INTERNAL AUDIT DIVISION
Report Number: 2011-012

Survey of Compliance with the Policy on Contract Management in Cobb County

April 1, 2011

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April 1, 2011

MEMORANDUM TO: COBB COUNTY MANAGER

FROM: Latona Thomas, CPA, Manager

SUBJECT: Survey of Compliance with the Policy on Contract Management in Cobb County

This report presents the results of our survey of compliance with the Policy on Contract Management in Cobb County (the Policy). We conducted this survey to determine each department’s compliance with the established policy to ensure contracts acquired for their operations are accounted for and effectively monitored. We also evaluated the Policy statement to determine if revisions are needed to clarify guidance on contract management responsibilities.

We conducted the countywide survey during December 2010 through February 2011. In order to gather the necessary information, we sent a survey to County departments and asked them to answer five questions about how they implemented the provisions of the Policy (see Appendix IV). We also asked them to provide a copy of the listing or database they maintain in their contract management process. Our survey was limited to compiling the information received from the departments and did not include the independent verification of any responses.

Of the 23 departments, six stated they do not have contracts to manage or their contracts are initiated and negotiated by other departments. The Purchasing Department responded as one of the departments that had no contracts to manage; however, the countywide service contracts they are responsible for initiating should be monitored and managed as well. No other department is responsible for the initiation or administration of these contracts. The survey results for the remaining 17 offices revealed that 76% (13 of 17) maintain a database/listing of all their contracts; 100% of departments have designated staff to manage the contracts; and 88% (15 of 17) indicated they comply with the Policy’s provisions for contract filing and distribution. Fourteen departments provided an explanation of procedures they perform to ensure the accuracy of their lists/databases; however, only Property Management provided any documented guidelines for contract administration.
Our analysis of the Policy provisions showed that revisions are needed to provide clarification of the purpose and methodology for contract management including the:

- Better definition of contracts;
- Better filing/distribution instructions of contracts;
- Segregation of procurement from the contract management provisions; and
- Addition of specific contract administrative guidance.

We recommend the Purchasing Department coordinate the revisions to this Policy statement and facilitate any proposed changes to the Board of Commissioners for approval.

Details of the survey results and proposed changes and clarification are included in the attached report. Please contact me at (770) 528-2559 or Barry Huff, Auditor-in-Charge, at (770) 528-2558 if you have questions.
Results of Survey

We sent a survey to County departments and asked them to answer five questions and provide us with a copy of the listing or database they maintain in their contract management process. We asked them what type of contracts they initiate, do they have designated staff for contract management, do they maintain a database or listing as specified in the Policy, how they ensure the database/listing is accurate, and do they distribute copies of the contracts as specified in the Policy. We also reviewed the Policy and listed suggested changes we believe will clarify the instructions and provide further guidance for the contract management of County contracts.

Survey Analysis

Six of the departments stated they do not have any contracts to manage (Library, Purchasing, Internal Audit, Extension Services, Government Service Centers and the County Clerk’s Office). The Purchasing Department responded as one of the departments that had no contracts to manage; however, the countywide service contracts they are responsible for initiating should be monitored and managed by them. No other department is responsible for the initiation or administration of these contracts.

In the remaining 17 departments, 13 stated they maintain a database/listing for all their contracts; however, only three (DOT, Water and Property Management) utilize a comprehensive methodology for monitoring their contracts. DOT and Water use a proprietary software package to manage its numerous contracts while the Property Management Agency has several Microsoft Excel spreadsheets that help them monitor and manage the numerous types of contracts in their office. The remaining ten departments utilized a Microsoft Word document or Excel spreadsheet to list their contracts, but those listings did not contain the data fields required in the Policy.

The 17 departments that have contracts stated they have designated individuals to manage their contracts. Fifteen of the 17 departments also indicated they are in compliance with the Policy’s provisions concerning contract filing/distribution.

In this survey process, we did not attempt to verify that contracts were copied and distributed as required; however, we contacted the Finance Department staff to determine if they receive copies of the contracts and for what purpose. We also determined that the Internal Audit Division had not received any copies of contracts and had no need for them. Finance Department staff acknowledged they need copies or access to a copy of the following contracts:

- Operating and Capital Purchase Lease agreements – used to monitor and ensure payments are made;
- Land Purchase contracts – used to ensure payments are set up to be paid as agreed;
- Revenue-Generating – used to monitor and ensure income is received as required;
- Grant Contracts – used to monitor and determine if expense reimbursements are received;
- Maintenance Contracts – used to set up payments, take advantage of discounts, and research invoices when received;
- 800 MHz agreements – used to monitor payments from entities using the system; and
- Some service contracts (Circuit Defender’s Office, Park Instructors and Fellton Property Caretaker) – used to set up payments and reconcile to invoices received.
The purpose and need for the contracts in the Finance Department should be included in the policy revision.

Of the 17 departments with contracts, 14 provided an explanation of the procedures they perform to ensure the accuracy of the database. The explanations range from a simple statement of ‘Reviewed Annually’ to a more comprehensive explanation that requires continuous monitoring and reconciliation to other data systems. The frequency of the reviews varies from monthly, quarterly to annually.

The Policy statement does not provide instructions to the departments on how to determine if their lists/databases show all the contracts initiated by their departments (completeness). Without being able to determine completeness, the County cannot be assured that all contracts are identified and properly tracked at the department level. The Policy statement should provide instructions on how to check for completeness. One way of checking is to require departments to:

1. Run a WEBi report of 'Vendor Activity Report' for their respective department.
2. Compare that list to their contract database listing.
3. Identify and reconcile any discrepancies¹ (vendors on the ‘Vendor Activity Report’ and not on the contract list/database).
4. Adjust the contract list/database accordingly.

See Appendix IV for a summary of the survey results.

**Policy Provisions**

We determined that revisions are needed to the Policy to make it clear and easier to implement. Our analysis of the document by section is as follows:

**Section 1.0 Purpose**

**Redefine the Purpose**

The purpose of the document is inconsistent with its title. The purpose as stated establishes the methods by which the County procures and enters into contracts rather than providing exclusively the methods for contract management. As such, the following sections should be removed and placed in a separate document with other procurement procedures:

- Section 4.0 Origination of Contracts
- Section 5.0 Authorization and Signature Approval
- Section 8.0 Required Terms of Contracts
- Section 9.0 Bonds
- Section 10 Commission Authority
- Section 11.0 Inventory of Capital Outlay and Accountable Equipment Items Costing Less Than $5,000

¹ Discrepancies may include vendors paid from contracts initiated in other departments.
We believe removing these sections will eliminate any confusion between contract procurement and contract management. The document will be concise and contain only relevant instructions on the basics of contract management. It should provide the minimum requirements for contract management and allow departments to take additional steps as needed. Any changes to the sections will require the entire document to be renumbered accordingly.

**Make consistent references to the types of contracts**
The Policy is inconsistent in its reference to the different types of contracts. In Section 1.0 ‘Purpose’ there are eight types of contracts listed. In Section 6.2, Filing of Contracts, six types are listed and one of which is not included in the original eight. In Section 7.1.2, ‘Databases’, only four of the eight types are referenced. See chart below.

**Types of Contracts in the Policy of Contract Management**

<table>
<thead>
<tr>
<th>Types</th>
<th>Definition Section</th>
<th>Sections of Policy Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1.0 Policy Purpose</td>
</tr>
<tr>
<td>Purchase</td>
<td>3.12</td>
<td>X</td>
</tr>
<tr>
<td>Maintenance</td>
<td>3.6</td>
<td>X</td>
</tr>
<tr>
<td>Public Works/Construction</td>
<td>3.11</td>
<td>X</td>
</tr>
<tr>
<td>Revenue-Generating</td>
<td>3.13</td>
<td>X</td>
</tr>
<tr>
<td>Leases</td>
<td>3.5</td>
<td>X</td>
</tr>
<tr>
<td>Emergency</td>
<td>3.4</td>
<td>X</td>
</tr>
<tr>
<td>Sole Source</td>
<td>3.14</td>
<td>X</td>
</tr>
<tr>
<td>Unit Price</td>
<td>3.15</td>
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</tr>
<tr>
<td>Non-Professional Services</td>
<td>3.7</td>
<td>X</td>
</tr>
<tr>
<td>Professional Services</td>
<td>3.10</td>
<td>X</td>
</tr>
<tr>
<td>Expense Reimbursement</td>
<td>n/a</td>
<td></td>
</tr>
</tbody>
</table>

Source: Policy on Contract Management, amended September 23, 2008 (NOTE: Professional and Non-Professional Services have been separated for ease of presentation)

This inconsistency leads to confusion on how to manage the contracts in the departments. Defining all types of contracts in Section 3 of the Policy Definitions, and only referencing these types throughout the document will eliminate any confusion regarding what is actually required.

**Section 2.0 – Scope**
No suggested changes
Section 3.0 – Definitions

List and Define all Types of Contracts
The definition of contracts should be clarified to include all types of contracts applicable to this Policy statement. Additional types that are not currently in the Policy may be needed. For instance, the agreements with other municipalities and agencies for 800 MHz or E911 services may require a separate category. In addition, the unit price contract definitions should be expanded to include reference to work orders, supplemental agreements, and change orders. The work orders, supplemental agreements and change orders are the documents Finance needs to process invoices for payment. The difference in Operating Leases and Capital Lease Purchase Agreements should be listed and explained as well. We also believe that sole source and emergency contracts are not types of contract, but rather methods used during the origination of a contract and should not be in the listing.

Section 3.2 - Contract
This section should be expanded to stipulate who are ‘authorized agents’ and how that authorization is given.

Section 4.0 - Origination of Contracts
This section needs to be placed in a separate document on procurement. See additional comments under Section 1.0 entitled ‘Redefine the Purpose’. In addition, reference was made to the County’s Lease Review Policy. We obtained documents regarding procedures and guidance dated more than 20 years old, of which the current practice is unclear. The Lease Review Policy documents need to be updated or replaced, and included in the proposed revised Policy.

Section 5.0 - Authorization and Signature Approval
This section needs to be placed in a separate document on procurement. See additional comments under Section 1.0 entitled ‘Redefine the Purpose’.

Section 6.0 – Filing of Contracts
This section needs to be modified to include specific types of contracts that should be forwarded to the Finance Department. The Internal Audit Division has no need for copies of any contracts.

Section 6.1 - There is no need to require departments to file a copy of the contracts requiring the signature of the Chairman or County Manager with the County Clerk’s Office because the Clerk is responsible for routing the document for the appropriate signature. (See 5.7). These contracts are then scanned into an imaging database for easy accessibility. Departments should also be required to determine if the contract is needed by the Finance Department and if so, send a copy to them.

Section 6.2 - The Finance Department should be involved in revisions to this section to include defining specifically which types of contracts and copies are needed. The purpose for sending the copies of contracts to Finance should also be included. Again, the requirement to send copies of contracts to the Internal Audit Division should be eliminated.
Section 6.3 - The Purchasing Department should evaluate why revenue-generating contracts are specified exclusively in this section. If these contracts are subject to the signature of the Chairman or County Manager, Section 6.1 should suffice and this section deleted.

Section 6.4 - No suggested changes.

Section 7.0 – Contract Management Responsibilities

Section 7.1 – This section should be deleted or revised. It is the individual departments’ responsibility to periodically review their contract management procedures and files. Whether the Internal Audit Division initiates an audit of the contract management process will be at the discretion of the Division Manager with approval from the County Manager. Mandating a review of the process within this Policy statement is inappropriate.

Section 7.2 and 7.1.1 – These sections need to be expanded or another document created that will provide written standardized practices for contract administration. The current Policy stipulates that departments are responsible for the proper management of contracts acquired for their operations; however, no specific guidance is provided.

Contract Administration involves those activities performed by the County and the contractor after a contract has been awarded to ensure the provisions of the contract are met. It encompasses all dealings between the County and the contractor from the time the contract is awarded until the work has been completed and accepted or the contract terminated, payment has been made, and disputes have been resolved.

The specific nature and extent of contract administration varies from contract to contract. It can range from the minimum acceptance of a delivery and payment to the contractor to extensive involvement by program managers and procurement officials throughout the contract term. Factors influencing the degree of contract administration include the nature of the work, type of contract, experience and commitment of the personnel involved.

Since the duties of contract administration have been decentralized to each department, a set of comprehensive best practices or general guidelines is essential to ensure that those who have been designated as overseers of contract compliance, payment and dispute resolution have the information and formal training needed to perform the responsibility given them. These employees should be required to stay abreast of any changes to the contract administration requirements. Department heads should ensure contract administration documents are reviewed at least annually.

Section 7.1.2 – This section should be applicable to all contracts as defined in the proposed revision to Section 3.0. A list of the required minimum data elements to be included in each department’s list/database of contracts should be provided. Variations should be allowed as long as the minimum elements are included, and an electronic format is maintained. In addition, these requirements should be included in the guidelines referenced in Section 7.2.

Section 7.1.3 – No suggested changes.
Section 8.0 - Required Terms of Contracts

The Purchasing Department needs to develop a checklist of standard terms and conditions to be used in all contracts. This checklist should be signed by the department representative responsible for originating the contract. In addition, the County Attorney’s office should review the contracts as to form. This will provide an added level of control to ensure all County contracts include the required terms. This section should then be placed in a separate document on procurement. See additional comments under Section 1.0 ‘Redefine the Purpose’.

Section 9.0 - Bonds

This section needs to be placed in a separate document on procurement. See additional comments under Section 1.0 entitled ‘Redefine the Purpose’.

Section 10.0 - Commission Authority

This section needs to be placed in a separate document on procurement. See additional comments under Section 1.0 entitled ‘Redefine the Purpose’.

Section 11.0 - Inventory of Capital Outlay and Accountable Equipment Items Costing Less Than $5,000

This section needs to be placed in a separate document on procurement. See additional comments under Section 1.0 entitled ‘Redefine the Purpose’.

Recommendation

Based on the survey results, we recommend that the Purchasing Department coordinate revisions to the Policy statement and submit the changes to the Board of Commissioners for approval.
Appendix I

**Detailed Objectives, Scope, and Methodology**

The objective of the survey was to determine each department’s compliance with the established policy to ensure contracts acquired for their operations are accounted for and effectively monitored, and to evaluate the Policy statement to determine if revisions are needed to clarify guidance on contract management responsibilities.

To accomplish our objective we:

I. Sent a survey to County departments and asked them to complete a survey and provide us with a copy of the listing or database they maintain to manage their contracts.
   A. We compiled and summarized the results of the surveys.
   B. We evaluated the lists/databases they sent us for compliance with the Policy provisions.

II. Reviewed the Policy statement and listed suggested changes that we believe will clarify the instructions for contract management.
   A. We discussed the use of contracts with Finance Department staff and within our Internal Audit Division.
Appendix II

Major Contributors to the Report

Latona Thomas, CPA, Internal Audit Division Manager
Barry G. Huff, Auditor-in-Charge
Appendix III

Final Report Distribution List

Virgil Moon, CPA, Support Services Agency Director
Mark Kohntopp, Interim Purchasing Director
Jim Pehrson, CPA, Finance Director/Comptroller
Internal Audit Division File
## Appendix IV

### Survey Results Summary

<table>
<thead>
<tr>
<th>Department</th>
<th>Type of Contracts</th>
<th>Designated Staff?</th>
<th>Database/Listing?</th>
<th>Ensure Accuracy?</th>
<th>Copy &amp; File?</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCWS&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Purchase, Services, Maintenance, Works/Construction, Revenue-Generating, Emergency Basis, Sole Source, Unit Price</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<td>Comm. Dev Agcy</td>
<td>Services and Leases</td>
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<td>Yes</td>
<td>Yes</td>
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<td>Communications</td>
<td>Purchase, Maintenance</td>
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<td>Yes</td>
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<td>Yes</td>
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<td>Services</td>
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<td>No</td>
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<td>County Clerk</td>
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<td>Elections</td>
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<td>EMA</td>
<td>Services, Maintenance, Sole Source Procurement Letter</td>
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<td>Purchase, Services, Maintenance, Works/Construction, Revenue-Generating, Leases, Others</td>
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<td>Property Management</td>
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</tbody>
</table>

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<sup>2</sup> Cobb County Water System
Survey Questions

Question 1: What type of contracts have been initiated for your operational purposes?

Question 2: Do you have designated staff responsible for overseeing contract compliance, insurance and bonding requirements, payment and resolution of any dispute from the service or equipment provided by the contract as specified in Section 7.1.1?

Question 3: Do you maintain a database/listing of all contracts within your department as specified in Section 7.1.2?

Question 4: Explain how you ensure that your database/listing is accurate and includes all existing contracts.

Question 5: Do you file and distribute originals and copies of contracts as specified in Section 6?