



Fairfax County Internal Audit Office

Department of Administration for Human Services
Contracts Administration Audit
Final Report

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"promoting efficient & effective local government"

Background

The Department of Administration for Human Services' (DAHS) Contracts and Procurement Management division (CPM) is responsible for the establishment and administration of contracts for all human services departments in Fairfax County. CPM contracts staff are expected to facilitate the procurement process from beginning to end, and examples of some of their tasks include:

- Understanding the procurement needs of their customers, which include human services program staff and the clients served
- Determining the best strategy for procuring services
- Preparing a work plan and timeline for the solicitation or contact
- Preparing solicitation or contract documents
- Providing administrative support for a solicitation, such as preparing the selection advisory committee (SAC) letter, meeting agenda, etc.
- Facilitating and coordinating Pre-proposal conferences and SAC meetings
- Tracking expiration of contracts so they can be extended as needed
- Planning and performing vendor performance monitoring

In FY 2014, DAHS managed approximately 1,100 contracts with an estimated total value of \$160 million.

Executive Summary

Our audit focused on the internal controls and procedures for DAHS CPM's contracts administration processes, including the monitoring of vendor performance; and the timeliness of its contracting activities. The results of our audit indicated that with the exception of contract renewals and extensions, DAHS' contract procurements generally appeared to be in compliance with the county's Purchasing Resolution and procurement policies. We did note that DAHS should more fully utilize its Contracts Reporting and Tracking System (CRTS) to attain better accountability for the timeliness of procurement activities, and to provide greater and more reliable management information. We also noted audit findings related to DAHS' compliance to their departmental procedural guide on documentation of contract processes and management's monitoring and review efforts. The conditions and audit results for these opportunities for improvement are as follows:

- The lack of key data in the CRTS system (such as key contract milestone completion dates or the dates when contract documents had been reviewed and approved), combined with a lack of consistent verifiable key dates in the contract files, prevented us from being able to reasonably assess the timelines or accountability of procurement activities within DAHS. It also likely impaired DAHS management's ability to monitor and assess the timeliness of CPM's procurement activities.

- Fourteen contracts had been expired for at least one month before a contract renewal or extension was executed. Some of the expired contracts were for critical client services such as residential adult care and support services for individuals with intellectual disabilities or mental illness.
- DAHS CPM's procedural guide (Contracts Manual) was outdated and did not always reflect current practices.
- The files for 3 of 18 contracts reviewed for vendor performance monitoring did not include any indication that performance monitoring had occurred during the first year. Another six files did not include evidence that a monitoring plan had been developed by CPM staff, as indicated by CPM's Contracts Manual, although it appeared that some performance monitoring did in fact occur. It should be noted that none of these exceptions was a violation of the county's Purchasing Resolution, as the guidance and standards for vendor performance monitoring outlined in CPM's Contracts Manual was for internal use only. These internal standards exceeded county requirements.
- Some of DAHS' contract files did not include certain key documents. The results of our review of 18 randomly selected DAHS contracts were that three of the contract files did not include the memorandum of negotiations; two did not include the service provider's required professional licenses; and nine did not include a vendor performance monitoring plan. However, it should be noted that the memoranda of negotiations and professional licenses not found in DAHS/CPM's contract files should be included in the Department of Purchasing & Supply Management 's (DPSM) central files which are the official record of file for those contracts. Of the 11 sole source contract files we reviewed, two did not include documentation of the sole source justification or DAHS management's review or approval.

Our audit also included a separate, more limited review of a random sample of 20 individual purchase of service agreements (IPOS) for the Comprehensive Services Act (CSA) program. DAHS had the authority to fully execute these contracts without review and approval by DPSM. We reviewed the CSA IPOS to determine if the files included the fully executed contract signed and dated by both parties; and included documentation that the vendor had provided evidence of insurance coverage and any required professional licenses. Since direct client services for CSA clients (and Community Services Board) are generally exempt from competitive procurement requirements, per county procurement policy, we also tested for whether the IPOS contracts included a standard contract clause prohibiting the vendor from charging the county a higher rate than what is typically charged to other governments. We did not note any exceptions for the 20 IPOS contract files.

Scope and Objectives

This audit was performed as part of our Fiscal Year 2013 Annual Audit Plan and was conducted 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. Our audit covered procurements coordinated by DAHS but required to be approved and executed by the county's DPSM, as well as procurements DAHS had the authority to fully execute without a centralized review and approval by DPSM (i.e., IPOS). The audit covered DAHS contracts in effect during the period April 1, 2012, through March 31, 2013, and the audit objectives were to determine if DAHS:

- Complied with competitive procurement requirements and sufficiently documented the procurement process,
- Effectively met the supported human services agencies' procurement needs in a timely manner,
- Performed sufficient monitoring of vendor performance to ensure all contract requirements were fulfilled,
- Effectively managed contract renewals, extension, and other amendments.

Methodology

Our audit approach included reviewing DAHS CPM's internal procedural guidance for contracts, as well as applicable DPSM procurement policies and procedures. Our methodology also included interviewing the management and staff of DAHS to obtain an understanding of the CPM division's current role and responsibilities for DAHS' contract administration. We selected a random sample of 18 contracts coordinated and drafted by DAHS but ultimately approved and executed by DPSM, for which we reviewed for all audit objectives. We also performed analytical procedures on the audit population data, and identified separate sub-populations of sole source contracts, contract amendments, and CSA IPOS contracts, for which we planned and conducted specific audit tests for certain audit objectives. Specifically, for the sole source and CSA IPOS contracts, we reviewed the files to determine if they were sufficiently documented. For the contract amendments, we reviewed the files to determine if they were executed timely, and sufficiently documented. Our audit did not examine the system controls over DAHS' CRTS contracts management system, or the system controls over the procurement component of the county's enterprise resource planning system (FOCUS). Our transaction testing did rely on those controls; however, this was not a scope limitation. The potential impact of this circumstance on our findings was that some portion of transaction data from the CRTS or FOCUS systems may have been erroneous, or incomplete, but this would not likely have affected the conclusions of our audit.

The Fairfax County Internal Audit Office (IAO) is free from organizational impairments to independence in our reporting as defined by generally accepted government auditing

standards. We report directly and are accountable to the county executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits the county executive and the Board of Supervisors, and reports are available to the public.

Findings, Recommendations, and Management Response

1. Utilize CRTS System To Attain Accountability and Reliable Management Information

IAO could not readily determine how long CPM contracts staff worked on a purchasing request for a supported agency, particularly for procurement documents which were initially drafted by CPM staff and then forwarded to DPSM for approval and execution. Our review of 18 randomly selected contracts indicated that CPM staff was not consistently using the CRTS system to record dates for completion of tasks or key milestones for the various stages of the contracting process, or the dates when contract documents had been reviewed and approved by the appropriate managers in CPM and the requesting departments. Specifically, 13 of the 18 contracts did not have key dates sufficiently documented in CRTS for us to be able to determine how long it took for the entire procurement process to be completed. For 7 of the 18 contracts, the date on which a human services agency requested a procurement was not recorded in CRTS, or else was entered into CRTS incorrectly, with the request date recorded as occurring after the contract award date. For these contracts, we could not determine when the procurement process began. This was an audit scope limitation.

Incomplete, inaccurate, or unrecorded CRTS data for key contract work plan completion dates greatly diminishes the usefulness and reliability of the system and management information reports. The lack of key data in the CRTS system, combined with a lack of consistent verifiable key dates in the contract files, prevented us from being able to reasonably assess the timelines or accountability of procurement activities within DAHS.

CPM management informed us that several years ago, a decision was made to no longer require the contracts staff to enter their contract work plans and milestone completion dates into CRTS. This was said to have coincided with budget cuts which had resulted in the elimination of positions within the division. However, IAO was not provided documentation to indicate that this change was approved by the department's senior management and formally communicated to staff. We further noted that at the time of our audit, DAHS CPM's internal procedures document, the Contracts Manual, still indicated that contracts staff should be entering the contract work plans into CRTS.

Recommendation: DAHS should implement a departmental policy requiring CPM staff to enter contract work plans and key milestone completion dates into CRTS. The key dates recorded should include, at a minimum:

- Date when a supported human services agency submits a procurement request to CPM
- Date when CPM contract staff forwards draft procurement documents to the requesting agency for review and approval
- Date when the requesting agency approves the draft contract documents
- Date when CPM management approves the draft documents
- When applicable, date when CPM forwards the draft contract documents to DPSM for review and approval
- When applicable, date when Notice of Award is issued; or else date when the purchase of service agreement is fully executed by both parties.

DAHS management should work with DIT staff to ensure that the CRTS system will provide management data and reports useful for monitoring and evaluating the performance of the various elements of the procurement process.

DAHS should also implement a formal purchase request process for the supported human services agencies. The policy should require the requesting agency to submit a standardized purchase request form, signed and dated by the appropriate agency managers. If a manual process, the purchase request forms should be routed to CPM staff responsible for date stamping the form when received by CPM. The date stamped request form should be included in the related contract file, as a document supporting the purchase request date entered into CRTS.

Management Response: DAHS will develop and implement a process requiring CPM staff to enter contract work plans and key dates into the CRTS system. Management anticipates implementing this process effective January, 2015, for new requests.

In addition, DAHS will continue to work with DIT to update/upgrade the CRTS system so that key information is captured in a format that is reportable. At this time, DIT is in the process of converting the CRTS system to a *.NET framework* © with a completion timeframe of summer 2015. Additional system enhancements, including the capability to produce management reports, have a targeted completion timeframe, from DIT, of summer 2016. CPM staff will utilize the CRTS system and existing reporting capabilities, such as the timeliness report, to the extent possible until the planned enhancements are completed and available for our use.

At this time DAHS does not have a standardized solicitation request process that is utilized across the human services system. DAHS will continue to work with our supported human services agency customers to establish and implement a standard process. Requests from the customer human services agencies for beginning a solicitation will be entered into the CRTS system for tracking purposes. Management anticipates implementing this process effective April, 2015, for new solicitation requests.

2. Timeliness of Contract Amendments

We performed analytic procedures for the nearly 500 contract amendments processed by CPM during the audit period to identify those which had not been executed timely. We reviewed the contract files for the 50 contract amendments which had been most delayed. Each of these 50 contract amendments were for either price changes, contract renewals and extensions, billing cycle changes, or in one instance, for change in company name. During our review of the 50 most delayed contract amendments, we found 14 contracts which had been expired for at least one month before the contract renewal or extension was fully executed. The renewals for three of the lapsed contracts were required to be executed by DPSM, but there was not sufficient information in DAHS' contract file or CRTS system to determine if the delays occurred within DAHS or DPSM. The other lapsed contracts were individual purchase of service agreements and memoranda of agreement. For those, there also was not sufficient information in DAHS' contract file or CRTS system to determine the causes of the delays. Some of the expired contracts were for services such as residential adult care and support services for individuals with intellectual disabilities or mental illness. Technically, the vendors whose contracts had expired could have chosen to discontinue providing these services.

Because our review of contract amendments focused mostly on those which we had identified as not timely and delayed by at least one month, the results of our review should not be used to extrapolate the condition for the entire population of contract amendments.

Recommendation: DAHS should strengthen controls over contract amendment processing through better CRTS reporting that is reviewed by management on a periodic basis. DAHS should look into the possibility of utilizing additional CRTS data indicators for contract amendments, such as: renewals and extensions, rate changes, increased scope, and other. The ability to designate the type of contract amendment in CRTS would improve the system reporting.

For contract amendments that cannot be processed timely, CPM staff should be required to include an explanation memorandum in the contract file.

Management Response: DAHS will continue to utilize the CRTS system data to track amendments and renewals to the extent available currently in the system. CPM will request that the CRTS system be updated so that there is a way to insert comments about amendments which will help to track the reasons for amendments/renewals that are late. In addition, CPM will continue to partner with DPSM and supported human services agency customers and community business partners, such as contractors, nonprofits and other governmental entities, to improve amendment timeliness. CPM will also notate in the contract file any reasons for untimely amendments, such as late receipt of amendment documents from authorized entities. Management anticipates implementing this process effective January, 2015, for new expiring contracts.

3. Update CPM's Contracts Manual to Reflect Current Procedures and Other Information

We noted the CPM division's consolidated contract procedures document (Contracts Manual) contained several references to procedures which are no longer followed, computer information systems no longer in use, organizational names that have since been changed, and senior level officials no longer with the county. When we commenced our audit, it appeared that the Contracts Manual was last updated on January 23, 2009, but there have been several changes since then. For instance, the manual included the following guidance that is no longer required or practiced:

- CPM's contract files should include insurance certificates for DPSM issued contracts.
- Contract files for purchase of service agreements should include the vendor invoices.
- A list of contract documents and electronic files which the contract analysts were required to forward to the Administrative Assistant, a position that had been eliminated.
- References to the county's prior procurement system (CASPS), and financial system (FAMIS), which were replaced by the county's current FOCUS system several years ago remained.
- References to DAHS' contracts management division as CM remained, although it was subsequently changed to CPM after a reorganization.

We also noted that the Contracts Manual generally did not include guidance as to what information the CPM contracts staff were required to enter into the CRTS contract management information system.

Procedural guidance which does not reflect current requirements and practices, increase the risk of staff carrying out a business process incorrectly or inefficiently, and may contribute to a breakdown in management controls over the process.

Recommendation: CPM should update its Contracts Manual to reflect the division's current procedures and practices regarding the contracting process. CPM should also clearly identify which data its contracts staff is required to enter into CRTS, such as key milestone dates, and what functionality is expected to be utilized, such as entering the vendor performance monitoring plan. **Note:** During the course of our audit, after initial discussion with CPM management about the recommendation, IAO verified that CPM made substantial progress towards updating the Contracts Manual.

Management Response: CPM is in the process of updating the DAHS Contracts Manual to reflect current procedures, including the addition of documents/information considered mandatory to be included in both the CRTS system and contract files. The Manual updates will also reflect CRTS system functionality that is required to be used. Additionally, terminology in the Manual will be updated to reference current technology and tools. Management anticipates completing this update by June, 2015.

4. Vendor Performance Monitoring

When we reviewed a sample of 18 randomly chosen contracts to determine if CPM staff had sufficiently planned and performed monitoring of vendor performance, the results were that 9 of the 18 contract files did not include a printout of a CRTS monitoring plan, or any other evidence that a monitoring plan had been developed. Three of these nine contract files also did not include any indication that performance monitoring had occurred during the first year, while the other six included documentation that some form of vendor performance monitoring occurred during the first year of the contract, despite the lack of a monitoring plan. It should be noted that these exceptions were not violations of the county's Purchasing Resolution, as the guidance and standards for vendor performance monitoring outlined in CPM's Contracts Manual was for internal use only. These internal standards exceeded county requirements.

One of the important roles of DAHS' CPM division is to ensure that a vendor's contract performance is monitored and evaluated, and to assist the supported human services agencies when a vendor's performance has been deficient in some manner. According to DAHS' Contracts Manual, the CPM staff is responsible for developing the strategies to monitor contract performance at the beginning of the solicitation process. They are supposed to document the needed performance monitoring steps in a monitoring plan, which incorporates a review of both the quality of services provided by the vendor as well as the vendor's compliance with the contract provisions. The Contracts Manual also requires CPM contract analysts to use a "monitoring priority tool" to determine what level of monitoring is recommended, as well as the frequency of the monitoring reviews during the life of the contract. Analysts are required to include the results of the monitoring priority tool, as well as the CRTS monitoring plan in the contract file.

Failure to adequately plan and carry out effective vendor performance monitoring steps may result in the county receiving less than full value for services purchased. More importantly, for therapeutic or other treatment services procured on behalf of social services clients with critical needs, a lack of performance monitoring could result in ineffective, or adverse results.

Recommendation: CPM management should take steps to periodically assess, and improve, when needed, the contracts staff's compliance with the requirement to document and execute vendor performance monitoring plans.

Management Response: CPM will continue with yearly financial reviews of nonprofits with county contracts valued at \$100,000 or more. Currently these review summaries are recorded with one of the vendor's contracts if the vendor has more than one contract.

In collaboration with supported human services agency customers, an annual monitoring schedule will be developed outlining vendors and contracts to be monitored each fiscal year through desk review, meetings, or site visits. The

compliance monitoring schedules will be developed in accordance with the DAHS Performance Plans for Results-Based Accountability which includes contract monitoring compliance indicator targets for each fiscal year. In addition, vendor performance will be recorded in the CRTS system and CRTS system reports will be run quarterly to track monitoring schedule progress. Currently, the CRTS system supports performance review at the contract level; a future technology enhancement to the CRTS system will permit financial and other vendor-specific reviews to be recorded at the vendor level as well. Management will begin this process beginning in January, 2015, and for the remainder of Fiscal Year 2015, and ongoing. Management anticipates an upgrade/update to CRTS in the summer of 2016. A vacant senior contract analyst position has been prioritized and authorized to fill to assist with this process.

5. Sufficient Contract File Documentation

We reviewed a random sample of 18 competitively procured contracts and a judgmental sample of 10 sole source contracts, all initiated by CPM but executed by DPSM, to determine if certain key documents were included in DAHS' contract files. Of the 18 competitively procured contracts, three of the contract files did not include the Memorandum of Negotiations; two did not include documentation of the vendor's required professional licenses, and nine did not include a vendor performance monitoring plan. However, it should be noted that the Memoranda of Negotiations and professional licenses not found in DAHS/CPM's contract files should be included in DPSM's central files which were the official record of file.

Of the sample of 10 sole source contracts, plus one additional sole source contract which was included in the random sample of 18, two did not include documentation of the sole source justification and request to DPSM, although CPM staff was able to provide us with the sole source justification for one of those from the computer files.

The types of documents we verified, which were among those listed by CPM's Contracts Manual to be included in the contract files, were: Notice of Award, Memorandum of Negotiations, Acceptance Agreement, the vendor's proposal, the county's solicitation document (RFP, ITB etc.), amendments, and professional licenses. However, when we noted that some of the contract files we reviewed did not include all of the listed documents, CPM management indicated that the contract file documents listed in the Contracts Manual were only meant to be a suggestion, and not a requirement.

Failure to maintain complete, consistent contract files may result in reduced effectiveness and efficiency in the overall contract administration function. Failure to obtain and document evidence that a service provider has attained all necessary professional licenses increased the potential liability for the county if a county human services client was harmed by the vendor.

Recommendation: CPM should clearly identify in its Contracts Manual which documents are specifically required to be included in the contract files. CPM management should take steps to improve the completeness and consistency of the

division's contract files, and consider implementing a periodic quality review process to assess the completeness and reliability of CPM's contract file maintenance.

Management Response: CPM is in the process of updating the DAHS Contract Manual to reflect current procedures. The updated Manual will include clear direction regarding documentation that is mandatory for CPM staff to include in the CRTS system and contract files, as well as where any required or ancillary items should be placed in the file to ensure completeness and consistency. In addition, CPM is developing a quality control review process that will be implemented by or before the anticipated completion date and included in the DAHS Contract Manual as a requirement. Management anticipates implementing this process by June, 2015.