

# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angie Grove

## MEMORANDUM

**TO:** Legislative Audit Committee Members  
**FROM:** Megan C. Coy, Senior Performance Auditor  
**CC:** General Matthew T. Quinn, Adjutant General, Department of Military Affairs  
Karen Revious, Centralized Services Division Administrator, Department of Military Affairs  
**DATE:** September 2012  
**RE:** Performance Audit Follow-Up (12SP-39): Contract Management (orig. 11P-06)  
**ATTACHMENTS:** Original Performance Audit Summary

### Introduction

In June 2011, we presented our performance audit titled "Contract Management," which evaluated contract-related activities conducted by the Department of Military Affairs (department) and included nine recommendations to the department. In July 2012, we began gathering preliminary information from the department related to progress in implementing the recommendations. This memo summarizes the results of our follow-up work.

### **Overview**

The Department of Military Affairs is authorized by the Department of Administration to handle procurement of all noncontrolled supplies or services with a total contract value of not more than \$100,000. Our original audit found improvements could be made in the department's documentation, compliance, and oversight of contract-related activities. Based on our follow-up to the audit, we determined the department has made good progress in implementing our recommendations. All nine recommendations we made to the department have been or are being implemented. Some of the steps taken by the department include development of formal policy governing contracting activities, a desktop procurement guide for staff use, an information system for tracking contracting activities, and targeted training for contract liaisons.

### Background

The Montana Procurement Act serves as the general policy for state procurement activities, including obtaining contracted services. It exists to clarify the law governing procurement; provide for increased public confidence in procurement; ensure the fair and equitable treatment of all persons who deal with the procurement system; and maximize to the fullest extent practicable the purchasing value of the state's public funds. The Act also places responsibility on the Department of Administration (DOA) to procure all supplies and services needed by the state and authorizes DOA to delegate day-to-day procurement activities to other state agencies. The Department of Military Affairs, which oversees all activities of the Army and Air National Guard, Disaster and Emergency Services Division, and provides administrative support to the Veterans Affairs Division, is delegated authority to purchase all noncontrolled supplies or

services with a total contract value of not more than \$100,000. The objective of our audit was to determine if the department's contract activities assure compliance with Montana procurement requirements and ensure accountability for goods and services provided.

### **Follow-up Audit Findings**

The following sections summarize the report recommendations and the progress toward implementation of the recommendations.

#### **RECOMMENDATION #1**

**We recommend the Department of Military Affairs develop a contract management information system, which documents at minimum:**

- A. A list of department contracts and the status of those contracts.**
- B. A list of contract liaisons and the specific contracts monitored by those liaisons.**
- C. Proof of insurance documents provided by vendors engaged in contracts with the department.**
- D. Key department contracting activities.**

#### **Implementation Status – Being Implemented**

The department is in the process of implementing this recommendation. The department purchased a license for a web-based records management information system; however, the system is not yet being used for tracking contract information. Department staff report the system is being tested to determine how it can best be used to document procurement and monitoring activities for the department's contracts. It is expected the department will begin using the system in fall, 2012. Some of the features of the system include:

- The ability of users to submit electronic requisition requests for goods and services containing mandatory information about the request, as defined by management and required by the system.
- Electronic routing of the requisition to the appropriate parties for approval, based on the cost associated with the requested good or service, and email notification to the party whose approval is needed.
- The ability of department management to login to the system using any electronic device with internet access, even when they are working off-site. This will enable the procurement process to proceed without delay.
- The capability to store additional documentation supporting the procurement method used for each contract.

#### **RECOMMENDATION #2**

**We recommend the Department of Military Affairs develop a review process to ensure compliance with federal law and department policy.**

#### **Implementation Status – Implemented**

During our audit, we noted documentation of the contract process was not always present in department contract files, such as that related to authorization and justification of purchases and vendor debarment searches, which are required by department policy and federal law. The department implemented our recommendation through the development of formal policy regarding contracting and purchasing activities. This policy requires program staff submit a fully completed purchase requisition containing all appropriate authorizing signatures to the Contracts/Procurement Officer (CPO). Staff reported each requisition is reviewed and signatures approving purchases are compared to those with delegated

purchasing authority. Additionally, each contract file contains a checklist which notes the documents present in the file and actions associated with the contract process, including the completed requisition and debarment search. As part of our follow-up work, we reviewed a sample of department files for contracts completed within the last fiscal year. Our review found the department's policy is being followed and all files we examined contained the required documentation.

### **RECOMMENDATION #3**

**We recommend the Department of Military Affairs comply with state accounting policy by:**

- A. Ensuring assigned contract numbers are included on all invoices.**
- B. Verifying billed services were provided within the term of a contract.**
- C. Requiring documented approval of payment by either the designated contract liaison or their supervisor.**
- D. Ensuring contract payments do not exceed the limits stated in the contract.**

### **Implementation Status – Implemented**

During our audit, we found controls over the department's processing of contract-related invoices should be strengthened. The department made several changes to policy and procedures during the last year to implement our recommendation and improve controls. First, the department implemented formal policy governing contracting and purchasing which requires contract liaisons review invoices and verify the department is billed in accordance with the contract terms, the billed services were provided, and the contract number is identified on the invoice. In addition, formal training on the contracting process was provided department-wide and contract liaisons were required to take an individual, self-study training regarding the basic requirements and responsibilities associated with their role. The training specifically discusses duties related to contract invoices. Finally, liaisons are now required to submit quarterly reports, which include information about contract payments, performance, and overall contract management, to the CPO for each contract they monitor. As part of this reporting process, liaisons also submit invoice-tracking documents which show all contract payments made and the balance of funds remaining in the contract. Our follow-up work found the established controls are being followed.

### **RECOMMENDATION #4**

**We recommend the Department of Military Affairs comply with department policy by implementing a formal review process over contract amendments to document:**

- A. Amendments are signed by both parties.**
- B. Contract changes are clearly defined.**
- C. All contract modifications are formally documented through the use of written amendments.**

### **Implementation Status – Implemented**

The department implemented this recommendation through the development of formal policy governing its contracting activities, a desktop procurement guide for staff use, and targeted training for contract liaisons. Department policy requires all requests for contract amendments be submitted to the CPO for review. As further guidance for staff, the department developed a desktop procurement guide which was distributed to all programs within the department and reiterates that contracts must be processed by Centralized Services Division (CSD) and approved by the CPO. Finally, the self-study training course specifically geared for contract liaisons states that amendments must be clearly stated and all parties must agree to contract changes in writing. As part of our work to determine the implementation status of this recommendation, we tested these controls for a sample of amendments completed within the last fiscal

year. We found that all of the amendments we reviewed were formally documented, signed by both parties, and the changes to the contracts were clearly defined.

#### **RECOMMENDATION #5**

**We recommend the Department of Military Affairs:**

- A. Clarify policy to include timeframe limits associated with the contracting authority of employees.**
- B. Establish a review process to ensure employees are abiding by their delegated contracting authority.**

#### **Implementation Status – Implemented**

The department implemented part A of this recommendation through changes to its process for delegating contracting authority to employees. At the beginning of each fiscal year, the CSD Administrator issues letters delegating purchasing authority to the department's program managers. The letter outlines the financial limits of their authority and clearly states purchasing authority is effective for that fiscal year. Program managers are required to sign and return a letter of acceptance of the delegation to CSD. In addition, managers may further delegate authority to employees within their programs for a specific time period and purchase limit; these employees also sign and return letters of acceptance of the delegation to CSD. Part B of the recommendation was implemented through the review process discussed in this memorandum under Recommendation #2. As noted, we reviewed a sample of files for contracts executed during fiscal year 2012 as part of our follow-up work. In all of the contracts we reviewed, we found appropriate employees, based on their delegated purchasing authority, had initiated the procurement process and signed the final contract.

#### **RECOMMENDATION #6**

**We recommend the Department of Military Affairs comply with state law governing sole source procurement by establishing a process of review and approval.**

#### **Implementation Status – Implemented**

The department's desktop procurement guide states that sole source and sole brand purchases must be justified and approved by the CPO prior to initiation of the procurement process. Department staff report that each sole source or sole brand request is reviewed against statutory requirements to ensure appropriateness. We reviewed a sample of these contracts issued in the last fiscal year during our follow-up on this audit. All contract files we reviewed contained documented justification of the purchase which aligned with statutory requirements. We also reviewed these files to determine if the purchases were approved by authorized department staff. We found no exceptions in our review.

#### **RECOMMENDATION #7**

**We recommend the Department of Military Affairs assure compliance with Internal Revenue Service requirements.**

#### **Implementation Status – Implemented**

The department implemented this recommendation through the provision of specific training to program managers and contract liaisons on the contracting process and their associated duties. Department staff were made aware of the increased risk to the state resulting from not properly distinguishing between contractors and employees. Department management anticipates periodic reminders to staff through both formal training and interaction during the contracting process.

**RECOMMENDATION #8**

**We recommend the Department of Military Affairs establish formal policy which:**

- A. Identifies the criteria for designating contract liaisons.**
- B. Defines the role and responsibilities of contract liaisons, including those related to the maintenance of documentation regarding contract monitoring activities.**

**Implementation Status – Implemented**

As discussed previously, the department instituted formal policy governing its contracting and purchasing activities. This policy states the contract liaison is the employee who serves as the primary contact person for all communication between the department and the contractor. In addition, it directs designation of the contract liaison to be based on the individual's knowledge, skills, and abilities to effectively carry out the responsibilities of the position. Policy also defines the responsibilities of the contract liaison which include:

- Monitoring of day-to-day operations and provision of services by the contractor;
- Resolving performance issues which arise during the contract;
- Documenting contract monitoring activities;
- Reviewing invoices for the purposes previously discussed; and
- Determining when contract changes are necessary and notify other program staff as necessary.

We compared information about the department's current contracts with records associated with the contract liaison self-study training. We found all liaisons currently monitoring department contracts have taken the mandatory training course.

**RECOMMENDATION #9**

**We recommend the Department of Military Affairs designate one specific entity to oversee all contracting activities and assure compliance with state and federal law and policy.**

**Implementation Status – Implemented**

The department implemented this recommendation through formal policy regarding contracting and purchasing activities. Policy directs the CPO, located within CSD, to coordinate the routing and approval of all contracts for services with a total contract value over \$5,000, maintain a centralized database of all department contracts, and facilitate an effective contract management process intended to minimize risk and liability and maximize efficiency.

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