

PERFORMANCE AUDIT
Contract Management
Department of Military Affairs

JUNE 2011

11P-06

REPORT SUMMARY

The Department of Military Affairs spends millions of dollars per year for contracted goods and services; however, overall contract management does not assure compliance with procurement law and accountability for contracting activities.

Context

The mission of the Department of Military Affairs is to provide for the safety and well being of the citizens of Montana through the maintenance of mission ready forces for federal and state activations, emergency services as directed by the Governor, and services to Montana veterans. In carrying out its duties, the department manages a significant amount of contracts. Based on our review, we estimate the department enters into more than 100 new contracts each fiscal year. These contracts are for a wide variety of goods and services, ranging from lawn care and other facility maintenance services to equipment, training, and work related to unexploded ordnances. For fiscal years 2006 through 2010, the department expended \$15.1 million on consulting and professional services alone.

Contract management activities are spread throughout the department. Thirty-one employees who have been delegated purchasing authority handle procurement under \$5,000. For purchases exceeding that amount, staff coordinate with the department's Contracts and Purchasing Officer to execute the needed contract. All procurements for services or goods exceeding \$100,000 are referred to the Department of Administration's State Procurement Bureau.

Upon execution of a contract, a contract liaison is designated. The liaison serves as the department's representative for the duration of the contract and is the primary contact for contractors. As part of their duties as a contract liaison, these employees are responsible for oversight of the provision of the services or goods by the contractor, approval of contractor payments, and assurance of compliance with contract terms. In addition, contract liaisons identify when contract amendments are necessary and if contract renewals are warranted and appropriate based on the department's need and the contractor's performance thus far.

Our audit sought to determine if the Department of Military Affairs' contract activities assure compliance with Montana procurement requirements and ensure accountability for goods and services provided. In order to meet our objective, we reviewed contract procurement and monitoring files, observed contract related processes, and interviewed staff and contractors.

Results

We reviewed a sample of 50 contracts and found the department has not developed controls over its contract management. We noted weaknesses related to the documentation

of contract related activities, noncompliance with procurement law and policy, and a lack of overall oversight of department contracting.

We noted the department has limited contract related information, which hinders its ability to determine the number of contracts in which it is engaged and funds associated with those contracts.

In addition, we found instances in which the use of sole source procurement was not appropriate or justified for contracts worth \$256,944. In one case, an existing contract was amended to add \$118,500 for a subcontract. Sole source procurement was used on the basis this subcontractor was the only one able to complete the work; however, interviews suggested the work could have been completed by other vendors.

During the course of the audit, we found instances of inappropriate contractor payments. The department paid a contractor for invoices exceeding the total amount allowed by the contract. This represents an overpayment of \$1,487. The department also paid invoices totaling \$14,058 for services provided outside of contract specified timeframes. Further, we identified one contract in which the contract liaison had approved payments of over \$23,000 to a contractor, but the department was unable to locate any documentation to indicate any services had been provided.

We found in nearly 44 percent of the contracts we reviewed, an employee whose purchasing authority had been limited to \$5,000 had signed contracts worth more than that amount. These contracts totaled nearly \$5.3 million.

To address these concerns and others, our audit made several recommendations to improve the department's contract management.

Recommendations issued related to:

- ◆ Developing a management information system
- ◆ Documenting contracting activities
- ◆ Processing of contractor invoices
- ◆ Clarifying purchasing authority of employees
- ◆ Complying with sole source procurement requirements
- ◆ Distinguishing between employees and contractors
- ◆ Defining the role and responsibilities of contract liaisons
- ◆ Centralizing overall contract management

Recommendation Concurrence	
Concur	9
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (11P-06) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
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