

Report to Management

CONTRACT ADMINISTRATION PROCESS AUDIT

October 6, 2010

Texas Water Development Board

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KEY POINTS OF INTEREST

Overall Conclusion

The Contract Administration Process has shown significant improvement over the past two years. This was the unanimous agreement of the contract managers selected for interview during the audit. The conclusion is also supported by the testing conducted on a sample of contracts selected from the Contract Administration System (CAS). The tests revealed that contracts are adequately planned, prepared, and monitored.

It is apparent that Contracting and Purchasing (hereinafter referred to as “Contract Administration”) management and staff have worked diligently to improve the contract process and to provide a high level of customer service to the agency’s contract managers:

- Communication has been enhanced;
- The processing of invoices/billings flows smoother and quicker; and
- There was a decline in the number of contracts reissued because they reached their expiration date before receipt of the final report or deliverable.

No system, regardless of improvement, is perfect, however; and the audit revealed some items that should be addressed by management. Nevertheless, at least two of the observations cannot be directly attributed to any weakness in controls or processes: The CAS observation should be addressed when CAS is integrated into TxWISE; and the agency has already indicated its intent, budget permitting, to comply with Texas Government Code Section 2262.053 (c).

Key Facts and Observations

Testing performed on a judgmental sample of contracts revealed them to be complete, properly planned and processed, and appropriately monitored.

Although notified via broadcast e-mail and presented in monthly operational meetings, many contract managers have not read the new contract procedures manual entitled, *TWDB Contracting Policies and Procedures*, which is available on the IWEB.

Interviews with contract managers revealed that contract training was mostly via “on-the-job” experience. Nevertheless, TWDB is subject to the requirements set forth in Texas Government Code Section 2262.053 (c), which states that each state agency shall ensure that the agency's contract managers complete a training program implemented and administered by the Texas Comptroller of Public Accounts.

Most of the contract managers interviewed indicated that they used CAS only to approve invoices for payment.

Several contract managers have responsibility for a large number of contracts. In addition, a majority of the contract managers did not have contract management responsibilities listed within their performance plans or appraisals.



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A. Management Summary

1. Purpose

The purpose of this report is to present the conclusion, observations, recommended action plans, and management responses from an audit of the Contract Administration Process. This audit was conducted in accordance with *International Standards for the Professional Practice of Internal Auditing* and Generally Accepted Government Auditing Standards.

The standards require the audit to be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for observations and conclusions based on the selected audit objectives. The evidence obtained provides a reasonable basis for the observations and conclusions based on these objectives.

2. Background

The audit of the Contract Administration Process was conducted in accordance with Internal Audit's annual audit plan. Although the scope of the audit encompassed the entire agency, its *de facto* focus centered upon Contract Administration.

Contract Administration is located within Operations and Administration. Its mission is to provide the TWDB, its contractors, customers, and stakeholders with procurement related services. In this respect, the section is responsible for purchasing services and goods and for the overall coordination and administration of agency contracts.

Contract Administration's stated mission is to ensure goods and services are properly procured, agency contracts are effectively and efficiently managed, the TWDB is compliant with governing procurement rules and regulations, and deliverables are useful and beneficial to the TWDB and the citizens of the State of Texas. Its major responsibilities include ensuring contractual compliance with relevant financial assistance programs, as well as providing:

- Physical custody and security over all contractual and procurement documentation; and
- Guidance and mentoring to TWDB staff related to procurement and contract administration.

The section currently has 13 staff whose duties include purchasing, payment processing, and contract development.



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3. Scope and Objectives

The scope of this audit encompassed the examination and evaluation of the adequacy and effectiveness of the internal controls and quality of performance in carrying out assigned responsibilities in relation to the contract administration process. The scope included specific program steps designed to assess:

- Safeguarding of assets;
- Effectiveness and efficiency of operations; and
- Reliability and integrity of information.

The objectives included procedures designed to determine if:

- The contract administration process works effectively and is formally documented;
- The process of administering contracts is effective in ensuring the accomplishment of TWDB's mission;
- Adequate training and oversight in the contract administration process is provided to agency staff and management;
- Data and information provided by Contract Administration is sufficient and timely enough to assist in monitoring contracts through the fiscal year; and,
- The process for awarding contracts falls within the regulatory requirements.

4. Conclusion

The Contract Administration Process has shown significant improvement over the past two years. This was the unanimous agreement of the contract managers selected for interview during the audit. The conclusion is also supported by the testing conducted on a sample of contracts selected from the Contract Administration System. The tests revealed that contracts are adequately planned, prepared, and monitored.

It is apparent that Contract Administration management and staff have worked diligently to improve the contract process and to provide a high level of customer service to the agency's contract managers:

- Communication has been enhanced;
- The processing of invoices/billings flows smoother and quicker; and
- There was a decline in the number of contracts reissued because they reached their expiration date before receipt of the final report or deliverable.

No system, regardless of improvement, is perfect, however; and the audit revealed some items that should be addressed by management. Nevertheless, at least two of the observations cannot be directly attributed to any weakness in controls or processes: The CAS observation should be addressed when CAS is integrated into TxWISE; and the agency has already indicated its intent, budget permitting, to comply with Texas Government Code Section 2262.053 (c).



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5. Action Plans

The following steps are recommended:

- Contract Administration should ensure that the policies and procedures manual (and any future significant revisions to the manual) are distributed to, and reviewed by, all pertinent contracting personnel (Deputy Executive Administrators, directors, supervisors, contract managers, etc.). Management should consider requiring pertinent personnel to sign a formal receipt (electronic or hard copy) that indicates that they have received and reviewed the related document.
- TWDB should continue with its planned training of contract managers, as funding becomes available, in accordance with State regulations. Contract Administration should meet with contract managers on a section-wide basis at least annually to discuss the contract process, past practices that were effective, and practices that need improvement.
- Management should consider including the following requirements for meetings/training in the *TWDB Contracting Policies and Procedures*:
 - Contract managers must attend a prescribed minimum amount of training each year; and
 - Contract Administration should provide a prescribed set of agency meetings/training sessions each year.
- Within budget constraints, TWDB management should ensure that the functionality of CAS is maintained, and improved where necessary, upon the transition to TxWISE.

It is suggested that TWDB executive management consider including within its procedures provisions that would assist Contract Administration in the performance of its mission:

- Limiting responsibility to a reasonable number of contracts for a contract manager, and
- Including contract management responsibilities within contract managers' performance plans and appraisals.

B. Detailed Observations

1. Contracts Appear to be Complete, Properly Processed, and Appropriately Monitored

Testing performed on a judgmental sample of contracts revealed that they appear to be complete, properly planned and processed, and appropriately monitored. In order to review the contract process, a sample of six contracts—one receivables grant and five payables contracts—was selected from the 320 active contracts within the Contract Administration System (CAS). The following tests and procedures were performed:



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- The contract process was tested to ensure that contracts and associated documents were properly reviewed, completed, signed, and posted into CAS in accordance with appropriate procedures, laws, and regulations.
- A sample of invoices/billings was selected from each of the contracts and tested to ensure payments/receivables were properly authorized, processed, paid/deposited, and recorded.
- The physical contract files within Contract Administration were inspected to ensure that the original copies of the contracts were properly secured in accordance with TWDB contracting procedures.

No major discrepancies were noted as a result of the testing performed. In addition, review of a September 30, 2010 aged receivables report revealed that for the entire agency only \$4,251 out of a total \$188,860 (2.3%) in receivables exceeded 30 days past due.

Recommended Action Plan 1: None required.

2. Most Contract Managers Have Not Read the New Contract Manual

Contract Administration recently updated the policies and procedures manual governing the contract administration process. The new manual, entitled *TWDB Contracting Policies and Procedures*, includes a flowchart of the contracting process and is available on the agency's internal website (IWEB) under the Contracting and Purchasing section of Operations and Administration.

As a resource for agency staff, the IWEB also has a PowerPoint overview of the Basics of the Contract Life Cycle, a Contract Workforce Policy, and sample forms for required contract documentation.

Interviews were held with nine contract managers, covering the entire spectrum of TWDB's departments and programs. The contract managers revealed they understood the contract process. Nevertheless, several indicated that they had not reviewed the updated policies and procedures manual even though it had been announced via broadcast e-mail and discussed in monthly operational meetings.

Recommended Action Plan 2: Contract Administration should ensure that the policies and procedures manual, and any future significant revisions to the manual, are distributed to, and reviewed by, all pertinent contracting personnel (Deputy Executive Administrators, directors, supervisors, contract managers, etc.). Management should consider requiring pertinent personnel to sign a formal receipt (electronic or hard copy) that indicates that they have received and reviewed the related document.

Management Response 2: *Contract Administration concurs with Recommended Action Plan 2. Contract Administration will provide hard copy versions of the current policies and procedures manual to all pertinent contracting personnel. Each recipient of the manual will be required to sign an acknowledgement statement that they have received and reviewed the documentation. The acknowledgement statement will be kept in the employee's personnel file, with a*



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copy maintained by Contract Administration. Any future major changes to the policies and procedures will be distributed electronically. Affected staff will be informed of the impact of any changes and Contract Administration will maintain a record of these communications along with version tracking documentation.

Responsible parties: *Contract Administration*

Estimated completion date: *January 1, 2011*

3. Further Training Would Benefit Contract Managers

Interviews with contract managers revealed that contract training was mostly via “on-the-job” experience and they would welcome regularly scheduled formal and informal training from Contract Administration. Further, TWDB is subject to the requirements set forth in Texas Government Code Section 2262.053 (c), which states that each state agency shall ensure that the agency's contract managers complete a training program implemented and administered under this section by the Texas Comptroller of Public Accounts.

To date, the agency’s contract managers have not received the required training; however, according to an agency newsletter, issued May 2010, Section 2262.053(c) training for contract managers in the agency will begin in Fiscal Year 2011.

Recommended Action Plan 3: TWDB should continue with its planned training of contract managers, as funding becomes available, in accordance with State regulations. Contract Administration should meet with contract managers on a section-wide basis at least annually to discuss the contract process, past practices that were effective, and practices that need improvement.

Management should consider including the following requirements for meetings/training in the *TWDB Contracting Policies and Procedures*:

- Contract managers must attend a prescribed minimum amount of training each year; and
- Contract Administration should provide a prescribed set of agency meeting/training sessions each year.

Management Response 3: *Contract Administration concurs with Recommended Action Plan 3. Contract Administration intends to provide internal TWDB contract management classes on a semi-annual basis (two per year). Classes will be available and announced to all TWDB staff with contract management related duties. Likewise, Contract Administration recommends that contract managers be required to attend a minimum of one internal TWDB contract management class per year. All contract managers will continue to be required to take contract management classes in accordance with Section 2262.053. However, the costs of the classes and the current budget situation may impact this requirement. Each class is roughly \$550.00 per event which could make it difficult for all contract managers to attend. Contracting Policies and Procedures will be appropriately updated and will speak to all contract management training requirements.*



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Responsible parties: Contract Administration

Estimated completion date: January 1, 2011

4. An Improved Contract Process Requires Some Additional Development

The general consensus among contract managers is that the contracting process has improved significantly over the past two years. This consensus is supported by the testing performed during the audit (reported separately in Observation 1, above), which revealed no major discrepancies with the planning, processing, and monitoring of contracts.

Nevertheless, there are opportunities for improvement. The following were noted during the course of the review:

- a) CAS is the centralized contract/project management system in place for tracking contracts. Most of the contract managers interviewed indicated they only use CAS to approve invoices for payment. They employ Excel spreadsheets to track contracts because the information in CAS is difficult to obtain and may be incorrect.
- b) Several contract managers have a large number of contracts in their portfolio (for example, one contract manager has at least 40 contracts to monitor). Contract Administration does not have the authority to limit the number of contracts that can be assigned to a contract manager. Nevertheless, too many contracts per contract manager may reduce the manager's effectiveness and may expose the agency to a high level of risk.
- c) There are approximately 60 contract managers working in various divisions throughout the agency. A majority of the contract managers do not have contract management responsibilities listed within their performance plans or appraisals. Contract management is an extremely important agency function, which should be addressed when assessing contract manager performance. Since contract managers incur other duties, there may be limited incentive to perform if the responsibility for contract management is not included in their performance plans and appraisals.

Recommended Action Plan 4: Within budget constraints, TWDB management should ensure that the functionality of CAS is maintained, and improved where necessary, upon the transition to TxWISE.

It is suggested that TWDB executive management consider including within its procedures provisions that would assist Contract Administration in the performance of its mission:

- Limiting responsibility to a reasonable number of contracts for a contract manager, and
- Including contract management responsibilities within contract managers' performance plans and appraisals.



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Management Response 4: *Contract Administration concurs with Recommended Action Plan 4. The Contract Administration System (CAS) has served the TWDB well since 2005 and is scheduled to be retired at the end of November 2010. Existing CAS data will be integrated into the new TxWISE Contract System (TxWISE). Comprehensive efforts have been undertaken to cleanse the existing CAS data for the conversion to TxWISE. The TxWISE system will contain several enhancements that will be extremely useful for contract managers including:*

- *Checklists and Milestone tracking,*
- *Progress reporting, and*
- *Document upload capabilities.*

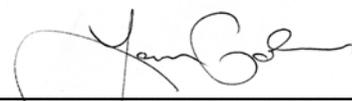
Contract Administration supports the recommendation to limit the number of contracts any one employee should manage, and further supports the inclusion of contract management responsibilities in performance plans and appraisals as appropriate. Contract Administration will support TWDB Executive Management with any decisions made in these areas.

Responsible parties: *Contract Administration, Executive Management*

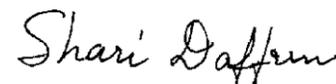
Estimated completion date: *March 2011*



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