

CONTRACT REVIEW



Contract Audit Need

- The Value and importance of contractual expenditure in regard to capital and revenue budgets
- High turnover and diversity of contracts
- Inherent risk of loss, waste fraud resulting from such turnover and expenditure levels

Audit Objectives

- Policy versus procedures review
- System adequacy from initial planning to post completion assessment
- Management information
- Utilization of resources efficiently

Audit Reasons

- ❑ Four areas to ask about the CONTRACT
- ❑ Effectiveness – best meeting of objectives
- ❑ Economy – best goods and services
- ❑ Efficiency – best managing of contract process
- ❑ Compliance – policies and directives being followed

Stages of Proper Contract Management

- A. Pre- Contract planning, review, coordination
- B. Payment of Contract(s)
- C. Performance of Contract(s)
- D. Post Completion of Contract(s)
- E. Problems of Contracts (s)

Stages of Proper Contract Management

- A. Pre- Contract planning, review, coordination
COJ's main problem area
- B. Payment of Contract(s)
Some issues – contract manager should address
- C. Performance of Contract(s)
Need business as well as legal review. Legal may need enhanced than just “as to form”

Stages of Proper Contract Management

D. Post Completion of Contract(s)

Analyze what went well and what needed improved

E. Problems of Contracts (s)

Address Contractor issues ie Bankruptcy, Poor Performance, Difficult to work with etc.

Stages of Proper Contract Management

WRITE YOUR OWN CONTRACTS OR OTHERS
WILL WRITE THEIRS FOR YOU


- 1.) Obtain/subscribe to contracting software
- 2.) Include audit provision for large contracts, need to be able to inspect their books, ours are open.
- 3.) If specialized contract – obtain outside specialized legal counsel/review
- 4.) Do not be afraid to say NO!. Just because prior contractors got Cost- plus does not mean COJ does it now.

Basic Statistics

- Contracts in general reviewed 30
- Contractors in general reviewed 5
- Number of “contractor jobs” 11
- \$ amount of contractor jobs \$1,284,916

Contracts in General

Items Reviewed

- Authorization
 - Signatures
 - Dated
 - Actual Contract – Not Bid Specification
 - Contract Terms
 - Legal Review
 - Payments
 - Change Orders
 - Bid Documentation
 - Final Execution
 - Close out Procedures
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Contract Review Statistics

- 19 of 30 Not dated by Mayor
- 11 of 30 Not signed by Counter Party
- 4 of 30 No contract only Bid Specs
- 4 of 30 Not signed by City Officials
- 4 of 30 No problems
- 3 of 30 Not notarized as required by contract

Contract Review Statistics


- Several Payments not signed by city officials
- Change Order was found on counterparty fax not COJ documentation.
- External service providers not signing off on work for payments (engineers, architects etc.)
- Finance Department not in possession of change orders
- Final executed copy not in City Clerk Possession

Larger Contractors

Asked Finance Accounts Payable staff who was larger contractors. Following listed

- Cooper Construction
- Randy Callahan
- Alvin Crabtree
- Cameron Construction
- Van Horn

Contractor Statistics



• Cooper	2 Jobs	\$79,161
• Callahan	1 Job (2 parts)	\$415,690
• Crabtree	4 Jobs	\$192,044
• Cameron	3 Jobs	\$460,432
• Van Horn	1 Job	<u>\$141,590</u>
• <u>Total</u>	<u>11 Jobs</u>	\$1,284,916

Contractor Statistics

- 6 of 11 jobs had contracts \$749,324
or 58%
- 5 of 11 jobs had NO contracts \$460,432
or 42 %
- 4 of 11 jobs were brought in over bid \$876,122
or 68%
- Average amount of each contract = \$116,811

Contractor Statistics

- Overbids totaled \$100,321
or almost 1 entire job's worth

Overbidding was a result of mismeasurement by City officials for contract estimates.

Some estimates were over 50% off.

Red Flags and alarms should be sounding!!!!

Contract/Project Approval Review

Purpose to enable the COJ to:

- 1.) Better track the intake of new contracts or internal projects
- 2.) Conduct review/approval process to properly identify risk and relevant issues
- 3.) Serve as supplemental historical record for Clerk and COJ's significant transactions

Contract/Project Approval Review

Project Leader/ duties

- Single point of contract internally and externally for coordination of *REVIEW* process – NOT CONTRACT !!!
- Call and conduct multidisciplinary group to discuss proposed project/ contract
- Responsible for communication among all parties
- Ensure contract/project proceeds according to COJ and State of Arkansas rules, laws and regulations
- Ensure execution of applicable documentation

Contract/Project Approval Review

Project Leader/ duties

- Circulate final executed completed documentation to appropriate COJ personnel
- Complete Project Approval sheets to all applicable departments

Contract/Project Approval Review

- THIS REVIEW DOES NOT CIRCUMVENT LEGISTAR AND NORMAL REGULAR APPROVAL PROCESS !!!!!!!!!!!
- ALL APPLICABLE PROCESSES STILL IN USE AND PLACE!!!!!!!!!!

Recommendations

- Contract Policy/Procedure Manual 10/31/2007
- Contract Review and Project Approval Policy implement – refine
- Purchase/subscribe to contracting software
AIA - Engineering is an example.
- Provide Contract Terms summary sheet
- Utilize Contract Manager
- Final executed contracts, notice to proceed, change orders and closeout documents to Clerk

Recommendations/ Thoughts

- Policy Manual – Guidance provided
- Contract Approval Policy – already working with Legistar this provides assistance in group think planning.
- Terms summary sheet – clarifies payment and penalty clauses
- Department heads, And Mayor Responsible for details.