

Internal Audit Department
NeighborWorks® America

Audit Review of Contract Administration

Project Number: NW.PROC.CONADMIN.2020

Audit Review of Contract Administration

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7/07/2020

To: NeighborWorks America Audit Committee

Subject: **Audit Review of Contract Administration**

Attached is our draft audit report for the Contract Administration review. Please contact me with any questions you might have.

Thank you.

Frederick Udochi
Chief Audit Executive

Attachment

cc: M. Rodriguez
S. Ifill
R. Bond
R. Simmons

**Function Responsibility and Internal Control Assessment
Audit Review of Contract Administration**

Business Function Responsibility	Report Date	Period Covered
Procurement	7/7/2020	05/01/2019 to 02/29/2020
Assessment of Internal Control Structure		
Effectiveness and Efficiency of Operations	Inadequate¹	
Reliability of Financial Reporting	Not Applicable	
Compliance with Applicable Laws and Regulations	Not Applicable	

This report was reissued February 15, 2024 in accordance with a recommendation by the Government Accountability Office (GAO-23-105944, June 14, 2023).

¹ **Legend for Assessment of Internal Control Structure:** **1. Generally Effective:** The level and quality of the process is satisfactory. Some areas still need improvement. **2. Inadequate:** Level and quality of the process is insufficient for the processes or functions examined, and require improvement in several areas. **3. Significant Weakness:** Level and quality of internal controls for the processes and functions reviewed are very low. Significant internal control improvements need to be made.

Executive Summary of Observations, Recommendations and Management Responses

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p>Observation 1 Inconsistent Contract Administration Practice and Contract Administration Policy Internal Audit observed that the current practice of contract administration is inconsistent with section VII Contract Administration and Closeout of Procurement Policy in the following areas:</p> <p>1A: Insufficient Requirements/Guidelines for Contract Management Plan and Supplier Performance Evaluation</p> <p>There is no contract management plan (<i>Policy VII.A</i>) available for the Internal Audit review of the 168 active contracts. Additionally, Internal audit observed that 27 of 66 (41%) of active contract modification requests for exercising the Option period</p>	YES	<p>Recommendation 1 Internal Audit strongly recommends Procurement conduct a comprehensive review and update of their Policy and Procedures (P&P) to address outdated or vague procedures as described in the examples. The current Procurement Policy was last published in December 2018 and, based on best-practice, recommend that it should be reviewed and updated annually at a minimum.</p> <p>These annual reviews should be documented through a version control process of the P&Ps to document the leadership team's changes and</p>	YES	<p>Procurement plans on doing a rewrite of the procurement policies in order to clear up the inconsistencies within the policy that are contributing to confusing and differing interpretations. This, in turn, leads to some of the inconsistencies in practice outlined in this report.</p> <p>The procurement division plans to start working on this task once the new procurement system has been implemented (pending budget availability). The system has a major impact on policy. Current plans are to begin this task task at the end of FY 2021 and complete by the end of FY2022 (September 30, 2022).</p>	9/30/2022	Internal Audit accepts Management's response

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p>do not have performance evaluation/ratings in place as required.</p> <p>1B: Current Contract Administration Practice not Reflected in the Procurement Policy</p> <p>Example 1: Inconsistent Preparation of Contract Modification Document</p> <p>Example 2: Obsolete Contract Administration Role</p> <p>Program Procurement Coordinator (PPC) is referenced throughout the current Procurement Policy document but is no longer used at NeighborWorks.</p> <p>Risk Rating: (b) (5)</p>		<p>approval. This would greatly facilitate documentation and notification of changes to staff.</p> <p>In addition, we recommend that Procurement adopt an official and consistent, enterprise-wide communication procedure for the release of updated P&Ps or any augmentations thereafter, to ensure relevant staff are aware of significant changes. This would be in combination with facilitated training and refresher courses provided to staff involved in acquisition.</p>				

Risk Rating Legend

Risk Rating: High

A serious weakness which significantly impacts the Corporation from achieving its corporate objectives, financial results, statutory obligations or that may otherwise impair the Corporation's reputation.

Risk Rating: Moderate

A control weakness which could potentially undermine the effectiveness of the existing system of internal controls and/or operational efficiency, integrity of reporting and should therefore be addressed.

Risk Rating: Low

A weakness identified which does not seriously detract from the system of internal control and or operational effectiveness/efficiency, integrity of reporting but which should nonetheless be addressed by management.

Management Responses to The Audit Review of: Contract Administration		
# Of Responses	Response	Recommendation #
	Agreement with the recommendation(s)	
	Disagreement with the recommendation(s)	

Background

NeighborWorks Procurement Division has experienced several iterations of leadership turnover, process re-engineering and attrition, in the last 5 years; in the Corporation's bid to move from a decentralized to a centralized procurement function. This change management has been further compounded by the inadequate application support system, NEST (current Procurement application); which has not met Procurement objectives² and is currently scheduled to be replaced. Internal Audit since the change has reviewed over the years various aspects of the Procurement function with Contract Administration being one of them. Contract administration includes the process for adequately monitoring and evaluating goods and services procured by the Corporation.

Objective

The objective of this audit review was to obtain assurance that contract administration adequately monitors and evaluates contractual obligations, goods and services procured.

Scope

The scope of this audit review included contracts and contract modifications that were signed/executed and closed between May 1, 2019³ and February 29, 2020.

Methodology

A combination of a controls-based and risk-based approach was undertaken to focus on the inspection, verification and conformance of the contract administration business practice from execution to closeout, against the current Procurement Policy as of April 27, 2019, by applying following testing methods:

- Inquiry:
 - o Facilitated discussions with Procurement and Finance-Accounts Payable to obtain a better understanding of respective Contract Administration process, procedures, roles and responsibilities.
 - o Conducted and reviewed Contract Administration Survey to Procurement Task Leads (PTLs).
 - o Facilitated group discussion with key Contract Specialists in Procurement.
- Examination/Inspection of Evidence:
 - o Reviewed and verified Audit Questionnaire response prepared by the Procurement SVP against current Procurement Policy.
 - o Verified current contract administration practice against the Contract Administration and Closeout process and procedures as defined in Procurement Policy.
 - o Verified justification document:
 - From single source/non-competitive contracts
 - When a low bidder was not selected
 - o Reviewed the contractor/supplier performance evaluation system

² See Internal Audit Report on NEST dated April 2, 2020

³ Current version of Procurement Policy was last modified on April 27, 2019.

- Reviewed key activities and procedures by interviewing Contract Specialists
- Obtained data from both NEST (Procurement System) and NetSuite (Financial System), and tested sample contracts and modifications based on the Delegation of Authority (DoA) thresholds as defined by Office of General Counsel (OGC).

Below are the observations and recommendations from the sample-testing of the 167 active contracts and 96 active contract modifications.

Observations and Recommendations

Observation 1 - Inconsistent Contract Administration Practice and Procurement Policy

Internal Audit observed some inconsistencies with the current practice of contract administration and section VII, Contract Administration of the Procurement Policy in the following areas:

1A: Insufficient Requirements/Guidelines for Contract Management Plan and Supplier Performance Evaluation

According to Procurement Policy section VII.A, the Contracting Officer shall “*Advise the PPC (Program Procurement Coordinator) to develop a contract management plan for monitoring Contractor performance, inspecting and accepting supplies and services and processing Contractor invoices.*”

Internal Audit observed that there are no contract management plans available for review of the 168 active contracts as of February 24, 2020.

Furthermore, section VII.C., Exercise of Options, step 2 (Appendix B) states that in order to process contract modifications such as option periods, “*The NW Business Unit confirms the desire to exercise the option period, and that the Contractor’s past performance evaluations on other contract actions, as well as this current contract, have been acceptable (i.e. ratings are satisfactory), and that funds are available for the option period.*”

Internal audit observed that 27 of 66 (41%) of active contract modification requests for exercising the Option period do not have performance evaluation/ratings in place as required.

1B: Current Practice not Reflected in the Procurement Policy

Example 1: Inconsistent Preparation of Contract Modification Document

According to the Procurement Policy, section VII.D, step 5 (Appendix A) states that to modify a contract, one of the steps is “*Preparation by the Contracting Officer of contract modification document that thoroughly documents the need for the modification and the changes that will be included.*” For requesting contract modifications, there is a *Request for Modification of Contract* template in place made available by Procurement. Internal Audit reviewed the 96 active contract modifications signed and executed within the audit period and concluded that 41 (43%) of the requests did not use the Contract modification Request template.

Example 2: Obsolete Contract Administration Role

The Program Procurement Coordinator (PPC) is referenced throughout the current Procurement Policy. However, it is not a role known to either the Procurement Contract Specialists or Program Offices. According to Procurement, PPC is no longer used at NeighborWorks; it will be updated in the next version of the Procurement Policy.

Recommendation 1

Internal Audit strongly recommends Procurement conduct a comprehensive review and update of their Policy and Procedures (P&P) to address outdated or vague procedures as described in the examples. The current Procurement Policy was last published in December 2018 and, based on best-practice, recommend that it should be reviewed and updated annually at a minimum.

These annual reviews should be documented through a version control process of the P&Ps to document the leadership team's changes and approval. This would greatly facilitate documentation and notification of changes to staff.

In addition, we recommend that Procurement adopt an official and consistent, enterprise-wide communication procedure for the release of updated P&Ps or any augmentations thereafter, to ensure relevant staff are aware of significant changes. This would be in combination with facilitated training and refresher courses provided to staff involved in acquisition.

Conclusion

Clearly defined Procurement Lifecycle Management is essential for effective Supplier Contract Management. During this audit review, along with FY19 audit reviews conducted on the Procurement/NEST processes, Internal Audit found that the current NeighborWorks Procurement Policy requires extensive updates in addition to training and communicating with staff on the processes. Internal Audit was unable to verify and validate the closeout process and procedures at this time because no contract closeouts occurred during this audit period as reported by Procurement. Furthermore, due to NEST system limitations, obtaining a report or identifying closed contracts within a specific timeframe is not possible. Now that the Procurement Department is fully staffed and in the process of acquiring a robust, full-fledged Procurement System to support the full life cycle of its procurement management, the expectation is that a clearly defined Procurement Policy can be put in place to provide standards and guidelines, without ambiguity, as well as to drive a successful implementation of the new Procurement System.

It would be important that for the next procurement business application obtained by the Corporation; policies and procedures, should reflect and complement the business application process in order to achieve a fully integrated and continuously flowing process for all aspects of the Procurement life cycle management.

Appendix A – Procurement Policy VII.D Modifying the Contract

VII. Contract Administration and Closeout

D. Modifying the contract. The Contracting Officer administering the contract is the only person authorized to modify it. Any direction by another NW official that conflicts with the requirements of the existing contract is invalid and the Contractor is not entitled to any equitable adjustment to the contract terms and conditions if that direction is followed. Except for administrative changes to the contract (e.g., changes to PPC, billing addresses) that can be issued by the Contracting Officer on a unilateral basis, any other modification shall require the signature of both parties. Steps for processing include:

1. Coordination between the Business Unit and the Contracting Officer to ensure agreement on the need for a modification.
2. Additional funding if the contract amount is to be increased to fund existing contract obligations or properly justified new work.
3. Receipt of a cost proposal from the Contractor for any change in specified rates or the contract amount.
4. Negotiation by the Contracting Officer of any changes to the contract amount.
5. Preparation by the Contracting Officer of contract modification document that thoroughly documents the need for the modification and the changes that will be included.
6. Obtaining any necessary approvals required by NW's Review and Approval Process in Section V.

Appendix B – Procurement Policy VII.C Exercise of Options

VII. Contract Administration and Closeout

C. Exercise of options: If the contract provides for exercise of options, the Contracting Officer will proceed as follows:

1. The NW Business Unit is notified of the upcoming Option period to ensure the need still exists and that the option should be exercised.
2. The NW Business Unit confirms the desire to exercise the option period, and that the Contractor's past performance evaluations on other contract actions, as well as this current contract, have been acceptable (i.e. ratings are satisfactory), and that funds are available for the option period.
3. The Contracting Officer checks the System for Award Management (SAM) to make sure the Contractor is not listed as debarred, suspended or ineligible.
4. If it is determined that the option will not be exercised, the Contracting Officer should inform the contractor in writing immediately.
5. If it is determined that the option will be exercised, the Contracting Officer shall document the reasons for the determination in the contract file.
6. The Contracting Officer executes the option through a contract modification.