

ENHANCED CONTRACT MONITORING



In compliance with Texas Government Code 2261.258 and Texas Administrative Code 20.166

Training Objective

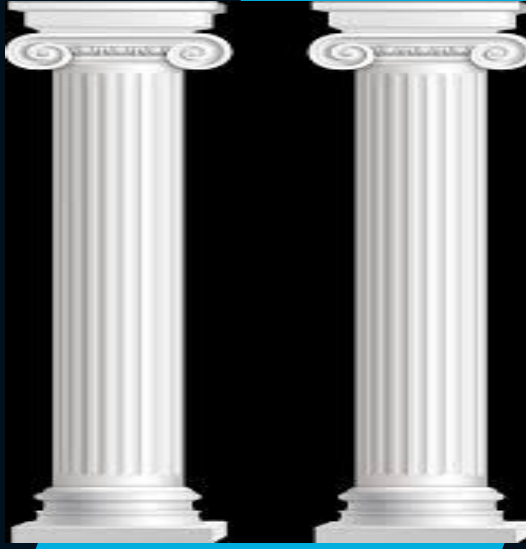
To provide procurement professionals with an understanding of the enhanced contract management standards across the State of Texas.



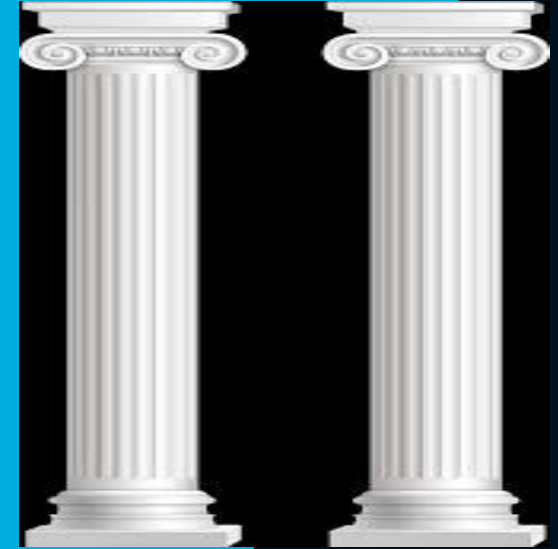
Pillars of Contract Management



Professional Code of Conduct
Understand the Contract
Report Findings



Monitor Vendor Performance
Manage the Funding
Manage Records



Monitoring Vendor Performance

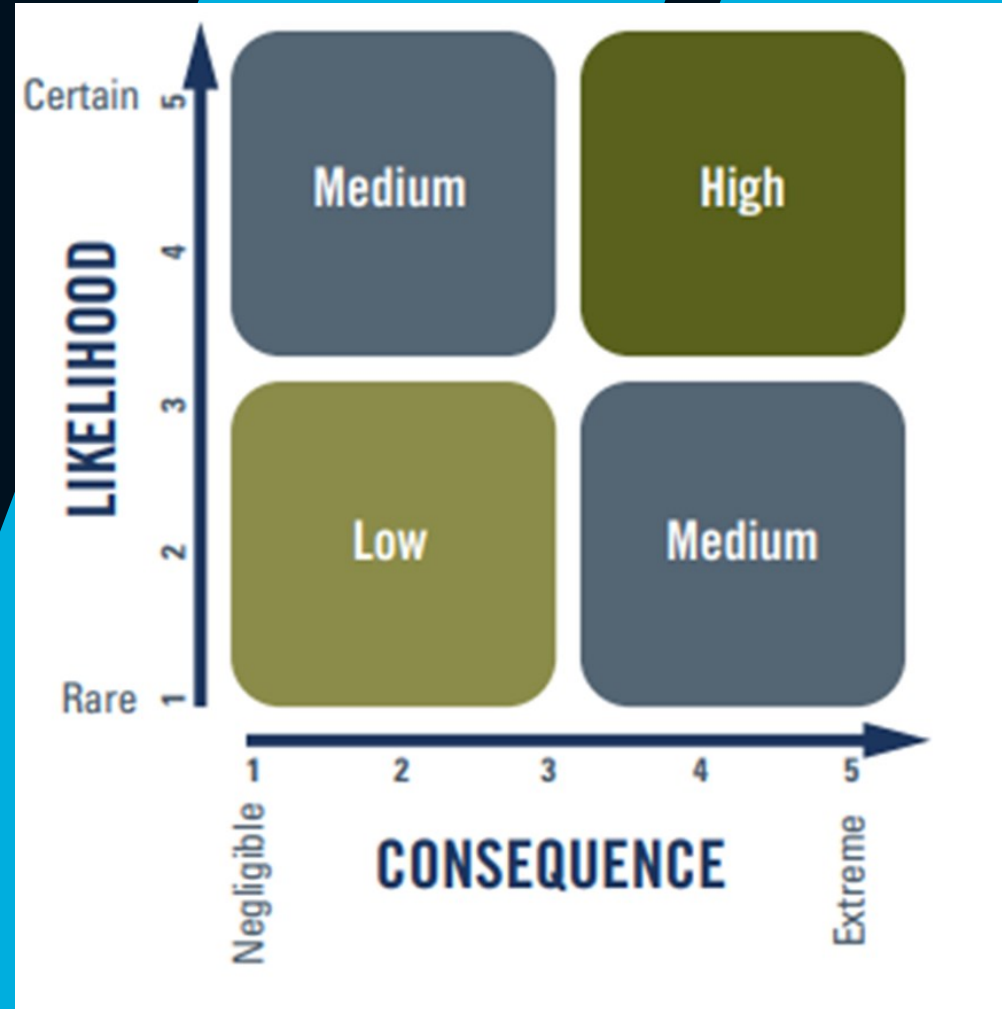
Risk is the possibility that an event will occur and adversely affect the achievement of contract objectives.

Determining Level of Risk

- High Risk Contracts
- Moderate Risk Contracts
- Low Risk Contracts

Appropriate planning and effective risk assessment are components of successful contract management.

Risk Matrix



For additional information on risk assessment, please review [Texas Procurement and Contract Management Guide](#)



Risk Assessment Procedures

There are 3 steps in assessing a risk:

- ✓ Identify Risk Factors
- ✓ Assign Weights to Each Risk Factor
- ✓ Rate Contractor on Each Risk Factor

Identifying Risk Factors

Risk factors will vary according to:

- Type of Contract
- Scope of Work
- Working Environment
- Contractor's Experience
- Contractor's Past Performance
- Type of Acquisition



For additional information on risk factors, please review
[Texas Procurement and Contract Management Guide](#)

Risk Factors: Assigning Weights

Contract manager will:

- Assign a weight to each factor
- Identify risk factors tied to
 - Statutes
 - Policy Requirements



For additional information on risk factors, please review
[Texas Procurement and Contract Management Guide](#)

Risk Factors: Contractor Rating

Contract manager will:

- Rate each contractor using a scale



For additional information on risk factors, please review
[Texas Procurement and Contract Management Guide](#)

Risk Assessment Example

Risk Assessment Analysis										
Contractor	Dollars			Experience			Past Performance			Total Risk
	Amount	Risk	Risk x Weight (0.2)	Results	Risk	Risk x Weight (0.5)	Results	Risk	Risk x Weight (0.3)	
#1	\$300K	3	.6	Held previous contract with state	1	.5	3 minor findings	2	.6	.6 + .5 + .6 = <u>1.7</u>
#2	\$75K	1	.2	New to type of work	3	1.5	New – no findings	1	.3	.2 + 1.5 + .3 = <u>2.0</u>
#3	\$125K	2	.4	Used before – but not for this type of work	2	1.0	Previous year finding regarding safety	3	.9	.4 + 1.0 + .9 = <u>2.3</u>

For additional information on risk assessment, please review [Texas Procurement and Contract Management Guide](#)

Risk Assessment Process

Risk assessment process should be:

- Ongoing
- Dynamic

Adjustments should be implemented according to:

- Deliverables
- Milestones





Risk Monitoring

Rule of Thumb:

The larger and more complex the contract, the higher the risk and the greater need for monitoring.

Quality Assessment Plan (QAP)

Quality Assessment Plan (QAP): Developed by National Association of State Procurement Officials (NASPO)

QAP should assist contract managers to:

- ✓ Understand Risks
- ✓ Monitor Risks
- ✓ Mitigate Risks

during the administration of a contract.

For additional information on QAP, please review
[Texas Procurement and Contract Management Guide](#)

Quality Assessment Plan Example

Contract Monitoring Schedule

Row	Deliverables by Agency	Deliverables by Contractor	Deliverable Due Dates	Specific Monitoring Activities to be Performed	Performance Method Including Information Sources to be Used	Responsible Individual for Each Monitoring Activity	Monitoring Activity Frequency	Monitoring Activity Documentation Method	Results of Monitoring Activity Communicated to	Results of Monitoring Used to (include follow up requirements)
3		<i>Traffic Signal turns green every 55 seconds (Section 2.1)</i>	<i>Ongoing throughout contract term</i>	<i>Site visit</i>	<i>Visually inspect traffic signal for compliance with performance standard of 8 out of 10 consecutive cycles</i>	<i>Contract Manager, Mary Smith</i>	<i>Monthly</i>	<i>Findings Report</i>	<i>Division Manager, Jane Doe</i>	<i>Approve/Dispute Invoice depending on findings. If warranted, pursue monetary remedy available under contract.</i>

Findings Report

	Deliverable Description and Location of Requirement in Contract	Monitor	Monitoring Methodology and Frequency	Performance Measures	Available Remedies	[Date of Monitoring Activity e.g., 05/18/2018] Findings	[Date of Monitoring Activity e.g., 06/10/2018] Findings
1	<i>Traffic Signal turns green every 55 seconds (Section 2.1)</i>	<i>Contract Manager, Mary Smith</i>	<i>Site Visit / Monthly</i>	<i>8 out of 10 consecutive cycles</i>	<i>\$5,000 credit on next monthly invoice each time site visit doesn't meet performance standard</i>	<i>9 out of 10 tests meet performance standard</i>	<i>10 out of 10 tests meet performance standard</i>

For additional information on QAP, please review
[Texas Procurement and Contract Management Guide](#)

Quality Assessment Plan Components

For each task or outcome, each of the following should be well-defined:

- The responsible party
- The methods for monitoring the deliverables
- The frequency of monitoring the deliverables
- The outcomes of the monitoring process
- The method of communication of the project findings/results

Monitoring Methods

Desk Reviews

Site Visits

Third-Party Monitoring



Desk Reviews

Desk reviews are:

- Reports submitted by the contractor
- Reviewed by the contract manager

Different types of desk reviews are:

- Progress Reports
- Status Reports
- Activity Reports
- Financial Reports



Desk Reviews

Progress Reports

- What has been accomplished over time?
- Work best on tracking deliverables that are tied to specific milestones

Status Reports

- What is the current standing of the project?
- Identify completed vs. pending tasks
- Compare status of deliverables to contract schedule

Activity Reports

- What type of project activity has been observed?
- Activity (\neq) Progress
- Helpful in tracking number of transactions in a contract

Financial Reports

- What are contractor's financial resources?
- Financial statements that demonstrate contractor's ability to perform the tasks

Desk Review Implementation

Contract managers should keep the following factors in mind while reviewing vendor reports:

- Actual Performance vs. Contract Requirements
- Actual Expenditures vs. Approved Budget
- Current Project Period vs. Prior Project Periods
- Current Contractor vs. Competition
- Interrelationship between key components of the report:
 - Cost per Unit of Service vs. Percentage of Fees
 - Change in Variable Costs vs. Units of Service Provided
 - Reported Salaries vs. Proposed Staffing Plan

Desk Review Implementation

Contract managers might reach out to:

- Other agency employees
 - Subject matter experts
- for completing desk reviews.

Example: IT personnel assisting in AIS contract reports.



Vendor Performance Tracking System (VPTS)

- ✓ Agencies are required to report vendor performance to VPTS.
- ✓ VPTS shares vendor information to facilitate better oversight of state contracts
- ✓ Contract managers are encouraged to review VPTS reports regularly





Site Visits

- ✓ Visits to the contractor's facilities or project site.
- ✓ Recommended for higher risk contracts
- ✓ Help verify reported performance vs. actual performance
- ✓ Assess project progress vs. contract schedule



Site Visits

- ✓ Site Monitoring Checklists
 - Unique checklist for each contract
- ✓ Site Monitoring Reports
 - Use site monitoring checklist to complete the report
 - Document findings of the visit

Third-Party Monitoring

Communication between the contract manager and any third-party company is essential:

- ✓ Are contract milestones being met?
- ✓ What areas of risk should be evaluated?



Other Contract Monitoring Methods

In addition to the formal monitoring approaches, a contract manager may also communicate via:

- ✓ Telephone
- ✓ Email
- ✓ Video Conference

during the life of the contract.

Regardless of the monitoring methods, documenting the findings and following-up on issues is critical.

Follow Through

In reviewing the results of monitoring efforts, contract managers should:

- Identify common problem areas that might require training
- Ensure corrective actions have been taken
- Improve contract requirements for future contracts

Enhanced Contract Monitoring

Enhanced contract monitoring might result in an increase of the following:

- ✓ Deliverables built into the contract
- ✓ Contractor meetings
- ✓ Frequency of site visits
- ✓ Documentation
- ✓ Types of monitoring implemented

All agencies must develop a procedure to identify when to implement enhanced contract monitoring. These definitions may vary by agency.



Enhanced Contract Monitoring

Contracts that require enhanced monitoring should be submitted to:

- ✓ Agency's governing body, or
- ✓ Public officer who governs the agency



Enhanced Contract Monitoring Scenarios

Construction

- For a construction contract that is a critical path to multi-million dollar contract, an agency may:
 - Use agency inspectors
 - Arrange weekly meetings
 - Create sub-projects with deadlines and payment

Call Center Management Study

- For a call center management (service) contract, an agency may:
 - Increase call monitoring frequency
 - Monitor calls and call times
 - Verify service calls, service status, and volume of services
- For conducting a study that will impact public safety, an agency may:
 - Enlist third-party experts to review methodology
 - Hire an independent contractor to validate data
 - Payment upon final report.

State Auditor's Office (SAO)

2019 (R) Texas Legislative session delegated SAO with the authority to assign contract monitoring ratings to Texas' 25 largest state agencies.

- ✓ The agencies were determined by the Legislative Budget Board (LBB)
- ✓ The ratings are assigned at specific time periods during the procurement process



Contract Monitoring Ratings

Ratings	Time Periods		
	Contract Solicitation Development	Contract Formation & Award	Contract Management & Termination
Additional monitoring warranted	✓		
No additional monitoring warranted			✓
Reduced monitoring warranted		✓	

In Compliance with Texas Government Code 2261.258 and Texas Administrative Code 20.166

Agency Expectations



As a result of 2019 Enhanced Contract Monitoring Legislation, agencies:

- ✓ Must develop internal plans
- ✓ Should consider the frequency and methods of communication between teams
- ✓ Might implement stricter monitoring policies for high risk contracts



THANK YOU

- [CPA's Contract Management](#)
- [Policy Questions](#)
- [Contract Management Questions](#)

