## Executive Summary

### Why We Did This Audit

We performed a countywide audit of the contract administration (post award) process in accordance with the approved 2019 Audit Plan. The objective of the audit was to review the contract administration practices within the County to ensure contract deliverables are being met; invoices are paid according to contract terms; contracts are renewed timely; and contract expenses are within contract value.

### What We Found

- The County does not have a standardized contract administration process to ensure compliance with contract terms.
- The County is not always performing appropriate due diligence prior to making the decision to use a cooperative agreement.
- Some term and supply contract spending is not monitored, and in some cases total contract spending is unknown.

### What We Recommended

We recommend the Director, Treasury & Financial Management:

- Develop contract administration procedures and train those who have contract administration responsibilities.
- Implement an automated contract monitoring system that has, at a minimum, the following capabilities:
  - Fully searchable repository,
  - Deliverable tracking,
  - Change management, and
  - Renewal notifications.
- Develop cooperative agreement procedures to include:
  - When to use participating addendums,
  - When to rely on the cooperative language clause, and
  - Performing due diligence and documenting results.
- Develop a mechanism within Oracle to track countywide term and supply contract spending.
February 13, 2020

To: The Johnson County Board of County Commissioners
    Penny Postoak-Ferguson, County Manager
    Thomas Franzen, Director of Treasury and Financial Management

The attached report contains the results of our countywide contract administration performance audit. Contract administration are those activities that occur from the time the contract is awarded until the end of contract life. The objective of the audit was to review contract administration practices within the County to ensure contract deliverables are being met; invoices are paid according to contract terms; contracts are signed and renewed timely; and contract expenses are within contract value.

The audit found inconsistencies in the way contracts are being administered in our decentralized procurement environment. The lack of contract administration procedures, training, and an automated contract management system can be attributed to these inconsistencies. We have offered recommendations to strengthen the contract administration process.

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

I appreciate the cooperation received from Treasury and Financial Management staff and all participating departments/agencies.

I would like to acknowledge Shannon Miller, CPA and John Halliday who contributed to this effort.

Please don’t hesitate to contact me if you have any questions. Thank you.

K. L. Kleffner, CIA
County Auditor
Contract Administration Audit

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RESULTS AND RECOMMENDATIONS

1. **County Should Develop Contract Administration Procedures**

The lack of an effective contract monitoring system combined with the lack of countywide guidance and training has compelled departments\(^1\) to develop informal practices to administer contracts. The use of these informal practices may not assure all contracts are being managed in accordance with contract terms.

**Recommendations**

We recommend the Director of Treasury and Financial Management (TFM):

1.1 Develop contract administration procedures and incorporate National Association of State Procurement Officials (NASPO) best practices into the County’s purchasing procedures (Policy #110).

1.2 Train those individuals who have contract administration responsibilities on the appropriate procedures to ensure consistent contract administration.

1.3 Implement an automated contract monitoring system that captures all County contracts. System functionality should include but not be limited to:
   - Fully searchable repository,
   - Deliverable tracking,
   - Change management, and
   - Renewal notifications.

**Management Comments**

1.1. *We concur with the recommendation. TFM’s Assistant Finance Director and Purchasing Manager are members of the Purchasing System Review Committee (PSRC). The PSRC was chartered by the County’s Executive Leadership Team to review the entire procurement system and recommend improvements. The PSRC has been working on recommendations for changes to the County’s Purchasing Policy #110 and corresponding procedures. The PSRC is recommending incorporating contract administration and management procedures into the revised purchasing procedures. The PSRC utilized best practices from the National Association of State Procurement Officers (NASPO) and other procurement professional organizations to develop the contract administration and management procedures.*

1.2. *We concur with the recommendation. As part of the work done by the PSRC, enhanced training has been identified as a need. TFM staff will provide training as needed, but no less than annually, on the County’s purchasing systems (Ion Wave and Oracle) as well as the County’s purchasing policy and procedures.*

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\(^1\) Departments refers to all County departments, agencies, and offices here and throughout this report.
1.3. We concur with the recommendation. The County utilizes the Ion Wave Contract Management system as a central repository for formally competed contracts. In 2016, TFM provided Countywide training and assistance on implementing the Ion Wave system. Currently, only 11 departments use the Ion Wave system. The PSRC recommends that all County departments and agencies be required to use the County’s contract management system. Ion Wave has the functionality to operate as a fully searchable repository. There are data fields that can be created in Ion Wave to assist departments with tracking deliverables and change management. The system currently issues automatic renewal notifications to the vendor, purchasing administrator, and contracting department or agency. However, since most departments and agencies are not using the system, this functionality is underutilized.

TFM staff is in the process of reviewing all the new features of Oracle Fusion ERP Cloud. Johnson County’s current financial system is Oracle Enterprise Business Suite (EBS) on premises. The Board of County Commissioners approved RAR funding during the 2020 budget process last year with the intent to begin transitioning to a hosted solution from Oracle Cloud Services. The new Oracle Fusion procurement module has enhanced functionality such as enterprise contract management, supplier portal, and business intelligence that will address many of the system requirements addressed in this report. If approved, TFM plans to implement the Oracle Fusion Procurement Cloud Service in 2022-2023 or sooner, if applicable.

Discussion

Contract Administration

Contract Administration are those activities that occur from the time the contract is awarded until contract closeout. The processes and activities involved in contract administration vary depending on the complexity of the good or service being procured. These include:

- Monitoring contracts,
- Change management,
- Maintaining contract-related documents,
- Addressing claims and disputes, and
- Closeout activities.
Review of Contracts

We reviewed 50 contracts\(^2\) having a contract value of $29 million and representing 25\% of the estimated 2019 contractual services for Johnson County. Our examination included reviewing contracts and contract renewals to ensure they were signed and executed timely. We also selected at least five deliverables\(^3\) from each contract to determine how and if each obligation was satisfied. We found instances of:

- Contract changes not formally documented,
- Contracts not signed or signed timely,
- A cooperative contract without documentation of Board of County Commissioner approval,
- A purchase from a term and supply vendor who was not awarded the product line of the item purchased, and
- Some contract deliverables not provided in accordance with contract terms.

The deficiencies just noted were limited in number and we consider their impact to be immaterial. However, these weaknesses point to failings in the contract administration process. These weaknesses can be attributed to the lack of Countywide guidance, training, and a robust automated contract monitoring system.

Industry Best Practices

The County’s procurement process is decentralized, and individual departments are responsible for managing their own contracts. Generally, contract administration is assigned to an employee who has a working knowledge of the contract. These individuals are responsible to ensure contract terms, conditions, deliverables are met, and proper documentation maintained. Contract administration guidance does not exist in a countywide procedure; therefore, these individuals are left to establish their own process how to administer their contracts. We found individuals administering their contracts, doing the best they can, given the lack of guidance and instruction. Countywide procedures should be developed based on NASPO industry best practices\(^4\) incorporating all administration activities from the time the contract is awarded until the contract closeout to include:

- **Kick off /Pre-performance Period**
  - Especially for high risk, high dollar value contracts
  - All parties to the contract understand their roles and responsibilities
  - Determine how performance will be evaluated, documented and reported

- **Ongoing Maintenance for the Duration of the Contract**
  - A contract administration plan is developed and includes critical elements and activities for effective contract management and quality assurance

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\(^2\) We selected two contracts from 25 County departments.

\(^3\) Contract deliverables are an anticipated contract outcome either presented to the County from the vendor or from the County to the vendor in accordance with the contract terms.

• Monitoring Contractor Performance, Documenting and Record-Keeping
  o Monitor contract performance with contractual terms
  o Documenting and maintaining a contract file
  o Creating a change management process
  o Written guidance for contract disputes and escalation procedures
• End of the Contract/Contract Closeout
  o Manage the closeout of the contract

Automated Contract Monitoring System

The County lacks an automated contract monitoring system that captures all County contracts and has the ability to manage key contract terms and conditions. Currently the County relies on Ion Wave, an electronic bidding and contract management software, as a central repository for formally competed contracts. Ion Wave can also be used to store contracts not requiring formal competition, however, few departments take advantage of this.

A complete record identifying all County contracts does not exist. Absent a standardized tool to record and manage contracts, individuals are left to establish their own methods and practices for monitoring contract terms and deliverables, all of which are performed manually. These practices are inconsistent across the County. An automated contract management system would allow the County the ability to:
  • Provide a real-time secure and searchable repository,
  • Track contract deliverables,
  • Manage contract changes,
  • Automate contract renewals, and
  • Provide analytic reporting.

Ion Wave has the capability to monitor contract renewal dates, but it is not robust enough to monitor all the attributes identified in the paragraph above. Ultimately, an effective automated contract monitoring system will allow the County to have complete visibility into contracts and manage compliance to ensure all deliverables are being met, contracts are renewed timely and change orders are appropriately recorded.

TFM is the organization responsible to provide the necessary guidance and training to County departments to ensure contracts are administered efficiently and effectively. We recommend TFM develop and implement a contract administration process based on industry best practices in order to promote operational efficiency and mitigate risks associated with contracts.
2. **Incorporate Use of Cooperative Agreements into Purchasing Policy**

Cooperative procurement has become a well-established government procurement tool proven to reduce the administrative cost of purchasing and expedite the purchasing process. However, the County is not always performing due diligence prior to making the decision to use a cooperative agreement. This can be attributed to the County utilizing these agreements without well-defined procedures and appropriate guidance. According to the National Institute for Public Procurement (NIGP), prior to making the decision to use a cooperative agreement, each department should conduct their due diligence and:

- Analyze the product or service specifications, price, terms and conditions to determine the cooperative contract produces the best value,
- Incorporate terms and conditions by developing an addendum signed by both JOCO and vendor,
- Ensure the use of the cooperative contract meets all competitive requirements.

If the NIGP best practice is not followed and due diligence not performed, the County cannot be assured they are getting the best value by utilizing cooperative agreements.

**Recommendation**

We recommend the Director of TFM:

2.1 Develop Cooperative Agreement procedures and incorporate into the County’s purchasing procedures (Policy #110). These should include:
- When to use participating addendums,
- When to rely on the cooperative language clause,
- Perform due diligence, and
- Required documentation.

**Management Comments**

2.1 We concur with the recommendation. TFM staff will develop and incorporate Cooperative Agreement procedures into the County’s Purchasing Procedures (Policy #110). Staff will utilize best practices from the Institute for Public Procurement and other procurement professional organizations to develop the cooperative agreement procedures. TFM staff will provide training as needed, but no less than annually, on the County’s purchasing systems (Ion Wave and Oracle) as well as the County’s purchasing policy and procedures.
Discussion

Cooperative Agreements

Cooperative procurement is defined by NIGP as the combining of requirements of two or more public procurement entities to leverage the benefits of volume purchases, delivery and supply chain advantages, best practices and the reduction of administrative time and expenses.\(^5\)

Cooperative procurement has become a well-established practice in the past decade with increasing representation and participation by public entities. Procurement departments seek the best value by optimizing pricing, transaction costs, and processing time through the strategic use of cooperative procurement purchases. For example:

Johnson County enters into a cooperative agreement with the State of Kansas for cell phone services through Verizon Wireless. After the State of Kansas selects Verizon as their vendor, the County can then leverage off the State of Kansas’s efforts and avoid performing their own competitive solicitation process. This cooperative process reduces the amount of time and overall administrative costs associated with the County’s contracting process.

Piggyback Cooperative Agreements

Johnson County utilizes “piggyback” cooperatives. They are a form of intergovernmental cooperative purchasing in which an entity will be extended the same pricing and terms of a contract entered into by another entity. Generally, the originating entity will competitively award a contract that will include language allowing other entities to utilize the contract, which may be to their advantage in terms of pricing, thereby gaining economies of scale they would otherwise not receive if they competed on their own.\(^6\)

Advantages – Relatively easy to administer; makes a wide variety of contracts available to a wider variety of jurisdictions; reduces administrative costs; and can result in cost savings, especially for smaller governmental entities.

Disadvantages – Since participation and usage cannot be predicted for the solicitation, cost savings may be minimal. When an entity joins after the fact, contract users don’t get the benefits and leverage of the full volume. Contractors may offer minimal discounts and benefit from windfall profits when participation and usage exceed estimates. Local vendors may view piggyback contracts as unfair, when they did not have an opportunity to compete for a piggyback contract that was competed in another community.

\(^5\) NIGP Use of Cooperative Contracts for Public Procurement Standards
\(^6\) NASPO Issue Brief – Strength in Numbers: An Introduction to Cooperative Procurements
Participating Addendum

A participating addendum allows the participating agency (e.g., the County) to receive the pricing advantages under the same terms and conditions of the Master Cooperative Agreement. Additionally, the addendum allows a participating agency the ability to modify or supplement the terms and conditions of the Master Cooperative Agreement by including additional, County specific, and sometimes, more favorable contract provisions in the participating addendum. The County is not required to have a participating addendum with the vendor, as long as the contract has a cooperative language clause and was competitively solicited.

Our review of cooperative agreements revealed a participating addendum was not always used. In those instances of non-use, a participating addendum would have added clarity to contract terms and deliverables. According to the Legal Department, a signed written agreement with the vendor, which could be in the form of a fully executed participating addendum, is “highly advisable” when utilizing a cooperative agreement.

Review of Cooperative Agreements

Audit Services examined 10 of the 61 cooperative contracts in Ion Wave and found:

- None of the contracts had documentation revealing due diligence was performed indicating why the cooperative contract was used and if it provided best value for the County.
- Two contracts had cooperative contract documentation but did not have a participating addendum between the County and the vendor for the services.
- Two contracts didn’t have any cooperative contracts documentation attached.

Departments Should Perform Due Diligence

Departments should perform due diligence prior to making the decision to use a cooperative agreement. Due diligence includes:

- Compare the cooperative contracts available for the required product or service, conduct market research, and evaluate whether the use of a cooperative contract is appropriate.
- Analyze all costs associated with conducting a competitive solicitation.
- Ensure the use of the cooperative contracts meets all competitive requirements.
- Analyze the product or service specifications, price, terms and conditions to determine if the cooperative contract produces the best value.
- Ensure organizational/local required terms and conditions are incorporated into the contract.
- Incorporate terms and conditions by developing a participating addendum signed by both JOCO and supplier.
- Contact the cooperative lead government agency to verify contract application and eligibility.

A defined policy and procedure that provides guidance when a department enters into a cooperative contract does not exist. Given the lack of guidance and documentation, we cannot assure the County is receiving best value when using cooperative contracts.

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7 NIGP Use of Cooperative Contracts for Public Procurement Standards
3. Develop a Mechanism to Monitor Spending on Term and Supply Contracts

Spending limits for some term & supply contracts are not monitored and, in some cases, total contract spend is unknown. This can be attributed to not having a mechanism in place to monitor spending on term and supply contracts. Without a means to monitor term and supply contract spending, the County is at risk for expenditures exceeding the approved contract value.

Recommendations

We recommend the Director of TFM:

3.1 Develop a mechanism within Oracle, the County’s financial system, to record and track countywide term and supply contract expense.

Management Comments

3.1 We concur with the recommendation. TFM staff, in coordination with DTI-Oracle staff, is currently building contract spend tracking reports that will allow data analytics to be performed across contracts and vendors. This new functionality should be available by June 2020. TFM staff will run monthly reports to monitor spend on term and supply contracts to ensure proper expenditure authority is followed. Creating the “Oracle flex field” to track spend, as the auditors recommend below, was in process prior to the initiation of the audit.

Discussion

Term and Supply

A term and supply contract is an open-ended contract for specific goods or services the County uses on a regular basis. The County establishes term and supply contracts to maximize the volume of purchases across all the departments. Once these contracts have been established, Purchasing [Policy] requires that the vendor selected be used for applicable purchases. For example:

The County has a furniture term and supply contract. Furniture brands are competitively bid and awarded to the lowest bidder for each product line. The Board authorizes a maximum purchasing authority for all furniture purchased through this contract. All departments are then required to make furniture purchases from this contract – based on the approved vendor.

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8 Term and Supply definition from http://jocogov.org/faq/5019
Review of Term and Supply Contracts

We reviewed seventeen term and supply contracts from fourteen departments to determine how these contracts were monitored. The process used to track spending for term and supply contracts is inconsistent throughout the County. Individual departments use different methods to track their departmental spending and some don’t track at all. Consequently, we cannot always determine if total spending exceeded the total contract value.

Oracle Solution

Oracle has a “flex field” that can be used to record the contract number of a term and supply contract expenditure. If used, each department will record the contract number of the term and supply contract in the “flex field” as invoices are paid, and a report can be generated and periodically monitored to ensure total contract cost is not exceeded.
Audit Observation

The following audit observation addresses an issue\(^9\) identified during the audit. Audit observations provide an opportunity to improve business practices or strengthen controls.

Use of Purchase Orders to Encumber Funds

County purchasing guidelines require creating purchase orders when paying for goods and services. When paying invoices against contracts, a purchase order should be created for the entire value of the contract or estimated contract spend to encumber funds. As invoices are paid during the life of the contract, releases are made against the blanket purchase order. This process in Oracle ensures total contract spend will not exceed contract value without additional approvals.

Johnson County Purchasing Procedure 110.200 – Purchase Orders states “Issuance of a purchase order to confirm the legal contract between the County and a contractor, and to encumber cash and budgetary balances, is required, unless specifically exempted herein, for all procurements of goods and services.” We noticed, however, not all departments are using a blanket purchase order to encumber total annual contract value or estimated contract spend. Some departments create a new purchase order for each invoice paid. The use of multiple purchase orders for one contract is an inefficient way of doing business as it creates additional administrative processes that could be avoided if Purchasing Procedure 110.200 was followed. Also, multiple purchase orders eliminate Oracles ability to track total contract spend and prevent cost overrun. We suggest TFM require departments follow the procedure as written.

\(^9\) Issue discovered during the audit. We did not pursue as an audit finding because we do not believe it to be included within the scope of our audit objective.
OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The audit objective was to review contract administration practices within the County to ensure contract deliverables are being met; invoices are paid according to contract terms; contracts are renewed timely; and contract expenses are within contract value.

Background

TFM’s Purchasing Division is responsible for the acquisition of all goods and services made by or on behalf of the county, its agencies, departments, officials, and authorized agents in accordance with county purchasing policies and procedures. These acquisitions are done in a manner and method which provides the most efficient and effective expenditure of county funds and the maximum protection of county taxpayer interests.  

Purchases of goods, professional services and general services in an amount of $100,000.00 or more shall require formal, publicly advertised competition and approval by the Board of County Commissioners or the appropriate governing board. Purchases of less than $10,000.00 may be made, without competition, on the open market upon the authorization of the appropriate agency, department or office director. Purchases of goods and services with a cost exceeding $10,000.00 but not over $100,000.00 shall require competitive procurement practices, and the County Manager shall establish Purchasing Procedures consistent with this Policy, to ensure the proper and effective procurement.  

There are policies and procedures addressing the competitive process, however once the bid is awarded to the vendor there is little oversight in the contract administration process.

Audit Services has never conducted an audit of contract administration. Audit field work was completed on January 14, 2020.

Scope

We reviewed two contracts from 25 County departments. These 50 contracts had a contract value of $29 Million and represented 25% of the estimated 2019 contractual services for Johnson County. Our review examined these contracts for contract terms, timely signatures, renewals, accurate invoices, and deliverables. We used a list of contracts from Ion Wave as of July 31, 2019, to select formally competed contracts and relied on each department to provide a list of their contracts not requiring formal competition. A formal and informal contract was selected from each department when possible.

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11 County Purchasing Policy 110.135, Authority to Purchase, Contract
Methodology

To conduct this audit, we:

- Requested formally competed contracts listed in Ion Wave from TFM
- Obtained a list of contracts not requiring formal competition from each department
- Selected an informal and formal contract from 25 departments (50 contracts)
- Discussed contract administration processes with each department
- Reviewed selected contracts to identify contract terms, timely signatures & renewals, and deliverables
  - Judgmentally selected and tested no more than 5 deliverables to ensure contract is properly administered
- Compared invoices from each contract – verify pricing, terms, and limits
- Reviewed a sample of 10 Cooperative Agreements for evidence due diligence was performed and documented
- Reviewed 19 term and supply contracts to ensure these contracts were monitored for cost overrun

We interviewed the selected 25 County departments to determine the current contract administration processes for each department and reviewed TFM purchasing policies.

Limitations to audit work performed

A central repository of all contracts does not exist. We relied on the accuracy and completeness of contracts residing in Ion Wave and informal contracts obtained from County departments.

Computer data

We used data from:

- Oracle’s financial system and
- Ion Wave, the County’s electronic bidding and contract management software