Contract Administration

Leveraging Current Tools to Enhance Contract Administration

CLACKAMAS COUNTY

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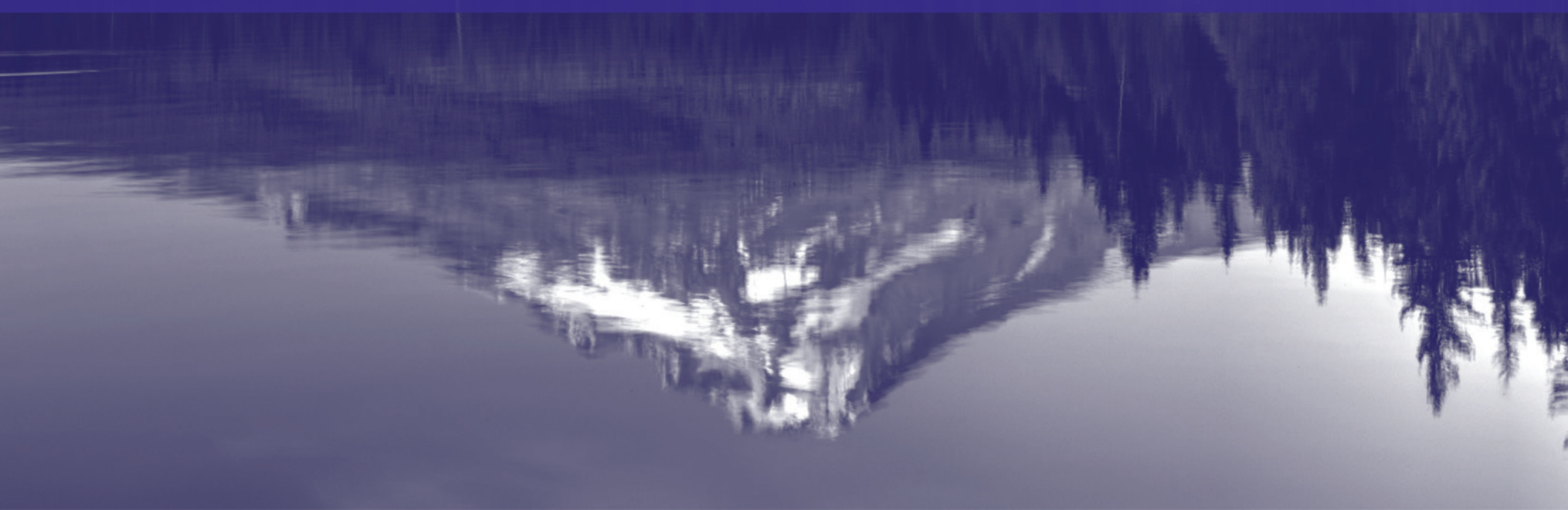Senior Internal Auditor

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I. Executive Summary

Leveraging Current Tools to Enhance Contract Administration

Clackamas County has various systems and tools in place to assist with tracking, administering, and processing contract activities. The lack of standardized management processes in a siloed environment:

- Creates barriers to cross-departmental communication.
- Limits the sharing of tools and best practices.
- Decreases the County's ability to report all active contracts with confidence in the data integrity.

While Finance assists with contract award and execution, departments are responsible for monitoring their own contracts. Each department has developed its own tracking and monitoring systems for contracts. Cobblestone, a contract management database, is used as the County's repository for contracts. This system is not integrated with PeopleSoft, the County's financial system. Departments have broad PeopleSoft access and limited Cobblestone access.

Recommendations

This review resulted in the following three recommendations addressing potential improvements to the contract management tools and support, interdepartmental communication, and One County efforts. Detailed observations and recommendations are included in this report.

1 Implement the PeopleSoft contract management module for integration with the current finance system

2 Enhance departmental purchase order reconciliation

3 Utilize established Coffee Talks, newsletters, and quarterly trainings to enhance transparency on roles, responsibilities, and contract process flow

Management Response

The Finance Director and procurement team have reviewed these recommendations and agree with the recommendations. Full responses have been included in this report.

Proactive Efforts

County team members, including Finance as the primary engagement contact, have contributed their time and effort to provide access to the information and data cited. These contributions significantly impacted the completion of this review. Collaborative efforts are vital to the County's ability to successfully meet objectives, as well as identify, thoroughly analyze, and appropriately respond to risks. We demonstrate our core values, SPIRIT, when we collectively and proactively identify steps to streamline processes, strengthen controls, and mitigate risks.

Special thanks to Elizabeth Comfort, Ryan Rice, Ed Johnson, Kiree Estrada, and everyone else who have contributed and supported this engagement.

II. Background

Contract Lifecycle

Contract administration is a subset of the contract process, which starts with developing a contract, executing the contract, administering the contract, and then closing out the contract. While the contract pre-work and contract execution phases involve developing a contract and making sure the contract is compliant with both state and local procurement regulations and policies, key activities within the contract administration phase include the following[1]:

- Accepting or denying goods or services
- Receiving and approving invoices for payment
- Monitoring the contract for compliance
- Communicating with the vendors/contractors
- Requesting contract amendments or change orders

Contract Pre-work

Contract Closeout

Contract Execution

Contract Administration
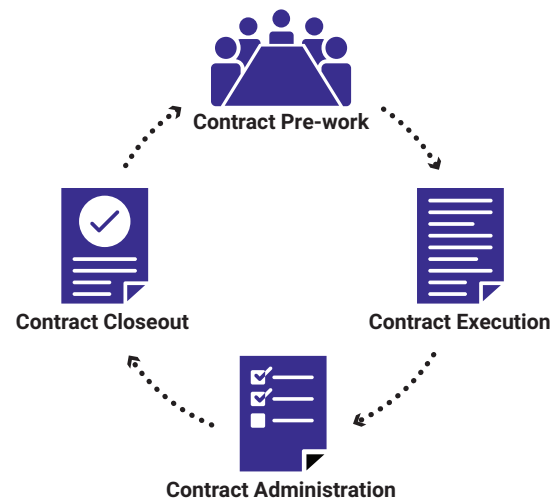
Source: OCIA generated based on audit observations

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[1] Oregon Department of Administrative Services Contract Administration Training Certificate

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Importance of Contract Management

Per the National Association of State Procurement Officials, effective contract management and processes lead to lower operational costs, increased user agency satisfaction, and efficiency in delivering services[2]. Risks surrounding contract administration include under- or overspending approved funds, not receiving contracted goods/services as needed, unsatisfactory delivery of services to residents, noncompliance with contractual terms and agreements, and more.

The Oregon Department of Administrative Services provides a Contract Administration Training Certificate, which is required for all state employees responsible for administering a state contract over $150,000[3]. This training is compliant with Oregon statute[4] and is accessible through the State's training site, Workday. Local agency employees, including Clackamas County employees, can also access this training platform with an email request. There are 11 training events, which include an introduction to contract administration, amendments and change orders, administering contract and managing vendors, contract closeout, and more.

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[2] NASPO Contract Administration Best Practices Guide

[3] Oregon DAS Procurement Training Law Website
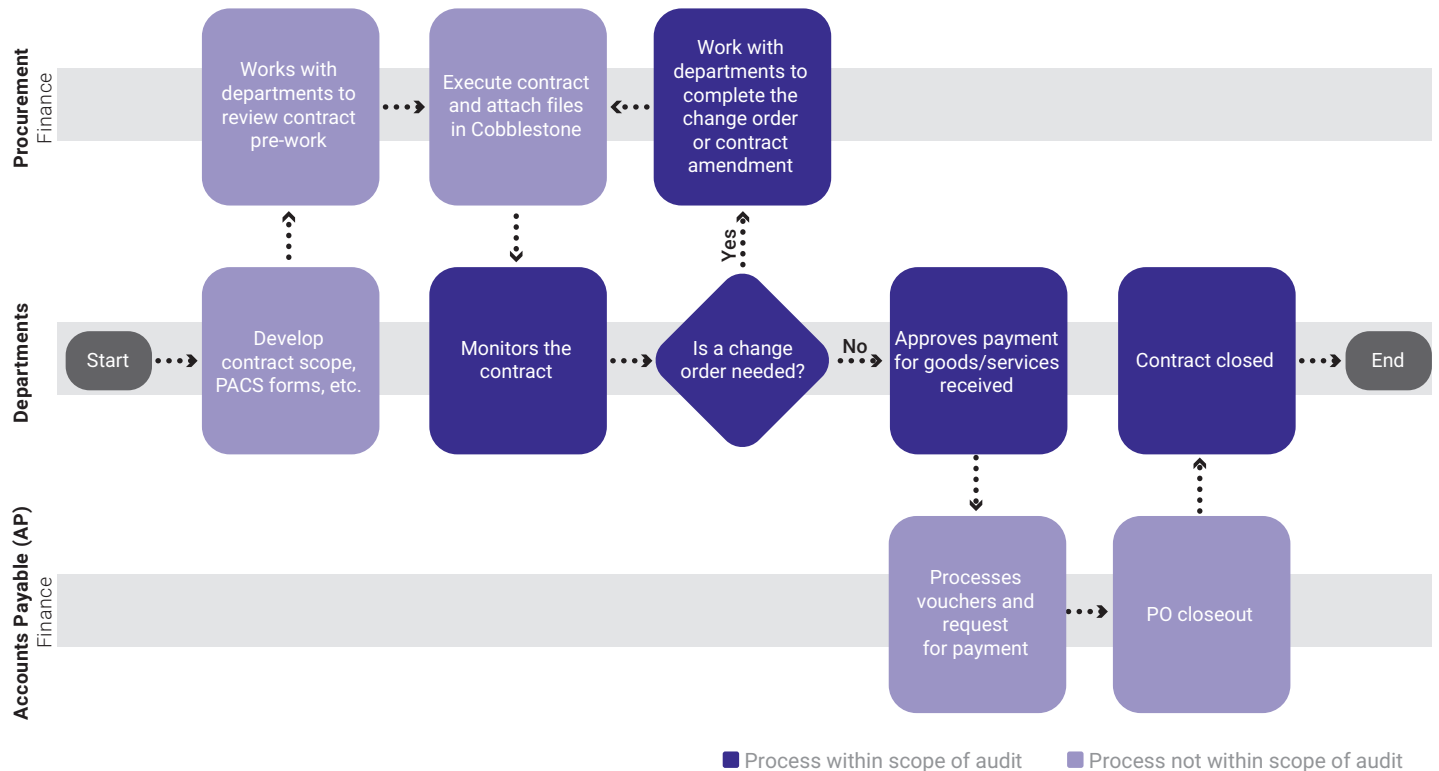
[4] ORS279A.159

III. Observations

Flow of a Contract

While each department is responsible for monitoring and administering the contract, procurement and accounts payable (AP) in Finance provide support for contract activities. The procurement team specializes in assisting departments in the process of developing and executing a contract agreement, creating the purchase orders (PO), and processing change orders/contract amendments. POs are documents that authorize the delivery or rendering of goods and services and are closed when all items on the PO have been delivered or received. The AP team assists in processing invoices/vouchers, sending payments, and closing out POs when notified by the department. The individual departments are responsible for all other activities of the contract, which includes receiving the goods and services, reviewing and approving invoices, preparing vouchers for payment, communicating with the vendors, monitoring for compliance with contract terms and conditions, and communicating the need for contract amendments or contract closeout activities.

Procurement Finance

- Works with departments to review contract pre-work
- Execute contract and attach files in Cobblestone
- Work with departments to complete the change order or contract amendment

Departments

- Start
- Develop contract scope, PACS forms, etc.
- Monitors the contract
- Is a change order needed? — Yes / No
- Approves payment for goods/services received
- Contract closed
- End

Accounts Payable (AP) Finance

- Processes vouchers and request for payment
- PO closeout

■ Process within scope of audit   ■ Process not within scope of audit

Legal Compliance

While there are laws and regulations that are applicable to state agencies, such as the state statute[5] requiring "education and training or experience requirements for persons that conduct procurements or administer contracts for state contracting agencies,"[6] the County is a local contracting agency and therefore is not subject to this education and training requirement. However, the County is required to appoint, in writing, a contract administrator to represent the County for each contract.[7] Evidence of the authorized contract administrator was found written on the Procurement and Contract Services request forms for all 26 contracts selected for testing.

Tools and Systems

Prior to the implementation of Cobblestone, contracts were tracked on Excel and supporting documents were stored electronically in the Finance shared drive or were kept as hard copies. The transition to Cobblestone started in late 2017 and continued through 2018 as both methods were simultaneously used. Currently, Cobblestone serves as the County's contract repository and is used to generate contract identification numbers. PeopleSoft, an Enterprise Resource Planning (ERP) system, is the County's system used to generate and view POs, process payments, store invoices and supporting documents, generate queries and reports, and more. The procurement team will manually transfer data from Cobblestone into PeopleSoft, including the contract number, encumbrance amount, and more, to generate a PO. Once there is a PO number, the procurement analyst will update the contract file in Cobblestone with the PeopleSoft data. These manual entries are necessary because the two systems, Cobblestone and PeopleSoft, are not integrated. Manual processing increases the risk of data entry errors.

Completeness of Contracts in Cobblestone

Each department has their own method to track and maintain their subsidiary listings, such as Excel, Access, Alfresco, PawPrints, and others. When inquiring of various departments and contract administrator teams about their system for contract tracking, 19 of 31 interviewees noted little to no familiarity with using Cobblestone. The lack of standardization and inconsistent tracking methods across all departments is a barrier to obtaining a comprehensive listing of all active County expenditure contracts. In addition, inconsistent

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[5] ORS279A.159

[6] ORS Chapter 279A on www.OregonLegislature.gov

[7] Oregon Secretary of State – Department of Administrative Services, OAR 125-246-0555 (2)

data or blank data fields were noted (e.g., name of the contract administrator, department responsible, total contract value, etc.) in Cobblestone when comparing contracts to the subsidiary listing and supporting documents such as the contract agreement, amendments, and the Procurement and Contract Services request form.

During fieldwork testing, three of 17 contracts selected from department subsidiary contract listings were not included in Cobblestone. Sixteen of 26 contracts selected for viewing in Cobblestone did not include the Procurement and Contract Services request form in the contract file. During the status update meeting, it was noted that the procurement team has been intentional in creating a more consistent protocol for Cobblestone use. A Procurement Desk Manual was developed and includes a section dedicated to procurement file and contract organization. The manual clarifies the required documents to be attached in each of the Cobblestone contract files.

As part of the contract process, Cobblestone produces a contract number every time a new item is added. The addition of a contract amendment into Cobblestone results in a new contract number being generated despite the existing original contract number. As such, one contract with multiple contract amendments can have multiple contract numbers.

PeopleSoft Utilization

One of the main tools used for the reconciliation process is PeopleSoft Finance, which supports the staff's ability to run queries and reports. For transactions in the period July 1, 2020, through June 30, 2021, no readily available queries were identified in PeopleSoft to run a report showing all transactions made on all POs for a given period.

The period selected for review was during a time of transition of processes, staffing, and leadership. During the period from July 2020 through June 2021, Finance:

- Established a new chart of accounts effective July 1, 2021.
- Implemented the mandatory use of POs and eliminated the use of field purchase orders.
- Experienced an overall staff vacancy of approximately 40%, including management positions.
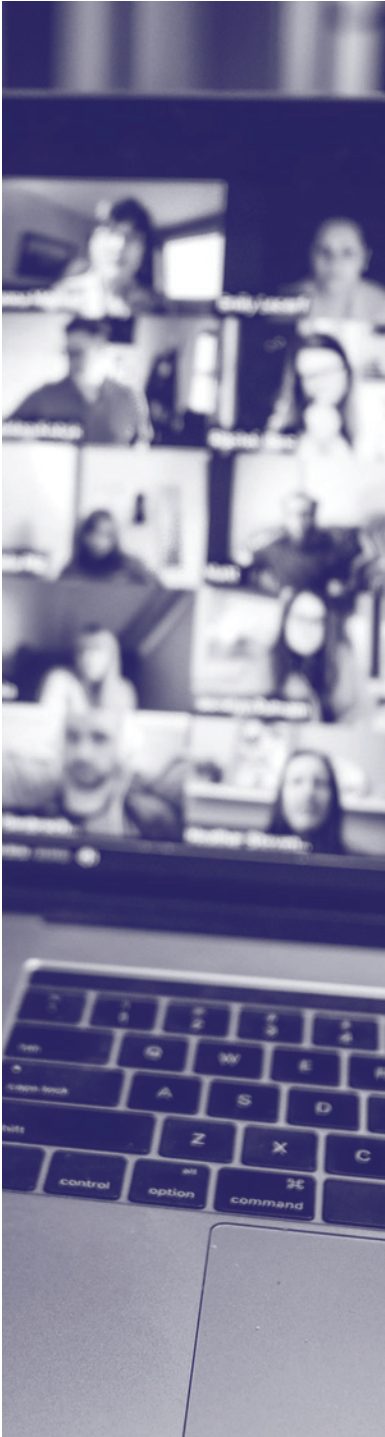
During the tested period, gaps existed in the reconciliation process such as payments made without including the PO number in PeopleSoft and payments made subsequent to the PO expiration date. A total of 35 transactions were randomly selected for review based on having a blank field in the PO number column in a PeopleSoft query. Of those transactions, four payments, totaling $6,098, should have had an associated PO number included when entered into PeopleSoft as indicated by the PO number written on the supporting document and/or voucher. Out of 14 POs reviewed, one PO had three vouchers, totaling $3,825, issued on an expired PO for services rendered after the PO expiration date.

The transactions and observations identified above are representative of an accounting process that has since evolved through intentional improvement efforts. These include implementing a strategic plan, as identified on the Finance Three Year Projects Plan, which focuses on incremental system and process changes during the period from July 1, 2021, through December 31, 2022. Since December 2021, adding two new deputy directors and an analyst and filling the vacant procurement manager position has allowed the Finance department to continue streamlining processes, investigate and resolve inefficiencies, and develop PeopleSoft queries using the new chart of accounts.

Department Support and Communication

In most cases, the contract administrators are the project leaders and individuals within the departments who are familiar with the contract scope and nature. Five of the five contract administrators interviewed noted they are well supported by their administrative team. These individuals help address inquiries related to the contract, provide and store copies of the contract agreements, track contracts in their department, prepare vouchers and data packets for the contract administrators to review, and raise awareness when a contract is close to its expiration date.

For larger departments, some of the administrative team members act as the finance liaison to help answer general contracting and procurement questions, as well as help facilitate conversations with the County procurement team when needed. In conversations with the finance/administrative team in the Water Environmental Service department, Transportation and Development department, and the Clackamas County Sheriff's Office, it appears they have well established contract administration systems and processes in place. Their team of experts are knowledgeable and aware of existing contracts within their department and help facilitate conversations with the procurement team to reduce turnaround and lead time when questions arise.

The nature of the County's siloed environment is a barrier for smaller departments to seek out best practices. Larger departments have dedicated resources to attend standing meetings with County procurement teams due to the volume of contracts administered. Smaller departments, due to their limited resources and infrequency of contract administration activities, have expressed a desire to obtain more tailored guidance and support applicable to their departments and divisions. Twenty-one of 31 interviews conducted with various departments and employees indicated interest in additional training on topics such as general process/procedures after contracts are executed, how to use Cobblestone, how to best track and monitor contracts, and more. Nine out of 31 interviews indicated interest in cross-departmental workgroups including opportunities to increase communication and discuss best practices.

Currently, the Finance department provides training opportunities such as the Procurement 101 series, "How To" guides, internal Finance Communication E-Blasts, and Coffee Time with Procurement. Coffee Time is a learning opportunity, which allows attendees to visit with the Procurement Manager and Finance Deputy Director. Applicable guides include instructions on how to look up an invoice or a purchase order. Various procurement trainings are offered quarterly. Not all trainings are well attended. During the most recent training as part of the Procurement 101 series, 9 of 20 who signed up attended the training. In conversations with Finance, it was noted that with the onboarding of the new Finance deputy directors, there are plans to further enhance training for users. Attendance and participation in procurement-led trainings, including existing state training opportunities, are greatly encouraged for continuous improvement and awareness.

IV. Recommendations

Current Tools

1 **Implement the PeopleSoft contract management module for integration with the current finance system**

Recommendation

County Finance should continue to ensure data availability and integrity, establish expectations of department responsibilities for monitoring, and provide department access and guidance on use of the new module.

Management Response

County Finance agrees with this recommendation. Finance with the support of Technology Services will implement the PeopleSoft contract module by July 30, 2023.

Current Tools

(2) ## Enhance departmental purchase order reconciliation

Recommendation

County Finance should continue to develop a standardized purchase order reconciliation process using PeopleSoft tools, and provide departmental training and establish frequency for performing reconciliations.

Management Response

County Finance agrees with this recommendation and will develop a plan to ensure that the PO reconciliation process is standardized and that are [sic] trainings are available to departments. The first training will be held in the month of June 2022, with standardized processes formalized by August 2022.

Collaborative Efforts

3   **Utilize established Coffee Talks, newsletters, and quarterly trainings to enhance transparency on roles, responsibilities, and contract process flow**

Recommendation

The County should continue to develop collaboration opportunities focusing on consistent contract administration tools and best practices. This includes encouraging lean process improvements in smaller departments to leverage limited resources and exploring existing State training opportunities.

Management Response

County Finance agrees with this recommendation and has implemented a monthly training/information session for all departments that will address procurement knowledge gaps, answer questions about procuring for goods and services, and serve as a means to standardize the procurement process countywide. Finance already practices strategic County-wide procurement opportunities in which all departments can participate. In the month of May 2022, Procurement held its second Coffee Talk hour with over 30 attendees hosted by the Procurement Manager. Finance will continue frequent trainings and opportunities for informational sessions ongoing to County staff who have Procurement roles.

V. Objectives, Scope and Methodology

In accordance with the Clackamas County 2021 Audit Plan, the Office of County Internal Audit evaluated the contract administration process with a general focus on the County's contracting agencies, which include those listed in the Clackamas County Local Contract Review Board Rules[8], and any other department that have contracts. The assessment of the contract lifecycle was from contract execution to contract closeout for all active contracts during Fiscal Year 2020-2021 (i.e., July 1, 2020, through June 30, 2021).

County Internal Audit engagements are selected and designed to address high risk potential, while maximizing the Office of County Internal Audit's resources and impact. Selection as a topic for an internal audit engagement does not mean an auditable unit is being managed ineffectively or internal controls are inadequate. It merely indicates that the services or functions the entity, office, or department is responsible for are, by nature, high priority activities with high-risk potential because of factors such as a large amount, or high degree, of:

- Reported expenditures or revenues;
- Available liquid assets, such as cash;
- Potential risks identified by management; or
- Public interest.

General objectives for the Contract Administration engagement—consistent with the County's values, strategies, and objectives—were to:

- Independently assess the effectiveness of Clackamas County's contract administration processes;
- Identify opportunities to lower operational costs and increase efficiency in delivering services to County residents;
- Advocate for continuous improvement through observations and recommendations; and
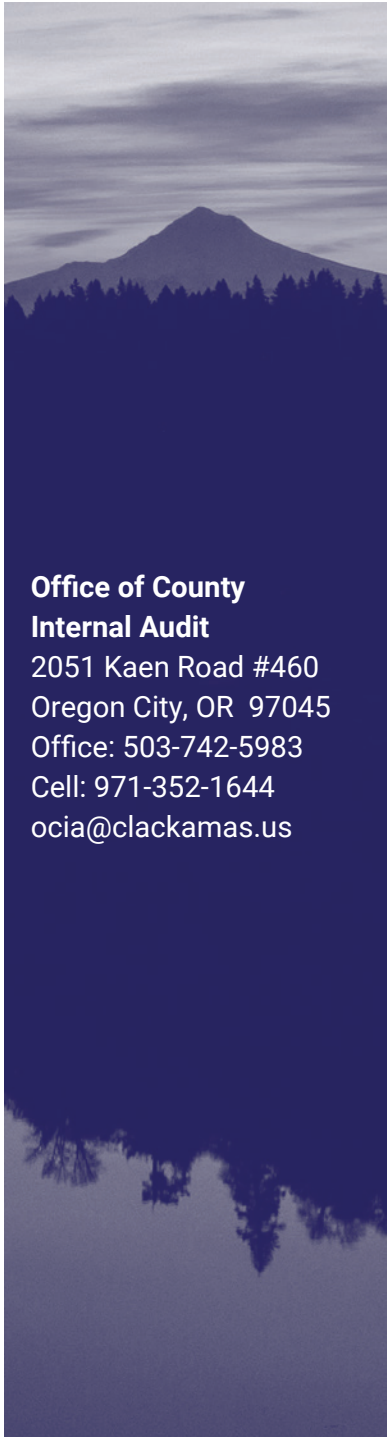- Create transparency for the County.

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[8] C-046-0100(1)

To achieve engagement objectives, the Office of County Internal Audit, among other potential engagement activities:

- Conducted interviews with team members in Finance, County department contract administrators and other potential stakeholders;
- Reviewed County policies and procedures;
- Reviewed Finance Performance Clackamas Strategic Plan for July 1, 2020;
- Reviewed National Association of State Procurement Officials materials;
- Reviewed Oregon Revised Statues and Oregon Administrative Rules;
- Reviewed Oregon Department of Administrative Services Contract Administration Certificate program;
- Gathered a population of all contracts to select a sample for testing procedures; and
- Analyzed results against identified criteria.

VI. About the Office of County Internal Audit

The Office of County Internal Audit provides assurance, consulting, and investigative services to the public, employees, volunteers, and departments of Clackamas County so they can feel confident that the public's interests are protected and can engage with an accountable, high performing, and transparent local government. The Office helps Clackamas County accomplish its mission by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes.

The Office of County Internal Audit governs itself by adherence to The Institute of Internal Auditors' mandatory guidance, including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*.[9] The Office does not fully conform to the Standards to the extent the Office has not received an external review. Obtaining an external peer review is one of the Office's strategic goals. The County Internal Auditor reports functionally to the Internal Audit Oversight Committee and administratively to the publicly elected County Treasurer. This authority allows the Office of County Internal Audit to provide independent, objective, and risk-based assurance, advice, and insight. The Office is designed to add value and improve County operations and the County's ability to serve.

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[9] https://na.theiia.org/standards-guidance/mandatory-guidance/pages/standards.aspx