

# **CONTRACT ADMINISTRATION**

*PROGRAM EVALUATION AND AUDIT*

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### What We Found

#### *What's Working Well*

Some Project Managers (PMs)/Contract Managers (CMs) employ contract management best practices. These include holding kick-off meetings with contractors, tracking contractor performance, and promptly documenting and reporting issues to procurement. Many project managers use ad-hoc methods of tracking contract renewals and invoice payments.

#### *What Needs Improvement*

Contract management best practices are not applied consistently throughout the Council. Some project managers monitor contracts closely, while others use an ad-hoc or a hands-off approach. Nearly all project managers mentioned a need for more training in contract management at the Council.



### What We Recommend

The Council should:

1. Standardize and centralize receiving, reviewing, and paying invoices.
2. Define what should be reviewed on an invoice, update the procedure, or create a checklist, and provide training for PMs/CMs.
3. Inform PMs & Managers that staffing changes that affect POs and Contracts need to be communicated.
4. Document (work instruction, checklist, etc.) all necessary steps Council staff need to perform when a project on a contract is complete.

### Why We Did This Work

We conducted this audit to determine whether contract administration and governance at the Metropolitan Council are operating to effectively monitor vendor performance and deliverables, products, services and minimize risks to the Council.

### What We Reviewed

This audit reviewed the processes and documentation associated with contract administration on contracts for professional/technical services and goods executed since January 1, 2019, including administration best practices, invoice review, amendments, and close-out.

### How We Did This Work

We reviewed policies, procedures, and best practices published by the National Association of State Procurement Officials (NASPO). We tested a sample of contracts and invoices for prompt payment and proper handling of amendments. We also interviewed PMs to learn about their contract administration process.

## Summary of Findings

Number	Description	Recommendations	Follow-up Action	Page
<b>Observation 1</b>	The Council may owe a significant amount of interest because of late invoice payments.	<p>The Council should standardize the process of receiving and paying invoices so that all invoices are sent to Accounts Payable (AP) first and this process should be consistent across all Council policies, procedures, POs, contracts, etc.</p> <p>AP staff should establish and document a timeline for how long each step should take in the process to review, approve, and pay invoices to achieve issuing payments in 35 days.</p>	Retest	<u>8</u>
<b>Observation 2</b>	Many invoices had documentation or billing issues.	<p>Procurement should define what information is required on an invoice, update the procedure, or create a checklist, and provide a training for PMs/CMs.</p> <p>AP should raise awareness about poorly scanned documents and invoice documentation attached to the wrong voucher. AP staff should consider updating the control document to provide examples of common issues and determine if additional automation could be used to detect these issues, so as not to rely on manual inspection/verification.</p>	Confirmation	<u>10</u>
<b>Observation 3</b>	Contractors and vendors not notified PMs have left Council.	<p>Identify contractors or vendors that should be notified their designated PM has left the Council.</p> <p>Communicate to PMs and Managers the requirement to communicate staff changes for staff that manage POs and Contracts and develop a more proactive approach to becoming aware of staff departures.</p>	Retest	<u>12</u>
<b>Observation 4</b>	There is no standardized process for contract closeout.	Procurement and Finance should develop a document (work instruction, checklist, etc.) that outlines all necessary steps Council staff need to perform when a project on a contract is complete. Training should then be provided to the PMs/CMs.	Confirmation	<u>13</u>

# Introduction

## Background

The Metropolitan Council regularly contracts with third parties for goods and services. During the audit's research phase (July – September 2022), there were approximately 950 active contracts. Contract administration is not centrally handled. The Council's Procurement Department handles the purchasing and creation of contracts. Once complete, contracts are handed off to Project Managers/Contract Managers across the Council.

According to the Council's 2023 Unified Budget, in 2020 the Council spent \$55.9 million on Consulting and Contractual Services and \$51 million in 2021. The estimates for 2022 and 2023 are \$77.5 million and \$81 million (4.5% increase), respectively.

## Objectives

This audit had five objectives:

1. Determine if the Council's contract managers are using best practices to manage contracts.
2. Determine if contract deliverables are provided on time and within the contract scope.
3. Determine if the contractor was paid on time and according to the contract terms.
4. Determine if amendments and change orders are implemented according to procedures and/or the contract's terms.
5. Determine if contract managers are closing out contracts in accordance with Council procedures.

This audit considered the Council's *Thrive MSP 2040* Outcomes and Principles of Stewardship and Accountability. Specifically, it plans to further *stewardship* by reviewing publicly funded contracts are effectively managed. It addresses *accountability* by reviewing adherence to Council procedures, contract terms, and the desire for accurate financial records.

Additionally, this audit helped further the Council's divisional strategic plans. For the Council as a whole, this audit adheres to our principles of being accessible, transparent, and accountable.<sup>1</sup> For Metro Transit, this audit evaluated their performance and foster innovation for continuous improvements. It also supported being responsible stewards of a transformative and financially stable transit system.<sup>2</sup> For Metropolitan Council Environmental Services, it identified opportunities for improving business process efficiencies and effectiveness and preserving sound financial practices for wastewater services.<sup>3</sup> It will also foster the strategic vision's values of excellence and integrity.<sup>4</sup>

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<sup>1</sup> Metropolitan Council Strategic Plan 2020-2022 (December 7, 2020). Retrieved from the Office of the Metropolitan Council Chair.

<sup>2</sup> Metro Transit Strategic Plan 2021 to 2022, page 3.

<sup>3</sup> Metropolitan Council Environmental Services Strategic Plan 2015-2020, page 1.

<sup>4</sup> Metropolitan Council Environmental Services Strategic Vision 2022, page 1.

## Scope

The scope of this audit was contracts executed from January 1, 2019, to June 30, 2022.<sup>5</sup> This audit reviewed the processes associated with contract administration, including administration best practices, invoice review, amendments, and close out.

This audit did not include contracts related to capital projects, including major construction, architecture and engineering, design/build, construction services, cooperative construction, rolling stock, and real estate. Additionally, this audit did not review contracts related to information technology.

## Methodology

Audit reviewed Council policies and procedures, as well as contract management best practices published by the National Association of State Procurement Officials (NASPO). Audit interviewed Procurement staff to understand better the contract administration process beginning at contract execution.

Audit randomly selected 13 contracts and 33 invoices to test payment timeliness and execution of amendments. Additionally, Audit reviewed invoices paid between January 1, 2021, and September 30, 2022, to understand the rate of on-time payments Council-wide.<sup>6</sup>

Audit interviewed seven Project Managers around the Council to understand what they perceive is going well with contract administration at the Council, what is not working well, and their thoughts on what could be improved.

## Limitations

Audit relied on Procurement staff to provide the audit universe. Initially, when determining the audit universe, Procurement could not provide a readily available list of executed contracts. Instead, they pulled this information as needed from the Council's system of record, PeopleSoft. In some instances, this required Procurement staff to pull data manually, as contract information does not upload as they would expect. It was communicated to Audit that the list provided may not contain all the contracts as requested. In a follow-up discussion with Procurement, after the audit was complete, it was determined that there was a misunderstanding in the initial request, as Procurement stated a list could have been easily provided. However, the manual process would still have to have been performed.

## Recognition

We want to thank Procurement and Finance staff and project managers across the Council for their cooperation and collaboration during this audit.

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<sup>5</sup> This includes contracts, grants, joint powers agreements, leases, sole-source agreements, and other types of procurements.

<sup>6</sup> Excludes HRA and Risk.

## Observations

### The Council may owe a significant amount of interest because of late payments.

In our sample of 43 invoices across 13 contracts, 14 (32.6%) were paid late. The percentage of late payments being this high prompted an analysis of all invoices paid between January 1, 2021, and September 30, 2022. The Metropolitan Council paid invoices late approximately 10% of the time in 2021 and 2022. Additionally, the Deputy Chief Financial Officer stated the Council does not voluntarily pay any interest on late payments. The table below lists what percentage of invoices are paid late by "Origin". "Origins", according to Peoplesoft/Oracle, can be departments, divisions, working groups, or specific users.

**Table 2: Percentage of Invoices Paid Late by Origin**

Origin <sup>7</sup>	2021	2022
AP Process Automation- RA ES	12.18%	17.11%
Regional Administration	11.49%	16.79%
Metro Transit	13.91%	15.88%
AP Process Automation- MT	22.73%	13.81%
Legal PO Voucher	13.23%	10.88%
AP Process Automation- Non-PO	4.46%	3.44%
EnergyCap	2.17%	1.27%
Procurement Cards	0.00%	0.00%
Payroll- Metro Transit	0.00%	0.00%
Payroll	0.00%	0.00%
Rising Medical Upload	0.00%	0.00%
MTS Vouchers	0.00%	-

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<sup>7</sup> Per Peoplesoft/Oracle, an origin identifies a specific entry point for online or batch entry, such as a department, division, company, or specific user. An origin also stores validation rules and default information, which provide additional voucher entry controls.

According to the Council's Accounts Payable Payment Method Policy (FM 10-1) and Minnesota state statute<sup>8</sup>, the Council must pay invoices within 35 days of receipt of "completed delivery of goods or services or the satisfactory installation, assembly or specified portion thereof, or the receipt of the invoice for the delivery of goods or services, whichever is later," unless otherwise stated by contract terms. State statute also requires the Council<sup>9</sup> to pay interest of 1.5% for each month or part of a month that an invoice is paid late.

While Council Finance staff provided several reasons and examples why a payment would be late or potentially late, they can be distilled down to accountability and process/control issues. There are no internal requirements for how long each department can take in the process. Additionally, there is no consistent, or in some instances, documented method for reviewing, and approving invoices. By having the invoice go to the PM first, or in some cases, any employee available to the vendor, the date the invoice is received may not be documented or correctly documented, making it difficult or impossible to determine if the invoice was paid on time.

While AP staff turnover, and the need to perform additional steps to update vendor file information can cause delays, these are not common occurrences. However, unanticipated delays in the process can occur, and it is unclear if time has been budgeted into the process to account for these intermittent delays.

Due to these accountability and process/control issues, the risk is that the Metropolitan Council may be liable for around \$464 thousand in interest for late payments in 2021 and around \$278 thousand for the first three quarters of 2022. The Council may also be liable for interest from prior years, which makes the Council vulnerable to action by contractors or vendors who have not been paid interest for late payments. Finally, late payments can negatively impact the cashflow and viability of contractors and subcontractors, especially those that are DBE/MCUB vendors.

### **Recommendations:**

1. The Council should standardize the process so that all invoices are sent to AP first and then to those responsible for reviewing the invoices. The process should be consistent across all policies and procedures. Exceptions to standardizing the process should be identified, discussed, and documented. Additionally, all POs and contracts should clearly state that invoices be sent to AP, either via MetCap (the accounts payable email address where invoices can be sent), or some other similar method.

**Management Response:** Management agrees with the recommendation. AP actively communicates that invoices must be sent to MetCap first, then to the project manager. AP communicates this with both internal and external customers. All Pos and contracts and any other forms of communications will be updated to reflect invoices must be sent to the MetCap email address first.

**Timetable:** AP will continue its outreach efforts. All Pos, contracts, and any other forms of communications, including videos on MetNet will be reviewed and updated to reflect all invoices come to MetCap first, by the end of Quarter 3, 2023 (September 30, 2023).

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<sup>8</sup> MN State Statute 471.425

<sup>9</sup> MN State Statute 471.425



**Staff Responsible:** AP Manager and Designated Procurement Staff.

**Audit Follow-Up:** Retest

2. AP should establish a timeline for how long each step should take in the process to review, approve, and pay invoices to achieve issuing payments in 35 days. An agreed-upon timeline should be documented in a procedure or similar control document, reviewed, and then communicated to the PMs.

**Management Response:** Management agrees with the recommendation. All invoices should be sent directly to AP via MetCap ([MetCap@metc.state.mn.us](mailto:MetCap@metc.state.mn.us)). In order for invoices to be paid within 35 the following timetable for invoices, without any constraints will be as follows:

Days 0-5	AP Incoming Review
Days 6-11	PMs and CMs Review
Days 12-17	Receiving in WAM/Txbase
Days 18-28	AP processing of payment

Note: any contract, PO, vendor set up issues will result in additional time needed, but invoices must be returned to AP no later than day 18, in order to maintain an on-time payment.

**Timetable:** Procedure to be documented by the end of Quarter 3, 2023 (September 30, 2023).

**Staff Responsible:** AP Manager

**Audit Follow-Up:** Retest

## **Invoices had documentation or billing issues.**

We reviewed forty-three randomly sampled invoices for nine contracts. Of these seven invoices, three had documentation issues, and four had billing issues. The documentation issues included no descriptions for line items on invoices, an unreadable scanned invoice, and an invoice attached to the wrong contract/voucher.

The billing issues include one contractor double billing the Council for several months before it was corrected, invoices submitted quarterly instead of monthly, and the Council being charged a “mobilization fee” multiple times when, according to the PM, that should be a one-time charge. The last issue was an immaterial discrepancy between what the contractor calculated for mileage and what they charged.

The Council’s Procurement Procedure (FM 14-1A) states that the Project Manager or the Council Authorized Representative (CAR) is responsible for reviewing invoices. Additionally, the Council’s Accounts Payable Payments Procedure (FM 10-1a) states: “Each employee who submits a payment request (Preparer) is responsible for: ensuring expenditures are authorized and allowable; collecting and providing necessary documentation; determining and using the correct account coding; and following this procedure and all other expense-related policies and procedures of the Council.”

An Accounts Payable internal control document explains how invoices and supporting documentation are to be scanned and uploaded. The control document also states to review the scanned documents for legibility.

Council procedures state who is responsible for reviewing invoices, but no Council document provides the clarity needed for what information should be on an invoice or what to review on invoices.

In discussion with AP staff, the exact reason a bad scan was allowed to proceed could not be determined. AP staff are to review the scans, however it is believed that the scanning issue and the issue with attaching the invoice documentation to the wrong voucher were human errors.

It is difficult to determine if what the Council paid for was within the scope of the contract without clear instructions on how or what to review on invoices, having clear descriptions of line items on invoices, or having the correct documentation associated with a voucher/PO. The risk to the Council by not enforcing the contract requirements, as in the case of the billing cycle and mobilization fees, is that it can cause a financial loss and damage the Council's reputation with the communities it serves. Additionally, if contractors are not invoicing and paid according to the frequency in the contract, it could affect when a subcontractor gets paid.

**Recommendations:**

1. Procurement should lay out what information needs to be on an invoice and then communicate this information to the PMs so that they can communicate this to the contractors. Procurement should also update the procedure or create a document for PMs on what information and documentation to review on an invoice and then provide training or guidance to the PMs/CMs. This training or guidance should also include a reminder on the importance of the contractor adhering to the contract, and if the PM has issues or concerns regarding the contract that they are to contact Procurement as soon as possible.

**Management Response:** Management agrees with the recommendation. Procurement has developed a new Contract Management Support Unit to provide training and assistance to PMs in all aspects of contract management. Invoice Training video is available on METNET. We offer quarterly Contract Management 101 training that provides an overview of Invoice review. Invoice templates are available to PMs and Contractors. Additional information is being developed to include in a contract management guidebook.

**Timetable:** Contract Management Guidebook is due for completion end of Q4 2023. All other responses completed.

**Staff Responsible:** Designated Procurement Staff

**Audit Follow-Up:** Confirmation

2. AP should raise awareness in their department regarding the poorly scanned document and attaching invoice documentation to the wrong voucher. AP staff should also consider updating the control document to provide examples of common issues and determine if additional automation could be used to detect these issues, so as not to rely on manual inspection/verification.

**Management Response:** Management agrees with the recommendation. AP staff along with PMs and CMs will be responsible to ensure documents are scanned, readable, and attached to the correct voucher in the system.

**Timetable:** Contract Management Guidebook is due for completion end of Q4 2023.

**Staff Responsible:** AP Manager, Procurement staff, PMs and CMs

**Audit Follow-Up:** Confirmation

**Contractors and vendors not notified PMs have left Council.**

In a judgmental sample of 12 of 21 contracts and purchase orders (POs) with an end date of January 1, 2023, or later, Audit did not find documentation indicating that the Council notified contractors that PMs had left the Council. For the remaining nine, it was not necessary to notify the contractor as the designated PM was different than the PM listed in the universe provided (6), an amendment had recently occurred (2), or other staff were on recent communications with the contractor (1).

When a Project Manager has left the Council, a letter is supposed to be emailed to the contractor alerting them of the change. This is supposed to be done by Procurement and saved in the Council's document management system per the Project Manager Change procedure.

Procurement is not being notified that PMs are leaving the Council. Therefore, they don't know to notify the contractors or vendors. Procurement implemented the requirement for them to be notified of a PM's departure in August of 2022. Procurement did not communicate the new requirement widely to all staff managing POs or contracts. Additionally, there are ad hoc methods the Procurement team has tried to employ to become aware of staff departures, such as monthly meetings with business units, hearing about PMs leaving, and reviewing HR lists. However, these additional methods are still in development.

The risk to the Council is that the Project Manager is the main contact for each project and has full authority to act on behalf of the Council on all matters related to the project. Therefore, if circumstances give rise to the contract price or contract term being exceeded, the contractor could be unclear about who to communicate with regarding the changes, which could cause delays in completing the work.

**Recommendations:**

1. Identify and notify contractors or vendors whose designated PM has left the Council.

**Management Response:** Management agrees with the recommendation. Procurement developed and published a PM Name Change SOP on its MetNet site which includes templates of notification letters to contractors.

**Timetable:** Currently implemented

**Staff Responsible:** Designated Procurement Staff.

**Audit Follow-Up:** Retest

2. Communicate to PMs and Managers the requirement to communicate staff changes for staff that manage POs and Contracts and develop a more proactive approach to becoming aware of staff departures.

**Management Response:** Management agrees with the recommendation. Human Resources (HR) provides a list of any departing employees biweekly that is cross referenced against PMs for active contracts. If departing employee is a PM, Procurement staff will follow PM Name Change SOP.

**Timetable:** Currently implemented

**Staff Responsible:** Designated Procurement Staff

**Audit Follow-Up:** Retest

## **There is no standardized process for contract closeout.**

While the Council's standard contract template does require some close-out activities to be completed by the contractor upon completion of the contract work, no specific procedures or checklists exist that outline all the activities Council staff need to perform when the work on a contract is complete. During the interviews with the Project Managers, many stated there was no formal, written contract close-out procedure or checklist.

The National Association of State Procurement Officials (NASPO) Best Practices Guide recommends documenting all aspects of the procurement process, from developing specifications to contract closeout. The guide further explains that a closeout checklist is useful to confirm all obligations have been met. Checklist items could include verifying all reports were submitted, inspections completed, invoices paid, transferring any remaining funds, and documenting lessons learned.

The current SOP, contract language, and training do not detail what Council activities need or should occur at the end of a contract. If contracts are left open, there is a risk that any remaining funds may be inappropriately used, which can include paying a contractor for work that was not within the scope of the contract or paying the contractor after all the work has been completed. Additionally, if there is no final verification of contract obligations, the Council may not receive all the necessary reports or miss paying an invoice.

### **Recommendation:**

1. Procurement, in consultation with Finance, should develop a document (work instruction, checklist, etc.) that outlines all necessary steps Council staff need to perform when work on a contract is complete. Training should then be provided to the PMs/CMs.

**Management Response:** Management agrees with the observation/recommendation. Quarterly Trainings that include contract close out process provided by Procurement Contract Management Support Unit. Finance and Procurement will work together on providing documented guidance on the Contract Close out Checklist. Procurement is developing a Contract Close Out Checklist that will be included in the Contract Management Guide.

**Timetable:** Trainings have been implemented. Contract Management Guide to be finalized end of Q4 2023

**Staff Responsible:** Designated Procurement Staff and AP Manager

**Audit Follow-Up:** Confirmation

## Conclusions

While some Project Managers may use best practices to manage their contracts, they are ad-hoc and inconsistent. Inconsistencies also exist in invoice processing, which has resulted in the Council paying late approximately 10% of the time. These inconsistencies and the observed control weaknesses open the Council to financial, legal, and reputational risks. To address these risks, the Council should standardize and better document the tasks involved with contract management, invoice review, and payment and then provide training to those necessary.



June 22, 2023  
Matthew J. LaTour, Director Program Evaluation & Audit  
Chief Audit Executive

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TTY 651.291.0904  
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