

State's Contracting Process

Audit



Highlights

Highlights of Legislative Auditor report on the State's Contracting Process, issued on October 11, 2001. Report # LA02-11.

Purpose of Audit

The purpose of this audit was to determine if the State has established and followed sound contract management practices. Our audit included a review of contracts for services approved by the Board of Examiners (BOE) during fiscal years 1998 to 2000.

Audit Recommendations

This report contained six recommendations to improve the state's contracting process. The State should develop policies and procedures to help ensure contracts are properly planned, awarded, and monitored. In addition, the State should collect contract information and ensure Contract Summary forms are prepared accurately, including adequate justification for the work to be done. The state's training program should be revised to ensure adequate contract training, and individuals responsible for contracting activities should be required to attend. Furthermore, the State needs to improve accountability for its contracting activities.

The Department of Administration accepted all six audit recommendations.

Status of Recommendations

The Department of Administration submitted the six-month report on the status of audit recommendations on July 24, 2002. The report indicated that two recommendations had been fully implemented and four recommendations had been partially implemented.

The Department has made progress on the four partially implemented recommendations. Three of these recommendations were expected to be fully implemented by the end of 2002. The implementation of one recommendation involves developing a statewide database that is expected to be completed by December 31, 2003.

Results in Brief

The State awards hundreds of millions of dollars in contracts annually to help it deliver services to the public. However, most agencies do not follow sound practices for planning, awarding, and monitoring these contracts. For half of the contracts we reviewed it was uncertain whether the best vendor was selected. Consequently, the State may not always receive what it bargains for and often spends more than anticipated. Improvements can be made to the state's contracting process by obtaining and analyzing information on state contracting activities, establishing a comprehensive training program, enhancing policies and procedures, and creating a system of accountability.

Principal Findings

State agencies did a poor job in planning the contracts we reviewed. Agencies incorrectly identified five of seven contractors as sole source providers. In addition, agencies did not typically obtain approval for the use of a sole source provider. Review and approval of the decision not to seek proposals from other providers is important because these contracts bypass full and open competition.

Contracts did not always contain adequate performance requirements. Contract deliverables were unclear, expected completion dates were not always specified, and performance incentives were often lacking. Only 1 of 16 contracts we reviewed contained a penalty provision for poor performance.

Poor planning contributes to frequent contract amendments. The BOE approved 27 amendments for the 16 contracts we reviewed. In total, contract amounts increased more than \$5 million from \$2.2 to \$7.4 million.

The state's contract award process does not ensure vendor proposals are consistently and objectively evaluated, and contracts are awarded fairly. State agencies used a wide variety of methods for evaluating vendor proposals. Only five of nine evaluation methods assigned a score to each proposal as required by state law. In addition, none of the proposals were evaluated using a technical evaluation process.

State agencies did not follow proper contract monitoring practices. Contract Compliance Checklists were not prepared for 7 of 16 contracts. In addition, most checklists prepared were incomplete. Furthermore, vendor reporting requirements were not included in 9 of 16 contracts. For the seven contracts with reporting requirements, only two agencies received reports.

The Department of Administration lacks the information it needs to oversee the state's contracting activities. Information regarding state contracts is not complete, accurate, or readily available. In addition, Contract Summary forms submitted to the BOE are not always accurate. Furthermore, agencies do not always provide the BOE with adequate justification for their decision to contract.

The State does not ensure employees responsible for contracting activities are adequately trained. Furthermore, it does not have adequate policies and procedures to ensure contracting activities are properly carried out. In fiscal year 2000, the BOE and its Clerk approved about 1,900 contracts amounting to more than \$500 million. Without adequate policies and procedures, the BOE does not have assurance the contracts it approves are properly planned and awarded, and will be monitored after approval.

Accountability for the state's contracting activities is poor. Although the BOE is responsible for approving contracts, it has little involvement in key activities such as planning, awarding, and monitoring. The responsibility for these activities is fragmented throughout state government. Because a framework for accountability has not been established, agencies often delegate contracting functions to employees that may not have adequate skills. In addition, employees may not have proper authority over the function being contracted for, or accept responsibility for ensuring vendor performance.