

# Legislative Audit Division

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State of Montana



Report to the Legislature

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June 1998

## Performance Audit Report

### Contract Administration State Compensation Insurance Fund

#### Department of Administration

This report contains information on the controls related to contract administration at the State Compensation Insurance Fund. Overall, controls over contractors appear reasonable. Processes are in place for selecting and monitoring vendors. The recommendations made in this report relate to improving the efficiency and effectiveness of the processes used to administer contracts.

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## PERFORMANCE AUDITS

Performance audits conducted by the Legislative Audit Division are designed to assess state government operations. From the audit work, a determination is made as to whether agencies and programs are accomplishing their purposes, and whether they can do so with greater efficiency and economy. In performing the audit work, the audit staff uses audit standards set forth by the United States General Accounting Office.

Members of the performance audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business and public administration, statistics, economics, computer science, communications, and engineering.

Performance audits are performed at the request of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

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# LEGISLATIVE AUDIT DIVISION

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June 1998

The Legislative Audit Committee  
of the Montana State Legislature:

We conducted a performance audit of the contract administration process at the State Compensation Insurance Fund. This report contains findings related to our review, including recommendations for improving the process. A response from the State Compensation Insurance Fund is contained at the end of the report.

We wish to express our appreciation to the personnel of the State Compensation Insurance Fund for their cooperation and assistance.

Respectfully submitted,

(Signature on File)

Scott A. Seecat  
Legislative Auditor



# **Legislative Audit Division**

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## **Performance Audit Report**

### **Contract Administration State Compensation Insurance Fund**

**Department of Administration**

Members of the audit staff involved in this audit were Kent Rice and Jim Nelson.



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## **Appointed and Administrative Officials**

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### **State Compensation Insurance Fund**

Carl Swanson, President/CEO

Mark Barry, Senior VP, Administration & Finance

Jim McCluskey, VP, Claim

Joanne Shydian, VP, Human Resources & Communications

Nancy Butler, VP and General Counsel, Legal

Eivind Nilsen, VP, Management Information Services

Michael Glass, VP, Underwriting

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### Introduction

The Legislative Audit Committee requested the Legislative Audit Division conduct a performance audit of the contract administration process at the State Compensation Insurance Fund (State Fund). The main objective of our audit was to determine if controls are in place at State Fund to ensure efficient and economic use of contracted services and compliance with current requirements. We reviewed the processes for selecting and monitoring contractors, contract terms and conditions, and payment for services. We focused on executed contracts, so we did not analyze the need for various services.

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### Background

There are seven departments within the State Fund. Each department is responsible for different functions related to the operation of State Fund. All seven departments have at least one contract for outside services. Over the past two years, State Fund has contracted for more than 40 types of services. We selected a judgmental sample of ten contracted services to review during our audit. The total cost for services selected for review was \$2,265,731.54. The time frame in which these services were provided was April 1997 through April 1998.

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### Controls Appear Reasonable Overall

While our audit identified areas where controls could be strengthened, contract administration processes were in place for those contracts selected for review. The following sections highlight controls in place during our review.

- ◆ Personnel followed procurement regulations, where applicable, for the contracts in our sample. As a result, vendors under contract with State Fund appear to be selected objectively.
- ◆ There are numerous vendors under contract with State Fund to provide various services. Fees for some contracts are set by State Fund, and fees for other contracts are based on individual contractor proposals. While prices vary among vendors, nothing came to our attention which indicates contract prices are unreasonable.
- ◆ Contract language outlines contractor responsibilities. In addition, contracts appear to contain necessary language for protecting the State's interests. Terms and conditions within the contracts reviewed appear logical and reasonable.

## Report Summary

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- ◆ Each of the sampled contracts has some method for monitoring the services provided. While some methods are more extensive than others and some monitoring efforts are informal, contractor compliance and quality of service is monitored. Individual processes are in place to help identify and correct concerns with contractors.
- ◆ Controls over staff activities are also in place. Individuals with authority to purchase contracted services cannot do so without involvement by at least one other employee of State Fund. Payment for services rendered also has controls. Controls over staff activities appear to provide adequate segregation of duties. These controls help minimize the potential for fraudulent activity and assure use of contracted services is necessary and reasonable.

As a result, controls over contractors appear reasonable overall. Procedures are in place which help ensure effective use of contracted services. The issues identified during our review relate to improving the compliance, efficiency and effectiveness of the processes in place. Implementation of our recommendations will improve documentation and compliance, which should enhance the processes currently used by State Fund.

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### **Contract-Related Documentation Could Be Improved**

Various personnel within each department are responsible for procuring and monitoring contracted services. This responsibility includes maintaining records related to the contracting process. We found the amount, type, and organization of documentation varied between those contracts selected for review. Overall, documentation indicated a logical process was followed for procurement of services. However, a clear understanding of the reason(s) for selection of contractors was not provided by documentation alone. In addition, documentation related to monitoring varies depending on the type of service contracted.

Maintaining adequate and consistent contract-related documentation is important to the general operation of State Fund. Documentation should provide an accurate record of all activities associated with each contract. Partial, inconsistent, or poor documentation limits State Fund's ability to ensure compliance with regulations. Adequate documentation is also

important for supporting decisions made by State Fund personnel. We recommend State Fund implement improvements to procedures to ensure documentation provides a complete history of the procurement and monitoring processes.

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### **Record-keeping Practices Should Be Centralized**

During our review we requested access to all contract-related documentation. Most of the documentation was located for observation. However, some procurement documentation for one contract was not located during our review. In addition, some documentation was not readily available for review. While there are no laws or rules which require centralized record-keeping, public records must be available for review. State Fund's current record-keeping procedures could be improved to provide a more efficient and effective method for compliance with these laws.

The organization of State Fund contributes to a decentralized operation. Each department conducts activities related to its responsibilities. While contracted services can and often do involve or impact several departments, contract administration does not involve more than one department. Thus, a centralized record-keeping function will help ensure all contract-related documentation is maintained for public review and future reference. This will help to ensure a complete history of all State Fund contracts is documented.

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### **Contract Terms and Conditions Should Be Reviewed**

During planning we reviewed copies of all current contracts. This review included an examination of contract language and format. We found each contract to be unique in form and substance. We expected differences due to the variety of services contracted by State Fund. However, "standard language" and format varies between contracts. The main area of confusion over language in contracts relates to the effective date. For the sample selected for review during our audit, 9 of 10 contracts include a contract effective date. However, other contracts reviewed during our preliminary planning do not provide a specific date. It is difficult to determine what the effective date is for these contracts.

There is potential for litigation with any contract. Although our review was limited, nothing came to our attention which indicates language in State Fund contracts does not properly protect the State's interests.

## Report Summary

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While State Fund's contracts are valid, binding agreements, there is confusion as to when the actual effective dates are for some of the contracts. Standardization of this language for all State Fund contracts could eliminate confusion. Different attorneys handle different contracts, so there are differences in style. The use of standard boilerplate format for all sections will improve the efficiency of contract development. It will allow for easy location of sections. In addition, standardization of sections should help decrease the amount of time involved in drafting and reviewing contracts. We recommend State Fund develop a standard contract format and boilerplate language for use by all departments.

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### Compliance with Contract Regulations

Audit standards require reporting of noncompliance issues related to objectives. During our review, we identified instances of noncompliance with contract regulations. The three areas noted are:

- 1) A lack of a register of proposals for each RFP.
- 2) Eleven proposals for four different services did not have a date/time stamp indicating receipt by State Fund.
- 3) The term of one contract is indefinite.

The areas identified during our audit constitute noncompliance. Each area is case-specific and does not involve all 10 services reviewed during the audit. A change in State Fund's procedures should provide an effective method for addressing these compliance issues.

Implementation of the other recommendations made in this report should provide assistance with ensuring compliance.

# Chapter I - Introduction

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## Introduction

The Legislative Audit Committee requested the Legislative Audit Division conduct a performance audit of the contract administration process at the State Compensation Insurance Fund (State Fund). Each of the seven departments within State Fund contracts for some type of service from the private sector. Our audit reviewed controls over selecting and monitoring contractors, and internal controls over payment for services.

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## Audit Objectives

The main objective for this audit was to answer the question:

*Does State Fund have procedures in place to ensure efficient and economical use of contracted services and compliance with legal requirements and internal policies?*

In order to satisfy this objective, we answered the following questions:

1. Do controls exist to ensure contractors are selected objectively?
2. Do controls exist to ensure contract prices are reasonable?
3. Are contract terms and conditions logical and reasonable?
4. Is State Fund complying with state regulations regarding selection of contractors?
5. What policies and procedures does State Fund have in place for ongoing monitoring?
6. Are controls sufficient to identify and correct contract problems/concerns?
7. Do sufficient controls exist over staff activities?

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## Audit Scope & Methodology

The audit was conducted in accordance with government auditing standards for performance audits. We reviewed the contract administration process including both selection of contractors and monitoring of contracted services. This included reviewing contracts, procurement documentation, and related reports; interviewing State Fund personnel; and reviewing online files.

Audit scope included a review of current contracts at the State Fund. We judgmentally selected a sample of contracts to review in detail as part of the audit. We reviewed at least one contract in five of the seven

## Chapter I - Introduction

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departments. We did not review contracts in the Management Information Services Department.

We reviewed the language in each contract to determine consistency and adequacy for protecting the State's interests. There are several services used by State Fund which are statutorily exempt from following the Montana Procurement Act. For example, State Fund contracts with private investigators to investigate potential fraudulent activity. We selected and reviewed two contracts awarded using this exemption.

We reviewed available documentation related to procurement of each service. This involved identification and review of notices of publication, registration of submitted proposals, actual proposals, scoring sheets, and other related documentation. We determined how contract prices were established for each contract. This included a determination of why State Fund pays different prices for similar services.

We identified contract monitoring procedures used by State Fund. This involved review of monitoring by individuals at various levels including the user level, program level, department level, and State Fund-wide. We determined if personnel are provided an opportunity to give feedback on vendor performance. We reviewed documentation related to monitoring to verify information obtained during interviews. Results of this review were analyzed to determine if controls are in place for ensuring contractor accountability, and if procedures provide sufficient controls for identifying and correcting contract problems.

We reviewed procedures used to pay for contracted services. We interviewed personnel and reviewed documentation to determine who and what is involved in the process. Results were analyzed to determine if controls over payments provide for adequate segregation of duties. We also determined the level of review completed on personnel involved with contract administration activities/decisions.

We interviewed personnel responsible for selecting and monitoring contracted services. We asked questions related to the process used to procure the service, types of monitoring activities conducted, procedures

for paying for services rendered, personnel involved in the process, and use of State Fund guidelines. For Claim Department contracts, we also talked with claim adjusters, supervisors, and personnel responsible for payment for services. Other State Fund personnel were interviewed as required to complete the review.

We contacted personnel from the Department of Administration (DofA) to determine their involvement in State Fund contracting. Questions were asked regarding State Fund's authority and what exemptions State Fund uses/is entitled to use. We also obtained input from DofA regarding best management practices for contract administration.

The first part of contracting is determining the need for contracted services. Audit scope excluded review and analysis of this area because we focused on executed contracts. We did not contact businesses that provide contracted services to State Fund. No issues arose during the audit which required contact with providers to discuss/clarify issues.

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### Compliance

We examined State Fund's compliance with applicable state laws, rules, and regulations. Comparisons were made between observations of documentation, interview results, and state regulations. Generally, we found State Fund to be in compliance with state laws and administrative rules.

We did identify noncompliance related to contract documentation. This issue is discussed further in Chapter III.

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### Management Memorandums

During our audit we issued a management memorandum to State Fund officials concerning the following issue:

Contract Language for Outside Legal Counsel - The current contract format for obtaining outside legal counsel has been in place for at least 10 years. Contract language related to payment for services includes a provision limiting total payment to \$10,000 without amendment. We identified a contract which exceeded this limit through amendment. The cost associated with one of State Fund's contracts was \$12,330. Required documentation was provided by the vendor and approved by State Fund for this contract. According to State Fund personnel,

## Chapter I - Introduction

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\$10,000 is almost always amended. We suggested State Fund change contract language to reflect current market costs for outside legal counsel services.

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### **Report Format & Organization**

This report is organized into three chapters. Chapter II provides background information on the contract administration process and each of the contracts selected for review. Chapter III discusses suggestions for improving the efficiency and effectiveness of the process used to administer contracts.

## Chapter II - Background

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### **Current Contract- Related Regulations**

Title 18, chapter 4, MCA, the Montana Procurement Act, sets statutory requirements for contracting for goods and services. The purpose of the Act includes making the procurement laws as consistent as possible, providing for increased public confidence in the procedures followed, and ensuring the fair and equitable treatment of all people who deal with the State's procurement system. The State Compensation Insurance Fund (State Fund) is required to follow requirements of the Act.

Certain services are exempt from these requirements including employment of:

- Physicians, dentists, pharmacists, or other medical, dental, or health care providers
- An attorney as specified by executive order of the Governor
- Consulting actuaries
- Private investigators
- Claims adjusters

State Fund contracts for all these types of services.

According to statute, DofA shall procure or supervise the procurement of all supplies and services needed by the State. The law provides DofA with authority to establish rules regulating state contracting procedures. Title 2, chapter 5, ARM, contains the rules established by DofA. These rules provide further direction for agencies when procuring supplies and services. Section 18-4-222, MCA, permits the director of DofA to delegate procurement authority to any state department. State Fund has received delegation authority from DofA for various services.

DofA provides guidance for agencies in the Montana Operations Manual. According to section 1-0705, MOM, agencies, including State Fund, are currently delegated purchasing authority of supplies and services up to \$15,000. For small purchases under \$5,000, agencies may choose a purchasing technique which best meets the agency's needs, but DofA suggests agencies follow prudent purchasing practices.

## Chapter II - Background

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Laws do not specifically address monitoring of contracts for goods and services. As a result, agencies are generally responsible for establishing and implementing specific contract monitoring procedures.

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### State Fund Organization

There are seven departments within State Fund. Six of the seven departments are directed by a Vice President. The seven departments include:

- Executive Office
- Administration & Finance
- Claim
- Human Resources & Communications
- Legal
- Management Information Services
- Underwriting

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### Department Responsibilities

Each department is responsible for different functions related to the operation of State Fund. The following sections briefly discuss these responsibilities.

Executive Office: Executive functions, internal audit, and Board of Directors' operations are all responsibilities of this section. This office is directed by the President/CEO.

Administration & Finance Department: Responsible for conducting budgetary analysis and monitoring, accounting of expenditures and revenues, financial reporting, purchasing, mail processing, document imaging and indexing, and facility management. Works with consulting actuary to establish loss reserves and rate levels for State Fund.

Claim Department: Responsible for claim management including investigating claims, paying wage loss and medical benefits, and assisting injured employees to return to gainful employment. This department also includes a fraud program to evaluate, investigate, and refer potential claimant, employer premium, and provider fraud for prosecution.

Human Resources & Communications Department: Recruiting, compensation management, position classification, training, labor

## Chapter II - Background

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relations, and operation of State Fund's Customer Service Unit are all functions of this department.

Legal Department: Responsible for representing State Fund in legal matters, including contracting with outside counsel.

Management Information Services: Responsible for development, maintenance, and user support of State Fund's automated systems.

Underwriting Department: Purpose is to assist policy holders in the issuance, maintenance, and serving of State Fund policies. Provides underwriting services and support on accounts. Includes a loss control section for preventing injuries and minimizing impacts when injuries occur, as well as a premium audit process for examination of business operations and records to determine actual insurance premium due. Also has a marketing section which works with licensed Insurance Producers.

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### Use of Contracted Services

All seven departments have at least one contract for outside services. Over the past two years, State Fund has contracted for more than 40 types of services.

The Legal Department oversees State Fund's contracts. A purchasing manual was developed by the Legal Department which details the rules and steps governing purchasing and contracting for State Fund. This manual refers to the laws and rules mentioned above.

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### Contracts Selected for Review

A judgmental sample of contracts was selected for review. Our sample selection process considered legislative concern, contract cost, number of vendors, type of service, audits conducted by State Fund, and potential problematic situations. The following paragraphs identify the contracts selected for review and provide a brief summary of the contracted service.

## Chapter II - Background

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### Administration & Finance

Our audit included review of one contract administered by the Administration & Finance Department: collection services. The purpose of the contract is to provide pre- and post-judgment collection services for money owed to State Fund, both in- and out-of-state. The term of this contract is January 1, 1998 through December 31, 1998. Prior to award of this contract, collection services were performed in-house or through the Department of Administration (DofA). State Fund still uses DofA to provide some collection services.

There are two vendors currently under contract. The responsibilities of the contractors include direct collection efforts, referral to legal counsel, locating services, asset checks, and post-judgment collection. State Fund tries to refer bad debt to the vendors on a rotational basis.

State Fund reimburses the vendors on a contingency fee basis. Fees are paid only on debt collected by the vendor. One vendor receives 20 percent of collections on accounts with no legal involvement, and 40 percent on accounts with legal involvement. For accounts with a balance greater than \$10,000, the contingency fee is reduced by 2 percent. The other vendor has a more extensive breakdown of contingent fees based on account balances and overdue time frames. This vendor's fees range from 9 percent to 14 percent for non-legal cases, and from 12 percent to 22 percent on cases requiring legal services. Table 1 shows total fees paid through April 1998.

**Table 1**  
**Payments on Collection Fees**  
(January through April, 1998)

Vendor	Debt Referred	Debt Collected	Collection Fee
A	\$133,840.76	\$10,763.07	\$2,987.55
B	\$84,468.96	\$2,447.53	\$372.58
Total	\$218,309.72	\$13,210.60	\$3,360.13

**Source: Compiled by the Legislative Audit Division from State Fund records.**

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**Claims**

The majority of contracts are administered by the Claim Department. As such, our review included a larger sample of contracts in this department. The following contracts were selected for review in the Claim Department:

- Independent Medical Evaluation
- Vocational Rehabilitation
- Managed Care
- Claims Management

**Independent Medical Evaluation**

During the course of managing a claim, an adjuster may need a second opinion regarding the medical status of a claimant. An independent medical evaluation (IME) is the usual method for obtaining this opinion.

There are currently two vendors under contract with the State Fund to provide IME services. The contract requires the vendors to complete all tasks required to obtain an IME including scheduling the evaluation and reimbursing costs to medical evaluators. The adjuster provides written questions for the provider to answer regarding the case. In some cases, a panel of medical experts may be needed to properly answer all questions. The term of the current contract is July 1, 1997 through July 1, 1998.

## Chapter II - Background

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Compensation for services provided varies between the two vendors. For example, for a single IME, one vendor receives \$575 while the other receives \$620. State Fund claim adjusters can use one of the two contracted vendors, or set up IME services directly. There are 27 other providers, not under contract, who have provided IME services to State Fund since July 1, 1997. Table 2 shows total payments for IME services through March 1998.

**Table 2**  
**Payments for IME Services**  
(July 1997 through March 1998)

Vendor	Payment
A	\$35,947.00
B	\$98,009.00
Others	\$61,943.00
Total	\$195,899.00

**Source: Compiled by the Legislative Audit Division from State Fund records.**

### Vocational Rehabilitation

One of the first questions which needs to be answered by an adjuster is can the claimant return to his/her time-of-injury occupation. If the answer to the question is maybe or no, then rehabilitation services may be warranted. According to State Fund's procedures manual, the primary goal of rehabilitation services is the return to work of an injured or disabled worker.

The current contract for return to work and vocational rehabilitation services has six vendors. Rehabilitation services, as defined by statute, is a program of evaluation, planning, and implementation of a rehabilitation plan to assist a disabled worker to return to work. The objective of State Fund is to accomplish the return to work as soon as

## Chapter II - Background

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possible. To meet this objective, various services may be needed.

These services include:

- “Time-of-injury” job analysis (is claimant physically capable of performing their “time-of-injury” job).
- Employability-wage loss analysis (re-employment and return to work potential, earning capacity, etc., used to set return to work plan and determine permanent partial disability benefits, or whether or not injured worker is permanently and totally disabled).
- Early return to work coordination (make contact with time of injury employer to coordinate transitional return to work program for claimant).
- Modified/alternative job analysis (can “time-of-injury” job be changed so claimant is capable of performing the job based on physical restrictions, or identification of a different job claimant can perform based on current physical restrictions and educational and past work history).
- Return to work plan development (construct plans for return to work, which may include formal retraining or on-the-job training).
- Job placement services (provide professional placement services to prepare claimant for job seeking).

Adjusters have authority to select the vendor of their choice. Adjusters said they select vendors based on past experience and who provides the best service. The term of this contract was April 1, 1997 through March 31, 1998. State Fund extended the contract to July 1, 1998.

Compensation for vocational rehabilitation services varies between vendors. For example, for a new “time-of-injury” job analysis, the fees range from \$180 to \$260. According to State Fund personnel, fees vary due to company size and location within Montana. Total payments made under this contract are shown in Table 3.

**Table 3**  
**Payments for Vocational Rehabilitation Services**  
(April 1997 through March 1998)

Vendor	Payment
A	\$1,333,496.93
B	\$116,558.00
C	\$1,636.00
D	\$213,082.50
E	\$15,381.00
F	\$11,771.00
Total	\$1,691,925.43

**Source: Compiled by the Legislative Audit Division from State Fund records.**

**Managed Care**

The purpose of this contract is to provide managed medical and ancillary services to injured workers. State Fund contracts with managed care organizations (MCO) for medical case management. The MCO works with the adjuster to help manage the claim. As with vocational rehabilitation, State Fund focuses on getting the injured worker back to work. Section 39-71-1101(3), MCA, contains criteria for determining when an injured worker should be referred to an MCO.

Under the current contract, eight managed care organizations provide services. MCO responsibilities under the contract include various duties, but the underlying intent of the contract is to provide medical case management services. MCO providers have requirements, by contract, for initial medical examinations, treatment plans, and final medical treatment and reports. The contract includes time frames for completion of certain services, such as referral from an MCO to a

## Chapter II - Background

treating physician within seven working days. The contract term is July 1, 1997 through June 30, 1998.

The current contract is a fee-for-service format. Each MCO is paid a \$260 fixed fee per wage loss file referred to the MCO. For medical-only claims, the referral fee is \$75. The MCO receives a \$200 fee for case closure, unless the claimant moves out-of-state, then the closure fee is \$100. Payments made for services through March 1998 are shown in Table 4.

**Table 4**  
**Payments for MCO Services**  
(July 1997 through March 1998)

Vendor	Payment
A	\$54,900
B	\$37,785
C	\$26,305
D	\$20,860
E	\$35,735
F	\$46,530
G	\$30,705
H	\$21,775
Total	\$274,595

**Source: Compiled by the Legislative Audit Division  
from State Fund records.**

Prior to the current contract, MCO contracts included a per-claim incentive payment for indicated cost savings over 20 percent. Benchmark average claim costs are calculated and incentive payments made according to indicated savings. Although new contracts were awarded, the incentive payments from the old contracts remain in effect

## Chapter II - Background

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for four years. Only four of the current eight MCO contractors are eligible for these incentive payments. Incentive payments issued to-date are listed in Table 5.

**Table 5**  
**MCO Incentive Payments**  
**(1996 and 1997)**

MCO	Incentive Payment	
	1996	1997
A (not eligible)	\$0	\$0
B	\$0	\$85,400
C	\$35,250	\$69,995
D (not eligible)	\$0	\$0
E	\$58,250	\$27,850
F	\$0	\$0
G (not eligible)	\$0	\$0
H (not eligible)	\$0	\$0
TOTAL	\$93,500	\$183,245

**Source: Compiled by the Legislative Audit Division from State Fund records.**

### Claims Management

Services provided under this contract may include claim management services, reserving (estimating funds necessary for paying claim costs), determination and processing of benefits, medical case management, and claim investigation. Claims management services may include file summaries, evaluation of reserves, development of an action plan for claim management, and determination of files affected by the Murer decision. The Murer decision is a Supreme Court decision regarding a legislative cap on the amount of benefits an injured worker could

receive. The cap was in place for four years. Insurance carriers, including State Fund, assumed the cap was in effect for the life of any claims filed during the four year period. The Supreme Court ruled otherwise. As a result, State Fund was required to recalculate benefits for effected claims. State Fund's current claims management system cannot identify these claims, so identification is done manually. State Fund has identified approximately 7,500 potential claims effected by the Murer decision to date.

Currently, this contract is being utilized to provide one type of service under the contract: claim adjusting. The effective date of the contract was December 1, 1997, and expires upon completion of services or one year, whichever is less.

Services provided under this contract are compensated at \$60 per hour. Total payments made for services provided through March 1998 were \$33,000.

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### Human Resources & Communications

Our sample included three contracts administered by this department:

- Salary Surveys (2)
- Third-Party Claims Handling and Administration

### Salary Surveys

We selected the two most recent salary surveys conducted by State Fund for our review. The same vendor was selected to conduct both surveys.

The first salary survey included all State Fund positions. The vendor was responsible for reviewing and making recommendations on benchmark descriptions, and conducting the salary survey including design and distribution of the survey, analysis of data, reporting results, and providing recommendations on incorporating survey data into State Fund's pay matrix. The term of the contract was November 29, 1996 through April 30, 1997.

The second survey only included executive-level positions. The survey included an update of information compiled in the first survey, and added salary and benefit information from new participants. The term of the contract is not specific due to lack of a written agreement. The

## **Chapter II - Background**

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project was initiated sometime after September 24, 1997 and the report was transmitted to State Fund on November 14, 1997.

The cost for services of the first survey was not to exceed \$4,999. The total amount paid for services under the first contract was \$4,999. We did not find a written agreement for the second survey, but the bill for services indicated the agreed-upon amount was \$5,000. According to the bill for services, the actual time expended on the project amounted to \$9,275. The difference between the actual time and the agreed-upon amount was written off by the contractor.

### **Third-Party Claims Handling and Administration**

The purpose of this contract is for a third party to administer State Fund's in-house workers' compensation injuries and occupational disease claims. The vendor is responsible for managing claims reported by State Fund employees. This involves the same procedures used by State Fund's adjusters for managing claims submitted by employees of the businesses it insures. The term of the contract is September 1, 1997 through August 31, 1999.

Compensation for services is provided on a flat-fee basis. For medical-only claims, the vendor receives \$70 for each year the claim is open. For wage-loss claims, the vendor receives \$400 for the first year, \$200 for the second year, and \$600 for claims open longer than two years. Other professional services are billed at \$55 per hour. Payment for services through April 1998 totaled \$1,823.59.

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### **Legal**

The Legal Department oversees the contract process for State Fund, and also contracts for various legal services. We selected two contracts for our review that are administered by the Legal Department:

- Outside Legal Counsel
- Asset Search

### **Outside Legal Counsel**

On occasion, State Fund uses outside legal counsel. The first contact is the Attorney General's Office. If they do not take the case, a private firm is used. For our review, we selected two outside counsel contracts.

The first contract was for defense of a specific case. The duties under this type of contract are to act as counsel for State Fund to perform legal consultation in the stated case. The effective date of the contract was November 12, 1997 and terminates in one year or upon completion of legal representation, unless extended. The contractor is paid at a rate of \$90 per hour, with a \$50 per hour rate for travel. The contract is not to exceed \$10,000. If \$10,000 will be exceeded, the vendor must notify State Fund. The total payments made under this contract as of April 8, 1998, were \$2,426.93.

The purpose of the second contract was to obtain a legal opinion. This contract is identical to the contract above, except for compensation and effective date. The effective date of the contract was March 3, 1998. The rate paid for these services is \$115 per hour. As of May 7, 1998, one payment was made totaling \$155.25.

### **Asset Search**

The purpose of this contract is to provide asset search and report services, and locator services, both in-state and out-of-state, on individuals owing State Fund money. This service is used after State Fund receives a judgment and after a summons fails to locate a person.

There are two vendors currently under contract. The responsibilities of the vendors include determining the location of assets and persons referred to them by State Fund. Services under these two contracts must be completed within 30 days of referral. The term of these contracts is May 16, 1997 through June 30, 1998.

Charges for services vary between the two contractors. Vendor A receives \$35 per name submitted, for both locator and asset search services. Vendor B receives \$125 per referral on commercial entities, and \$100 per referral on consumer entities, for both services. The following table provides a summary of payments made under this contract.

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**Table 6**  
**Payments for Asset Search Services**  
(May 1997 through April 1998)

Vendor	Payment
A	\$0.00
B	\$5,000.00
Total	\$5,000.00

**Source: Compiled by the Legislative Audit Division from State Fund records.**

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### Underwriting

The contract selected for review in the Underwriting Department was Insurance Producers. The purpose of this contract is to obtain competent representation from qualified insurance agencies to generate new applications for State Fund workers' compensation insurance policies, improve retention of business, and represent State Fund to provide services on a local community level. The program began as a pilot program on July 1, 1997. The State Fund expanded the program and new appointments became effective March 1, 1998. The agreements expire on February 28, 1999. There are currently 50 agencies with 82 contracts, and about 240 individuals who sell insurance.

Currently, the Insurance Producers can solicit, receive, and transmit applications for workers' compensation insurance for new business to State Fund. Insurance Producers cannot bind or establish pending effective dates of coverage; issue, cancel, reinstate, or terminate policies; or discharge or incur any liability whatsoever under any policies issued by State Fund.

Insurance Producers earn commissions on insurance policies accepted and premium actually received by State Fund. Standard commission for new business ranges from 2 percent to 10 percent of the estimated

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annual premium. The commissions paid from July 1997 through March 1998 totaled \$47,547.21. These commissions were paid to 16 different agencies.

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### **Total Cost for Contracts Selected for Review**

The total cost for services for contracts selected for review was \$2,265,731.54. This total does not include incentive payments. The time frame in which these services were provided is April 1997 through April 1998.



# Chapter III - Management Controls Over Contract Administration

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## Introduction

There are five basic parts to contract administration:

- 1) Determining need for contractual help
- 2) Selecting a contractor
- 3) Establishing contract terms & conditions
- 4) Monitoring the contract
- 5) Paying for services

Our review focused on selecting and monitoring contractors, contract terms and conditions, and payment for services. This chapter discusses our findings regarding controls over the contract administration process at the State Compensation Insurance Fund (State Fund).

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## Overall, Controls Over Contractors Appear Reasonable

While our audit did identify areas where controls could be strengthened, contract administration processes are in place for those contracts selected for review. The Legal Department (Legal) oversees the contracting process at State Fund. All original contracts are maintained by Legal. A manual was developed by Legal for use by the various departments for purchasing supplies and services. The purchasing manual contains information and guidelines which correspond with current laws and rules. Legal personnel assist other State Fund staff in developing RFP and contract language. In addition, State Fund established an internal audit position. Five audits of contracted services were conducted in fiscal year 1996-97. At least three of these audits include recommendations for improvements.

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## Process Followed During Procurement

Personnel followed procurement regulations, where applicable, for the contracts in our sample. Of the 10 services we reviewed, 7 used the RFP selection method. Logical methods were used to evaluate proposals and select vendors. The other three services were either exempt from procurement statutes or cost less than \$5,000. Selection of vendors under these three services followed a method based on knowledge and past experience. As a result, vendors under contract with State Fund appear to be selected objectively.

## **Chapter III - Management Controls Over Contract Administration**

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### **Contract Prices Appear Reasonable**

There are numerous vendors under contract with State Fund to provide various services. State Fund set fee schedules for three of the ten contracts reviewed. For the other seven contracts, vendors receive fees for providing services based on individual proposals reviewed and scored by State Fund personnel during the RFP process. For five of these seven contracts, multiple vendors responded to the RFP. According to State Fund personnel, awarding contracts to multiple vendors with different fees creates a situation of competition among vendors which helps control costs. State Fund used a “best & final offer” methodology in two of the seven RFP processes. This methodology provides an option to State Fund allowing acceptable and/or potentially acceptable proposers to amend or change their original proposal, including pricing. While prices vary among vendors, nothing came to our attention which indicates contract prices are unreasonable.

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### **Contract Terms and Conditions Appear Reasonable**

Contract language outlines contractor responsibilities and performance requirements. In addition, contracts appear to contain necessary language for protecting the State’s interests. Terms and conditions within the contracts reviewed appear logical and reasonable.

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### **Monitoring of Contractors Occurs**

Each of the sampled contracts has some method for monitoring the services provided. On-site reviews are conducted under three of the contracts. Some contracts include time requirements for completion of services. Compliance with these requirements is monitored using various methods. For example, one contract tracks dates for various services using a spreadsheet. Concerns with contractor performance are addressed in different ways. One method is to contact the vendor or supervisor about the concern. This may be done formally or informally. Follow-up on issues also varies. Letters have been sent to contractors indicating the need for improvement in providing services. For some contracts, a vendor may not be used to provide services. For example, claim adjusters have authority to select one of six vendors to provide vocational rehabilitation services. Most adjusters we talked with said they use vendors who provide the best service, not ones they may have had concerns with in the past. While some methods are more extensive than others and some monitoring efforts are informal, contractor

## **Chapter III - Management Controls Over Contract Administration**

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compliance and quality of service is monitored. Individual processes are in place to help identify and correct concerns with contractors.

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### **Controls Exist Over Staff Activities**

Controls over staff activities are also in place. In the Claim Department, staff activities are reviewed and supervised. Limits on approval authority have been established for various levels of personnel. Supervision of staff activities also occurs in other departments, although the degree of supervision is less than that within the Claim Department. Individuals with authority to purchase contracted services cannot do so without involvement by at least one other employee of the State Fund. Payment for services rendered also has controls. For the contracts reviewed during our audit, bills are reviewed and approved by various individuals within each department. Actual payment of bills is completed by someone other than the individual who approves the bill. For example, claim adjusters review and approve bills for vocational rehabilitation services. Bills are then transferred to either a claim assistant or a medical pay profiler for actual payment. Controls over staff activities appear to provide adequate segregation of duties. These controls help minimize the potential for fraudulent activity and assure use of contracted services is necessary and reasonable.

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### ***Conclusion: Controls Over Contractors Appear Reasonable Overall***

As a result, controls over contractors appear reasonable overall. Procedures are in place which help ensure effective use of contracted services. The issues identified during our review relate to improving the compliance, efficiency and effectiveness of the processes in place. Implementation of our recommendations will improve documentation and compliance, which should enhance the processes currently used by State Fund.

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### **Contract-Related Documentation Could Be Improved**

Various personnel within each department are responsible for procuring and monitoring contracted services. This responsibility includes maintaining records related to the contracting process. We found the amount, type, and organization of documentation varied between those contracts selected for review.

Maintaining adequate and consistent contract-related documentation is important to the general operation of State Fund. Documentation should provide an accurate record of all activities associated with each contract.

## **Chapter III - Management Controls Over Contract Administration**

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Partial, inconsistent, or poor documentation limits State Fund's ability to ensure compliance with contract requirements. Without proper documentation, new personnel, the general public, and other individuals not involved in the contract administration process cannot properly determine what actions were taken by State Fund.

Adequate documentation is also important for supporting decisions made by State Fund personnel. State Fund's purchasing manual lists examples of actions which could result in litigation including use of inappropriate evaluation criteria, miscalculations, miscalculations, inappropriate preference, deviation from published evaluation criteria, and failure to deal fairly and in good faith. According to MOM policy, the evaluation and award process is often the most litigated part of contracting. An accurate record of the procurement process is necessary to support decisions and reduce the possibility for litigation.

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### **Procurement Documentation For Some Files Not Complete**

Our review of files indicated complete procurement documentation is not always maintained for all contracts. Five of the seven contracts which used an RFP to solicit services included at least some documentation related to public notification. All seven contained a copy of the RFP. Only two of the seven contracts contained a register of proposals. Six of the seven contracts contained score sheets from the evaluation. None of the contracts reviewed contained documentation, aside from the score sheets, demonstrating why awards were made.

Three of the services selected for review are exempt from procurement regulations: claims management; outside legal counsel; and salary surveys. Procurement documentation for these three services is limited or is not maintained. A logical process was followed for selecting vendors to provide these services, but the processes were not documented. One of these three services did not have a written, signed agreement.

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### **Documentation Requirements Related to Procurement**

Current regulations contain various requirements related to documentation of the procurement process:

- Section 18-4-304, MCA, states, "The contract file must demonstrate the basis on which the award is made."
- Section 1-0706.40, MOM, requires a record sufficient to facilitate auditing of the purchasing agency. This policy recommends the following documentation:
  - \* record of public notice,
  - \* copy of RFP,
  - \* register of proposals received,
  - \* a determination of award, detailing the basis for which the award was made,
  - \* notes, recording, or minutes of any discussions with offerors, and
  - \* the contract or agreement.
- State Fund's purchasing manual requires the same documentation as the MOM section noted above.
- The procurement delegation agreement between the Department of Administration (DofA) and State Fund requires State Fund to maintain adequate records to document the procurement process.

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### **Documentation On Why Contracts Are Awarded Is Not Clear**

Overall, documentation indicated a logical process was followed for procurement of services. However, a clear understanding of the reason(s) for selection of contractors was not provided by documentation alone. Documentation contains score sheets and summaries, but we did not observe details on why contracts were awarded to specific vendors. Questions had to be asked of State Fund personnel to clearly understand the history of the process.

For example, one department used a scoring methodology to evaluate proposals submitted in response to an RFP. The vendors awarded a contract did not receive the highest scores during the evaluation. Documentation does not indicate the reason(s) for not selecting the highest scoring vendors based on "best & final offers." The scoring and decision-making processes were not documented appropriately.

Score sheets from various proposals could be compared to vendors awarded a contract to determine whether a high-score methodology was used. However, documentation does not indicate why specific scores

## **Chapter III - Management Controls Over Contract Administration**

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were awarded in each evaluation area. The score sheets for the vocational rehabilitation RFP could not be located, and the person responsible for issuing the RFP no longer works for State Fund. As a result, the basis for award for this contract is not known. This provides a good example of the importance of this type of documentation for supporting decisions.

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### **Documentation Related to Monitoring Varies**

Another part of contract administration is monitoring. Documentation related to monitoring varies depending on the type of service contracted. For example, personnel in one department keep an informal log of communications with vendors. Another department conducts on-site visits and documents a summary of each visit for the contract file. In another department, the person responsible for contract monitoring maintains documentation online. State Fund has not developed consistent documentation standards regarding monitoring of contractors. As a result, the history for each contracted service may not be readily available or clearly understandable.

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### **Improving Documentation**

DofA personnel recently met with State Fund personnel to discuss documentation requirements. According to DofA personnel, documentation should state why a vendor was selected, which should relate back to the evaluation and scoring of proposals. This type of information is needed to defend the award.

Currently, for contracts awarded by DofA, a summary of the selection process is completed and distributed to all vendors who submit a proposal. DofA recently worked with State Fund personnel on a contract for nurse case management services. DofA personnel indicated this contract is a good example of the type of documentation DofA wants to see as a record for procurement of services.

As mentioned previously, Legal personnel developed a purchasing manual for use by State Fund personnel. This manual includes requirements for contract-related documentation. However, most of the personnel responsible for procurement of services do not use the manual. One individual also uses information from DofA's Internet site to assist in the procurement process. The vice president of each department is ultimately responsible for all activities under his/her

## Chapter III - Management Controls Over Contract Administration

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control. The vice presidents have delegated contract administration authority to various individuals within each department. These individuals conduct contract-related activities, including maintaining documentation, using various methods.

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### No Single Entity Has Responsibility

While the Legal Department is available to assist personnel, no single entity has responsibility for ensuring all contract administration is conducted appropriately, including proper documentation. Accurate and consistent documentation is important for all aspects of program management. Documentation provides a record of activities. The better the record, the less confusion and concern regarding decision-making. We believe increased efforts in this area of contract administration will improve State Fund's processes.

#### **Recommendation #1**

**We recommend State Fund implement improvements to procedures to ensure documentation provides a complete history of the procurement and monitoring processes.**

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### Record-Keeping Practices Should Be Centralized

During our review we requested access to all contract-related documentation. Most of the documentation was located for observation. However, the scoring sheets for the vocational rehabilitation proposals were not located during our review. In addition, some documentation was not readily available for review.

While there are no laws or rules which require centralized record-keeping, public records must be available for review. Section 18-4-126, MCA, states procurement information is a public writing and must be available to the public for inspection and copy. Section 2-6-110, MCA, states electronic information must also be available for inspection by the public. State Fund's current record-keeping procedures could be improved to provide a more efficient and effective method for compliance with these laws.

The contract administration process at State Fund is somewhat centralized. The Legal Department recently developed a tracking

## **Chapter III - Management Controls Over Contract Administration**

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system for contract expiration. Departments are notified in advance of upcoming contract expiration. Legal personnel also assist departments with the procurement process including public notification and preparing RFP and contract language. However, once a contract is signed, administration becomes the responsibility of each department. This responsibility includes record keeping.

One effect of not having a centralized record-keeping function is missing documentation. As mentioned previously, score sheets for one contract were gone. Although it appears all proposers were awarded a contract, missing documentation results in noncompliance with the law because the information is not available for public review.

The main reason for the missing documentation appears to be the result of turnover in the position responsible for procurement of the service. Files of the ex-employee are stored in boxes and other places in various locations within State Fund's building. However, the contents of these files is not known. It is not known if the missing documentation exists or not. Another department recently experienced turnover in the position responsible for procurement of a service under contract. Documentation was located for this contract, but not without a telephone call to the ex-employee. Future staff turnover could create similar or more extensive problems with contract-related documentation.

The organization of State Fund contributes to a decentralized operation. Each department conducts activities related to its responsibilities. While contracted services can and often do involve or impact several departments, contract administration does not involve more than one department. Thus, a centralized record-keeping function will help ensure all contract-related documentation is maintained for public review and future reference. In addition, a centralized function will help to ensure a complete history of all State Fund contracts is documented.

### **Recommendation #2**

**We recommend State Fund establish a centralized record-keeping function for all contract administration activities to help ensure a complete history is maintained.**

## **Chapter III - Management Controls Over Contract Administration**

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### **Contract Terms and Conditions Should be Reviewed**

During planning we reviewed copies of all current contracts. This review included an examination of contract language and format. We found each contract to be unique in form and substance. We expected differences due to the variety of services contracted by State Fund. However, “standard language” and format varied between contracts. In addition, the effective date was unclear for some of the contracts.

According to State Fund personnel, there have been no disputes related to contract language. The only problems experienced in the past are with the amount of detail or lack thereof. Too much detail limits flexibility and creates problems with getting the needed service. Too little detail can create the same problem. This concern relates to the section(s) of the contract outlining duties, rather than the other sections of contracts which provide standard language to protect the interests of both parties to the contract.

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### **Effective Dates**

The main area of confusion over contract language relates to the effective date. Some contracts have a statement in the contract which provides an actual effective date. For example, the vocational rehabilitation contract states the contract is effective April 1, 1997. For the sample selected for review during our audit, 9 of 10 contracts include a contract effective date. However, other contracts reviewed during our preliminary planning do not provide a specific date. It is difficult to determine what the effective date is for these contracts. For example, the Third-Party Claims Handling contract contains the following language under section fifteen:

“This instrument shall not be effective as a contract until duly signed by all the parties hereto.”

There are four signatures on the contract: 1) company representative; 2) State Fund President; 3) State Fund legal representative; and 4) State Fund human resource representative. The dates of signing range from September 3, 1997 to November 4, 1997. It is confusing as to whether the effective date of the contract is the earlier or later date.

## **Chapter III - Management Controls Over Contract Administration**

Another example is the Asset Search contract. The term of the contract is May 16, 1997, through June 30, 1998. However, language also indicates the contract expires upon completion of services, or one year, whichever is less. The term stated above is longer than one year, so there is an inherent conflict within the contract.

In comparison, the insurance producers contract has the following language under the effective date and renewal terms section:

“This instrument shall not be effective as an Agreement until the date first above written and duly signed by all the parties hereto.”

The first line of the contract indicates the effective date to be March 1, 1998. The signatures on the contract do not include a date. Instead, the contract has language which indicates the contract was dated January 16, 1998. The effective date of this contract is clear.

A contract is defined in statute as an agreement to do or not to do a certain thing. According to section 28-2-906, MCA, a written contract takes effect upon delivery to the party in whose favor it is made. In addition, section 27-1-417, MCA, indicates a party who has signed a written contract may be compelled to perform it even though the other party has not signed the contract. These laws indicate the contracts initiated by State Fund are legal documents regardless of when the documents were signed or what the language indicates.

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### **Contract Format and Boilerplate Should Help**

There is potential for litigation with any contract. Although our review was limited, nothing came to our attention which indicates language in State Fund contracts does not properly protect the State's interests. While State Fund's contracts are valid, binding agreements, there is confusion as to when the actual effective dates are for some of the contracts. Standardization of this language for all State Fund contracts could eliminate confusion.

The organization of State Fund, as with the issues discussed previously, is the main reason for differences in contracts. The people responsible for procuring services are located throughout the seven departments of State Fund. Each individual is responsible for a different area of

## **Chapter III - Management Controls Over Contract Administration**

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operation. As a result, contracts do not overlap operations, so development is not uniform. Legal counsel use various methods for drafting contracts, but the most common way is to modify the existing contract. For new contracts, an example is usually used. The resulting contract will normally look just like the example.

Different attorneys handle different contracts, so there are differences in style. The purpose of a contract and individual sections with specific language is to avoid ambiguity. The use of standard boilerplate format for all sections will improve the efficiency of contract development. It will allow for easy location of sections. In addition, standardization of sections should help decrease the amount of time involved in drafting and reviewing contracts. Efforts can then be focused on the duties section to help ensure the service needed is clearly stated in each contract.

### **Recommendation #3**

**We recommend State Fund develop a standard contract format and boilerplate language for use by all departments.**

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### **Compliance With Contract Regulations**

Audit standards require reporting of noncompliance issues related to objectives. During our review, we identified instances of noncompliance with contract regulations. The following sections provide details on our audit findings.

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### **Register of Proposals**

As mentioned previously, we noted a lack of a register of proposals for each RFP. Observations of documentation revealed only two of the seven contracts included a register of proposals.

Three sources: ARM 2.5.602(5); MOM 1-0706.40; and State Fund's purchasing manual; require preparation of a register of proposals. This register is to be open for public inspection.

Again, questions of State Fund personnel were required to determine the number of proposals submitted for each RFP. Copies of all proposals

## **Chapter III - Management Controls Over Contract Administration**

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were observed, so the effect of not having a register of proposal for each contract appears to be limited to noncompliance.

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### **Date/Time Stamp on Submitted Proposals**

When we reviewed proposals submitted for each contract, we checked for a date/time stamp indicating when proposals were received. We noted 11 proposals for four different services did not have a date/time stamp indicating receipt by State Fund.

The rules and policies regarding procurement require documentation of receipt of proposals. ARM 2.5.602(4) and MOM 1-0706.40 require each proposal received to be date/time-stamped and secured until the scheduled date for opening.

The main purpose of a date/time stamp is to document when a proposal was received. This provides verification that each proposal met the RFP due date. Without a date/time stamp, there is no proof that a proposal was submitted according to RFP requirements.

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### **Length of Contracts**

One of the contracted services selected for review was asset searches. While there are currently only two vendors used to provide these services, a third contract exists. This other contract went into effect February 1, 1995. The term of this contract is indefinite from the effective date.

Section 18-4-313(1), MCA, currently limits the length of contract terms to seven years. At the time the other contract was signed, this law limited contract terms to three years. The change to seven years went into effect March 13, 1995.

Limiting the term of contracts provides opportunities for other vendors to compete for services and prevents agencies from being locked into paying for services at a higher price than the market dictates. Entering into contracts with lengthy terms is not an effective method for contracting for services. The indefinite contract does have a provision for either party to terminate the agreement with 10 days written notice.

## **Chapter III - Management Controls Over Contract Administration**

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***Conclusion: Improvements  
in Procedures Should  
Address Compliance Issues***

The areas identified during our audit constitute noncompliance. Each area is case-specific and does not involve all 10 services reviewed during the audit. A change in State Fund's procedures should provide an effective method for addressing these compliance issues. Implementation of the other recommendations made in this report should provide assistance with ensuring compliance.

**Recommendation #4**

**We recommend State Fund implement improvements to procedures to ensure all contracts comply with all laws, rules, and regulations.**



**Agency Response**

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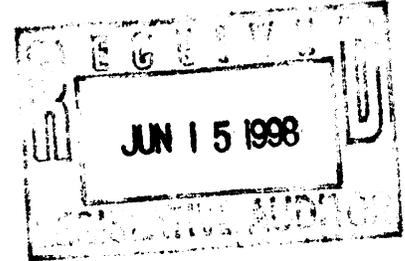
## State Compensation Insurance Fund

5 South Last Chance Gulch  
P.O. Box 4759  
Helena, Montana 59604-4759

Customer Service 1-800-332-6102 or 406-444-6500

Carl W. Swanson, President

June 15, 1998



Mr. Scott A. Seacat  
Legislative Audit Division  
PO Box 201705  
Helena, MT 59620-1705

RE: Performance Audit 98P-04,  
Contract Administration State Compensation Insurance Fund

Dear Mr. Seacat:

The following is our response to the recommendations contained in the performance audit report "Contract Administration State Compensation Insurance Fund." Thank you for the opportunity to respond to the recommendations. We appreciate the work performed by the Legislative Audit Division and note the assistance provided by Kent Rice. The report points out areas where we can improve selecting and monitoring vendors. As pointed out in our response, we will incorporate the recommendations into our existing procedures.

Part of the State Fund's success in the past as well as in the future is the result of the partnerships developed through contracted services. We look at these partnerships as building a strong foundation in providing insurance services in Montana for both employers and injured workers. Implementing the recommendations will ensure we will maintain the highest level of integrity in our relationship with our business partners.

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*Our Mission is to be Montana's Insurance Carrier of Choice and Industry Leader in Service.*

Scott A. Seacat  
June 15, 1998  
Page 2

**Recommendation #1**

We recommend the State Fund implement improvements to procedures to ensure documentation provides a complete history of the procurement and monitoring processes.

**Response**

We concur.

Our plan to implement this recommendation will include establishing an RFP check off sheet to be used by all departments. The sheet will contain the steps to follow to meet all documentation requirements in the procurement process. The head of each department will be charged with seeing that all requirements are met. Our implementation plan includes a thorough training program for our executive staff to make sure they fully understand what is required in the process. Finally, the President will not sign a contract for services unless all requirements are met and all documentation is included.

**Recommendation #2**

We recommend State Fund establish a centralized record-keeping function for all contract administration activities to help ensure a complete history is maintained.

**Response**

We concur.

A centralized record keeping function will be established by the State Fund. Procedures will be developed for the Legal Department to record and track the documentation related to RFP's and contracts. As stated in recommendation #1, we will train the department staff in the procurement process and required documentation.

Monitoring of the contracts will be performed at the department level. We believe monitoring will vary depending on the type of service being performed. If issues arise that require formal actions, all documentation surrounding contract issues will be referred to the Legal department to be maintained in the contract file. This will ensure complete documentation will be centrally located.

**Recommendation #3**

We recommend State Fund develop a standard contract format and boilerplate language for use by all departments.

**Response**

We concur.

Scott A. Seacat  
June 15, 1998  
Page 3

We agree that standardization of boilerplate wording and placement of section in contracts will be utilized as future contracts are issued. This change does not have a substantive impact on our contracts, but will expedite contract preparation and allow for easier location of like sections.

We agree that the effective dates of contracts need to be clear. The legal department has identified this issue and has taken steps to assure contract effective dates and termination dates are clear. Typically, once a RFP is concluded the contract is issued and the parties intend work to begin contemporaneously. However, clarification of a specific start date will help avoid confusion after the fact. This item will be made a part of our formalized procedures that will be developed in response to Recommendation #2.

**Recommendation #4**

We recommend the State Fund implement improvements to procedures to ensure all contracts comply with all laws, rules, and regulations.

**Response**

We concur.

The State Fund agrees with this recommendation and has already adopted and implemented improvements based on the recommendations of the Performance Audit of the Legislative Audit Division. We are implementing an improved process for the receipt, processing, and documenting the contracting process as well as measures aimed at ensuring compliance with applicable State laws and regulations.

As a point of clarification, the third contract for asset services was put in place (under \$5,000) prior to an RFP for vendors. The contract has not been used since that time. Services are not required unless a referral is made, and as no referrals have been made to the third vendor, the contract has not been an issue. To facilitate clearer records, the contract will be terminated.

Sincerely,

*Carl Swanson*  
by *Mark C Barry*  
Carl Swanson  
President/CEO