately one year later. The university is currently reviewing the work plans and working with the vendors on requested modifications.

The original outsourced contracts were written open-ended in terms of the scope of work related to these agreements and included a stipulation that the vendor, in collaboration with Texas A&M, prepare a detailed work plan within the first nine months of the contracts. The contracts indicate that in the interim, the vendors will provide services consistent with the operating practices previously utilized by the university.

The untimeliness of addressing the completion of the work plans results in the university accepting activity levels from over 18 months ago instead of adjusting to current needs as defined in the detailed updated work plans.

Recommendation

Continue working with Chartwells and SSC to complete the development of detailed work plans that meet the requirements of the dining, building maintenance, landscape maintenance, and custodial services’ contracts.

Ensure the work plans adequately define the scope of vendor services to be provided as well as the responsibilities of each party.

Implement the work plans and monitor to ensure the plans are adhered to by both parties.
Management’s Response

Proposed work plans were submitted by SSC according to the agreement date. The proposed plans have been refined based on Texas A&M input and will be completed and approved by August 31, 2014. Plans will be monitored by the university to ensure they are adhered to by both parties.

Proposed work plans were submitted by Chartwells and approved April 14, 2014.

3. Student Disbursement Services Program Agreement

Royalty payments received annually from Wells Fargo Bank are not adequately monitored to ensure the accuracy and completeness of the payment received. In fiscal year 2013, the university received a royalty payment of $295,000 from Wells Fargo Bank based upon its Student Disbursement Services Program Agreement with the bank. The agreement specifies that the royalty payment amount will be based on a calculation involving the number of eligible student funds disbursement accounts and eligible bank checking accounts as a percentage of total student enrollment for the semester.

The university has not requested supporting documentation of the royalty payment calculation to ensure the accuracy of these payments which have been received annually since 2008. As a result, there is an increased risk that the university is not receiving the correct amount of revenue from royalty payments based upon the contract terms.

Recommendation

Request and review supporting documentation for the calculation of the annual royalty payment received from Wells Fargo Bank related to its Student Disbursement Services Program Agreement with the university. Ensure the calculation is correct and address any discrepancies noted with the vendor.

Management’s Response

Supporting documentation for the annual royalty payments was received from Wells Fargo on May 8, 2014. All previous years’ calculations have been reviewed and have been deemed to be accurately calculated and paid. Enhanced procedures have been implemented to ensure future calculations associated with this contract are monitored and verified against the revenue received. Those procedures were implemented as of May 31, 2014.
Basis of Review

Objective and Scope

The overall objective of this audit was to review contract monitoring processes at the university and determine compliance with selected contract terms for major contracts funded and operated through partnerships between Texas A&M University and private sector companies. Contract terms reviewed included those related to contract revenue, contract payments, insurance requirements, operating guidelines, financial reporting, and various other consideration or rights to be provided by either party such as vendor products and university advertising space.

The contracts reviewed included Chartwells Dining Services, SSC Building Maintenance Services, SSC Landscape Maintenance Services, SSC Custodial Services, Barnes and Noble Bookstore Services, Pepsi Beverage Company Vending Contract, Sterling Management Golf Course Operation, Adidas Athletic Apparel, Learfield Communications Athletic Multi-Media Rights, and Wells Fargo Student Disbursement Services Program. The audit period focused primarily on activities from September 1, 2012 to February 28, 2014. Fieldwork was conducted from December 2013 to April 2014.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System; Texas A&M University Rules and Standard Administrative Practices; stated contract stipulations; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

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