

# COUNTY AUDIT DEPARTMENT

**REPORT # 386**

*An Audit of:*

**CONTRACT ESTIMATES & MODIFICATIONS**

**JULY 21, 2020**



*Pat Frank* INTEGRITY. TRANSPARENCY. ACCOUNTABILITY.

CLERK OF COURT & COMPTROLLER • HILLSBOROUGH COUNTY, FLORIDA

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July 21, 2020

The Honorable Lesley “Les” Miller, Jr., Chairman  
The Honorable Ken Hagan  
The Honorable Pat Kemp  
The Honorable Sandra L. Murman  
The Honorable Kimberly Overman  
The Honorable Mariella Smith  
The Honorable Stacy R. White

Dear Chairman Miller and Commissioners:

The Audit Team performed an audit of Contract Estimates & Modifications managed by Procurement Services (Audit Report # 386, dated July 21, 2020). Responses to the Audit Team’s recommendations were received from the Director of Procurement Services and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of Procurement Services during this audit.

Sincerely,

Heidi Pinner, CIA, CISA, CFE, CRMA  
Senior Director of County Audit

CC: Bonnie Wise, County Administrator  
Tom Fesler, Interim Chief Financial Administrator  
Scott Stromer, Director, Procurement Services  
Deborah Benavidez, Director, Enterprise Solutions & Quality Assurance  
Dan Klein, Chief Executive Officer, Clerk of Court and Comptroller  
Rick VanArsdall, Chief Operating Officer, BOCC Services

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## EXECUTIVE SUMMARY

### BACKGROUND INFORMATION

The Department of Procurement Services is responsible for the advertising, competitive bid process, negotiation and selection of vendors to provide products and/or services to the County. The processes used by Procurement Services are intended to bring in a diverse variety of vendors in order to provide fair, efficient, and equal opportunities to serve the County. This involves having vendors bid amongst one another to get the best contract and price for the product or service. The bid process is also intended to evaluate the professionalism and integrity of the vendors being considered by reviewing the vendor's qualifications, prior work experience, and to verify the vendor is in good standing.

Occasionally, contracts require modifications to be made in order to complete a project. When this occurs, the vendor and the County must negotiate the new terms and conditions and management approval is required. The modification must be approved by the Board of County Commissioners (BOCC) when the total cost of the contract exceeds \$250,000. These modifications must also be explained to Procurement Services by the requesting department and have sufficient justification for why the modification is occurring. When modifications do occur, the changes should not materially change the original scope of work agreed upon between the vendor and the County.

### OBJECTIVE

The objective of the audit was to determine whether or not adequate controls are in place for the contract modification process. The Audit Team also reviewed whether or not modifications were appropriate and had a legitimate business purpose.

### SCOPE

The audit was conducted in conformance with the *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

The Audit Team reviewed modifications that occurred between December 2018 and June 2019, along with a listing of potential direct payments processed to the vendors. Due to data limitations discussed later in this report, the audit scope was limited to contract modifications that required BOCC approval.

**OVERALL EVALUATION**

**Process strengths:**

- Contracts are, whenever possible, awarded competitively based on price and/or qualifications.
- Management approval is required for contract modifications.
- No payments outside of the normal purchase order/invoicing process (known as direct payments) were identified as being paid to the vendors selected in the sample.

**Control improvement opportunities:**

- The amounts spent on individual contracts is not consistently monitored.
- Trend data should be gathered and analyzed to improve the accuracy of initial cost estimates.
- Supporting documentation for contract modifications should be consistent and maintained.
- A more formal and consistent contract management process should be implemented.

Full testing results are included on page three (3) of this Report.

**OPINION**



The control environment relative to the contract estimate and modification process is at a repeatable maturity level. This means that there are controls and/or processes in place with some formal structure, but some exceptions were identified while reviewing contract modifications including how estimated contract costs are determined and how tracking is performed by the individual departments. Consistency is needed in the process. Addressing the opportunities identified in this Report as management continues to assess the Procurement Services Department could further enhance the overall control structure and provide additional assurance.

The exit conference was held on March 5, 2020.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

**AUDITED BY**

Heidi Pinner, CIA, CISA, CFE, CRMA, Senior Director of County Audit  
 Ben Everett, CPA, CIA, CFE, Audit Manager  
 Matthew Demler, Internal Auditor

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## AUDIT COMMENTS & RECOMMENDATIONS

### AUDIT COMMENT 1

#### **Opportunities exist to improve the monitoring of contract modifications.**

The Audit Team met with both Clerk's IT and Board Procurement Services and attempted to identify any contract modifications which had occurred throughout the County during the audit scope period.

#### **Contract Monitoring and Analysis**

The County does not have a Contract Management System (CMS) in place to monitor changes that have been processed with contracts. This type of reporting feature is possible within the existing Oracle system, but is currently not configured or in use. As a result, contract information such as the following is not readily available:

- Whether or not there have been modifications to the contract amounts.
- Contract expiration dates.
- The individual responsible for processing the modification and/or any changes to line items which allow for authorization of purchases on the Blanket Purchase Agreement (BPA).
- The history of any modifications in Oracle that have been processed in the system.

There is also no manual process in place to track these modifications consistently. It is currently the responsibility of the individual departments to track their respective contracts.

There does not appear to be any trend analysis or holistic monitoring of contract modifications performed. The Audit Team was also unable to obtain the data necessary to perform such an analysis.

#### **RECOMMENDATION**

To ensure that contracts and their associated modifications are monitored more closely, Procurement Services should:

1. Implement a process to periodically monitor and evaluate all contract modifications in the County for appropriateness.
2. Perform a periodic trend analysis to identify patterns or outliers in contract modifications.
3. Provide feedback to department Directors periodically on contracts that appear to be improperly estimated or frequently modified.
4. Ensure that the history of contract modifications is maintained and available for management decision making.
5. Provide training to department managers on contract management best practices.

**AUDIT COMMENT 2****There are opportunities to improve controls for contract estimates and spending.**

The objective was to determine whether or not controls are in place to accurately estimate contract amounts, to monitor contract spending, and to ensure that modifications have a legitimate business purpose.

**Summary of Contract Modifications & Direct Payments Review**

In order to obtain a population of contract modifications to test, the Audit Team reviewed the regular BOCC Meeting Agendas between December 2018 and June 2019 and identified 68 contract modifications presented to the BOCC. A sample of 10 of these modifications was judgmentally selected for testing. The Audit Team also obtained a listing of all potential direct payments that were processed to the vendors. Direct payments are payments to vendors that do not go through the normal purchase order and approval process. Utilizing this method of payment for a previously awarded contract would circumvent the controls for total contract spending.

For the 10 contracts selected, the Audit Team reviewed applicable supporting documentation and interviewed department personnel to determine:

- Why the original contract required a modification.
- Why the original estimated amount was exceeded.
- What the business purpose of the modification was.
- How the department or responsible party monitors contracts.

Based on this review, the audit team identified inconsistencies with: the support included and maintained for contract modifications, the tracking of invoices and spend levels, and the manner in which contracts are being monitored by each department. Specifically, the Audit Team observed:

- Three instances where the amount spent on a contract did not have a formal process to monitor the remaining balance.
- One instance where a department did not track their contract capacity resulting in a “piggy-back” on another department’s contract.
- One instance where an employee stored invoices in a file and did not process them for payment, which resulted in the contract expiring before the vendor was paid in full.
- One instance where there was no evidence of an electronic or physical review and approval by the Director of Procurement Services.
- No direct payments processed to the vendors reviewed.

Without a standardized tool to manage contracts, contract managers are responsible for establishing their own methods of tracking. This includes tracking the total contract utilization and remaining balance, many of which are being performed manually, or in some instances, do

not appear to have a formalized process in place. These manual processes are not consistent between the different departmental groups.

**RECOMMENDATION**

The Procurement Services Department should meet with department Directors and formalize a contract estimation and monitoring process to ensure accurate estimates and avoid over-spending.



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## MANAGEMENT RESPONSE TO AUDIT COMMENTS

**The following client response and management action plans were provided from the Director of Procurement Services on July 20, 2020.**

*I would like to take this opportunity to thank you and your team for the diligence and hard work that went into this particular audit. As always, we very sincerely appreciate your team's professionalism, insight, and genuine desire to help us improve for the community's benefit.*

*Presently, the responsibility and function of Contract Administration is highly decentralized and not clearly within the purview of the Procurement Services Department. Centralizing the Contract Administration and monitoring functions would provide a common and consistent source for reporting and compliance, and better position the County for proactive detection and prevention of fraud, waste, and abuse associated with contracting activities. For definitional purposes, Contract Management generally involves the day-to-day process of ensuring that contractors perform as specified and are paid accordingly. Contract Administration generally includes the monitoring and ministerial activities that take place once the contract is awarded until contract closeout. These activities include, but are not limited to, managing changes to contracts, maintaining contract-related documents, addressing claims and disputes, and closeout activities.*

*As indicated in the audit results, the County does not currently have a central and common contract management system in place to gather, analyze, and report contract administration activities. While the current Oracle E-Business Suite appears to offer reporting, this particular functionality is not presently available. As a result of not having a central and common system to monitor and manage contracts, the Procurement Services Department and individual departments must approach modifications on an ad hoc basis with very limited ability to analyze trends, globally monitor changes, and/or effectively identify opportunities for contracting improvement. The County is currently working to implement Oracle Cloud Infrastructure in 2020, which is expected to offer a new set of contemporary contract lifecycle management tools that will facilitate the monitoring of contract modifications and improve controls. These new tools are expected to provide a central and common platform to effectively administer contracts across the organization.*

*Following are management's responses to your office's audit comments and recommendations:*

***Audit Comment 1:*** "Opportunities exist to improve the monitoring of contract modifications."

*Management concurs and agrees that the Procurement Services Department should:*

- *Implement a process to periodically monitor and evaluate all contract modifications for appropriateness.*
- *Perform a periodic trend analysis to identify patterns or outliers in contract modifications.*
- *Periodically provide feedback to individual department directors on contracts that appear to be improperly estimated or frequently modified.*

- *Ensure that the history of contract modifications is maintained and centrally available for management decision making.*
- *Provide contract management best practices training to department directors, managers, and responsible staff.*

***Audit Comment 2:*** *“There are opportunities to improve controls for contract estimates and spending.”*

*Management concurs and agrees that the Procurement Services Department should meet with individual department directors and work to formalize a contract estimation and monitoring process to ensure accurate estimates at the outset to avoid overspending.*

***Corrective Action Plan:***

*The Procurement Services Department will work with leadership, the appropriate internal service departments, and individual department directors to consolidate and centralize the function and authority for administering and monitoring contracts by **October 1, 2020**. The Procurement Services Department will work to update and consolidate all policies, directives, and procedures related to the administration of contracts, processing of modifications, and development of contract estimates to ensure the guidance is clear, consistent, and in keeping with the recommendations offered as a result of this audit by **October 1, 2020**. The Procurement Services Department will work closely with the appropriate departments to help launch and implement new contract lifecycle management tools when they become available, which is anticipated to be in early 2021.*