

INFORMATION SERVICES CONTRACT ADMINISTRATION

PROGRAM EVALUATION AND AUDIT



**METROPOLITAN
COUNCIL**

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Highlights

Information Services contract administration lacks key purchase order, receiving, and invoice processing documentation.

What We Found

What's Working Well

Some Information Services department (IS) Contract Administrators (CAs) employed contract administration best practices. Many CAs have regular contact with software, hardware, and IT service providers. CAs regularly document issues, report issues, and track issue remediation with suppliers.

What Needs Improvement

Significant turnover in the IS Associate Purchasing Agent and IS finance areas has highlighted the need to document contract administration processes. Additionally, contract administration is often shared between IS purchasing staff and IS technical staff, which has led to purchase order (PO) structuring that does not directly link to vendor pricing and has contributed to invoice processing issues and issues with receiving goods and services.



What We Recommend

IS purchasing staff should work with Contracts and Procurement to ensure POs match supplier pricing to adequately classify and document the work of the contract as goods, services, deliverables, or milestones. IS Purchasing staff should work with Accounts Payable to ensure that any issues with receiving items on invoices are documented, and that any payment issues are documented to support continuous improvement in prompt payment of vendors.

Why We Did This Work

We conducted this audit to confirm if contract administration and governance at the Metropolitan Council are effectively monitoring vendor performance and to ensure contract deliverables, goods, and services are delivering value and minimizing risks to the Council.

What We Reviewed

This audit reviewed the processes and documentation associated with contract administration on contracts for IT software, hardware, and IT services executed from January 1, 2019, through June 30, 2022, 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 PO creation, receiving, and invoice payments for prompt payment and reasonableness. We also interviewed CAs to learn about their contract administration process.

Summary of Findings

Number	Description	Recommendation	Follow-up Action	Page
<p>Observation 1</p>	<p>Processes for creating purchase orders create complexity in classifying IS goods and services.</p>	<p>The IS purchasing agent and IS CAs should document roles and responsibilities to document the reason when contracts and POs deviate from contractor vendor pricing documentation. Documentation of roles and responsibilities should follow contract administration best practices. Lessons learned activities should be included in documented responsibilities to promote continuous improvement.</p>	<p>Confirmation</p>	<p>8</p>
<p>Observation 2</p>	<p>Invoice processing and WAM receiving issues determining expense reasonableness or lead to late payments.</p>	<p>IS CAs should ensure that invoice line items are adequately descriptive or that supporting documentation is maintained to confirm expenses for goods or services. Documentation must include adequate descriptions of software, hardware or IT service expenses being paid, and support payment reasonable and timely payments.</p>	<p>Risk Assess</p>	<p>9</p>
	<p>Invoice processing and WAM receiving issues determining expense reasonableness or lead to late payments.</p>	<p>The IS Associate Purchasing Agent and the IS Department should work with Procurement to ensure adequate documentation, via procedures, work instructions, or job aids, are maintained to support receiving invoices in WAM. IS CAs should also ensure documentation of the cause(s) of receiving issues in WAM, and how they were resolved.</p>	<p>Confirmation</p>	<p>9</p>

Program Evaluation and Audit recommendations are categorized according to how Audit will follow-up on them. The categories are:

- **Retest** — Audit will retest the area using the same or similar procedures after a recommendation has been implemented and sufficient time has passed for the changes to take effect. The retest will take place on a specified timetable. The recommendation will be closed once the change has occurred. A new audit project will be opened for retesting and any new findings will include new recommendations.
- **Confirmation** — Audit will confirm that an adequate risk response has been completed on the agreed upon timeline. The recommendation will be closed once the change has taken place.
- **Assess Risk** — Audit will not plan for specific follow up to these recommendations. Audit will discuss the area as part of its annual risk assessment activities and consider future audit work in the area.

Introduction

Background

The Metropolitan Council's Information Services (IS) department regularly contracts with third parties for various hardware, software, and information technology (IT) services to provide services to the Council. IS contract administration is not centrally handled. While Procurement handles the purchasing and creation of contracts, once complete, contracts are handed off to IS contract administrators (CAs), project managers, or other IS staff.

Based on the information provided by Procurement staff, the Council executed 1,839 contracts totaling approximately \$3.5 billion from January 1, 2019, to June 30, 2022. Approximately 157 contracts out of the 1,839 Council contracts are within the IS budget with a total value of \$67 million. The average cost of each IS contract is \$427 thousand. In 2021, IS sole source purchase orders (POs) totaled \$5.4 million of all IS contracts. Most IS department contracts were unit priced or "cost-plus a fixed markup rate" contracts for hardware, software, and IT Services. Many software purchases are acquired through software and hardware resellers. Often IS contracts are mediated by the State of Minnesota's Cooperative Purchasing Venture (CPV) program, through which the Department of Administration negotiates special rates for state agencies, municipalities, counties, cities, and other eligible entities.¹

Additionally, IS has experienced significant turnover throughout the department during the pandemic, which required the addition of new contracts for professional services since June 2022. An emergency declaration (ED) of \$4 million was granted for professional services contracting and a \$6 million contract for IS to contract with five vendors for temporary IT services.

Objective

The five main audit objectives were to:

1. Determine if the Council's IS 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 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.

Additionally, this audit helped further the Council's divisional strategic plans. For the Council as a whole, this audit reviewed contract administration for adherence to the principles of being accessible, transparent, and accountable.² For Metropolitan Council IS contracts, the audit evaluated IT outcomes

¹ Minnesota Office of Procurement, Cooperative Purchasing Venture, <https://mn.gov/admin/osp/other-purchasers/cpv/>

² Metropolitan Council [Strategic Plan 2020-2022](#) (December 7, 2020). Retrieved from the Office of the Metropolitan Council Chair.

and the extent to which business needs, return on investment, accountability, cost, and performance transparency align with IS' Service Portfolio Management Vision, Goals, and Design Principles.³

Scope

The scope of this audit was IS contracts and POs executed from January 1, 2019, to June 30, 2022.⁴ This audit reviewed the processes associated with contract administration, including administration best practices, invoice review, amendments, and close out. The audit did not include contracts related to Capital Projects and contracts issued in divisions and departments outside the IS department budgeted contracts.

The audit evaluated policies, procedures, and tools for ensuring appropriate management of IS contracts. The audit reviewed the Council's adherence to ISACA, IIA⁵, NIST Cybersecurity (CSF) Framework, and other NIST guidance related to IT risks within the contract administration process. This audit considered the Council's *Thrive MSP 2040* outcomes of Stewardship and Accountability.

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 judgmentally sampled and selected seven contracts, by contract amount and type, and 66 invoices to test payment timeliness and execution of amendments. Audit interviewed seven CAs from the IS Department 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.

Furthermore, this audit only reviewed IT contracts within the IS department budget, including contracts managed for the divisions by IS. IS also relies significantly on the State of MN contracts for

³ Metropolitan Council Information Services Service Portfolio Management. [Vision, Goals, & Design Principles](#).

⁴ This includes contracts, intergovernmental agreements, sole-source agreements, and other types of procurements.

⁵ IIA [GTAG Information Technology Outsourcing 2nd Edition](#).

IT resources and services which allows procurement to purchase an asset without needing a solicitation and issuing a Council contract. Additionally, IS Sole Source list and IS expenses less than \$175,000 are mediated via a PO and may not be a Council issued IS contract.

Recognition

We want to thank the IS, Procurement, and Finance departments and CAs and Council staff for their cooperation and collaboration during this audit.

Observations

Processes for creating purchase orders create complexity in classifying IS goods and services.

IS contract processes for developing deliverables schedules or project milestones for POs could not be linked to vendor pricing. One contract was signed before a schedule of deliverables and milestones were negotiated with the vendor. Another contract noted a lump sum in the contract schedule of deliverables. At the same time, the PO was divided into lines connected to Council divisions or chart of accounts organization codes rather than breaking expenses into licensing or service charges used by the vendor to estimate pricing. No explanation or documentation of why POs deviated from pricing documentation was maintained with contract documentation.

For State of Minnesota contracts (state contracts), the Council does not issue its own contract but instead uses the state's contract. For state contracts, the Council does issue a PO in the WAM system and makes payments in the PeopleSoft system. POs are issued in the WAM system for IS expenses and paid in the Peoplesoft system. If the two systems do not exactly match, PO issues and receiving issues can create issues in issuing POs or paying invoices. With state contracts, software resellers, hardware suppliers, or IT service providers often use their coding for goods and services that do not adequately describe what software, hardware, or IT services the Council is purchasing. Information on vendor coding of goods and services is necessary for the Council to establish the PO, understand invoices, and easily receive charges for services and goods when paying invoices. For example, for POs with a software reseller:

- In purchasing software and services, the PO was structured by annual payments to the vendor, but vendor pricing was based on paying for a 2-year cycle in one installment payment. Additionally, vendor pricing did not include adequate information for establishing a PO with details on software product descriptions, quantities, and prices.
- In purchasing additional software and services, the CIM and vendor pricing did not support the number of licenses purchased, and product descriptions were inadequate. While the PO was set up to exactly match future invoices, the IS purchasing agent noted confusion about products and quantities.

For effective contract management, *The NASPO State and Local Government Procurement: A Practical Guide* recommends documenting a scope of work that includes deliverables, documenting a pricing structure for contracts, and establishing milestones for measurement that link to payment terms.

In the last two years, the turnover of three staff in the IS purchasing and contract administration area has led to confusion around roles and responsibilities in the process. Additionally, the Council does not have a policy, procedure, or SOP describing roles and responsibilities related to contract specifications for the IS Purchasing and Procurement staff. Lack of documentation prevents IS from determining root causes, as few notes document if or how the deliverables or milestones are created and communicated to procurement for IS contracts and POs.

If deliverables or milestones do not accurately reflect the type of goods or services purchased, the Council risks delays due to PO changes or issues translating the goods or services being purchased into lines on a PO. Without adequate process documentation of how vendor pricing is used in PO creation, the Council increases the risk that we cannot track and perform lessons-learned activities for

contract administration. If the PO is not adequately structured and linked to vendor pricing, CAs may be unable to make timely invoice payments.

Recommendation:

1. The IS purchasing agent and IS CAs should document roles and responsibilities to document the reason when contracts and POs deviate from contractor vendor pricing documentation. Documentation of roles and responsibilities should follow contract administration best practices. Lessons learned activities should be included in documented responsibilities to promote continuous improvement.

Management Response: *Pending*

Timetable: *Pending*

Staff Responsible: *Pending*

Audit Follow-Up: Confirmation

Invoice processing and WAM receiving issues led to issues determining expense reasonableness or lead to late payments.

All late payments reviewed related to either an invoice processing or receiving issue in WAM. Of the 66 invoice payments reviewed, seven (approximately 11%) were paid late. One of the seven invoices was not paid within 30 days.

For three of the 12 invoices reviewed for expense reasonableness, invoice line items lacked adequate descriptions of the purchased software, hardware, or IT services. For those three invoices, we could not determine if the items purchased were reasonable given the invoice, imaged documentation, and transaction notes in the PeopleSoft Financial system. Issues determining the invoice line items were compounded by receiving issues in WAM. While notes entered in the WAM system and PeopleSoft were entered, the content of the notes did not describe the specific receiving issues the IS Associate Purchasing Agent experienced when attributing invoice line items to lines on the PO. For another invoice, Accounts Payable (AP) did not forward invoices for business unit review and approval. In another instance, AP did not manually track and process a pending payment.

The goods and services on invoices seemed reasonable after we researched expenses and reviewed invoices with IS and AP staff. However, the IS purchasing associate and CAs failed to document the reasonableness by clearly noting how they confirmed the software, hardware, or service charges, given the unclear coding and unit pricing noted by suppliers. Additionally, when late payments were noted, the contract manager and AP failed to document the reasons for processing issues and late payments.

The Council's *Accounts Payable Payments Procedure (FM 10-1a)* states: "Each employee who submits a payment request (the Preparer) is responsible for: ensuring expenditures are authorized and allowable; collecting and providing necessary documentation; determining and using the correct account coding." Additionally, Minnesota state statute states⁶ the Council must pay invoices within 35

⁶ MN State Statute 471.425

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. One late contract payment included a clause that required the contractor to be paid within 30 days. Per AP staff, PeopleSoft Financials system limitations do not create automated tracking reports to track all pending payments, thus AP staff must manually track and process a payment in the system after approval.

The Council lacks sufficient controls to ensure that invoice statements submitted by software, hardware, and IT service suppliers align with POs in WAM. As preparers of POs and payment requesters, the Contract Managers did not ensure a clear link between the lines of work on the PO and the invoices sent by vendors.

When invoices contain line-item descriptions that do not align with the scope of the contract, it is difficult for CAs to document the reasonableness of expenses. When the descriptions on invoiced goods or services do not link items included in a PO, the contract manager could have issues receiving them within the WAM System. Receiving issues and invoice processing issues could result in late payments, which could leave the Council liable to pay vendors’ interest on those late payments.

Recommendation:

2. IS CAs should ensure that invoice line items are adequately descriptive or that supporting documentation is maintained to confirm expenses for goods or services. Documentation must include adequate descriptions of software, hardware or IT service expenses being paid, and support payment reasonable and timely payments.

Management Response: *Pending*

Timetable: *Pending*

Staff Responsible: *Pending*

Audit Follow-Up: Risk Assess.

3. The IS Associate Purchasing Agent and the IS Department should work with Procurement to ensure adequate documentation, via procedures, work instructions, or job aids, are maintained to support receiving invoices in WAM. IS CAs should also ensure documentation of the cause(s) of receiving issues in WAM, and how they were resolved.

Management Response: *Pending*

Timetable: *Pending*

Staff Responsible: *Pending*

Audit Follow-Up: Confirmation.

Conclusions

For unit-priced and cost-plus a fixed markup rate contracts, contract administrators need to know what goods and services they are receiving and what market prices, markups, and discounts are applied when creating POs and paying invoices. Documentation in contract administration is necessary to ensure controls are implemented and accountability is established by all contract parties. IS Finance, the IS Associate Purchasing Agent, and the IS Department have experienced significant turnover in the previous two years, which has complicated the department's ability to document roles and responsibilities. Turnover and lack of documentation have contributed to issues with creating POs, receiving goods and services on POs, and paying invoices. To address contract risk, the Council should ensure POs are tied directly to vendor pricing and that vendor invoices are easy to understand with supporting documentation. Documentation in the form of notes should be maintained to track issues at any step in the process and support continuous improvement processes.



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