



## Department of Administrative Services Contract Management Audit

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**Audit Period: February through June 2014**

### Results Summary:

Objective	Conclusion *
Monitoring and Managing Contract Performance	Improvement Needed
Escalating and Resolving Contract Issues	Well-Controlled

\* Refer to Appendix A for classification of audit objective conclusions.



## **Executive Summary**

### **Background**

The Department of Administrative Services (DAS) provides centralized services, specialized support, and innovative solutions to state agencies, boards, and commissions as well as local governments and state universities.

DAS has more than 40 program areas serving Ohio government customers, who in turn directly serve the interests of Ohio citizens. DAS helps procure goods and services, deliver information technology and mail, recruit and train personnel, promote equal access to the state workforce, lease and manage office space, process payroll, print publications, and perform a variety of other services.

DAS has contracted with third parties to provide certain services. DAS is organized into the divisions of Equal Opportunity, General Services, and Human Resources, as well as the Office of Collective Bargaining and the Office of Information Technology. Each division has their own contracts for which they are responsible for monitoring contractor activity.

During the audit, OIA identified opportunities for DAS to strengthen internal controls and improve business operations. This audit conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DAS staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

### **Scope and Objectives**

OIA staff was engaged to perform an assurance audit related to the controls over the agency's contract management and monitoring process. This work was completed February through June 2014.

The scope of our engagement included contracts managed by the General Services Division (GSD) and the Human Resources Division (HRD). A sample of contracts was selected between GSD and HRD, including the following:

- Exempt Dental & Vision Plans Consulting
- Benefits Consulting Services
- Consulting Services for Pharmacy Benefits Program
- Natural Gas Admin Services



- Electric Aggregation
- Fleet Credit Card Services
- Preventative Elevator/Escalator Maintenance

The following detailed audit objectives included:

- Evaluate the design and effectiveness of the process for monitoring/managing the performance of contracts within DAS responsibility.
- Evaluate the design and effectiveness of the process for escalating and resolving contract issues.



## **Observations and Recommendations**

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

### **Observation 1 – Lack of Monitoring of Routine Maintenance Performed on the Elevators**

Contract monitoring is a process of ensuring that a vendor adequately performs a service to the level and timing agreed upon in the contract. A documented process of monitoring deliverables is useful for consistently holding the contractor accountable for the quality of service being provided and also reduces the risk to the agency that the contractor is being paid for services not rendered. The elevator contract specifically states that routine maintenance examinations shall be performed at a frequency of no less than semi-monthly for gearless equipment, and no less than monthly for geared and hydraulic equipment. During these examinations, the components listed in the Check Chart are to be inspected and necessary work shall be performed relative to cleaning, lubrication, and adjustment of the equipment.

Through discussion with the facility manager, the previous elevator/escalator contractor for the Rhodes and Riffe Towers was not performing the required routine maintenance per their contract with the previous maintenance coordinator. In January 2012, DAS inherited this contract relationship from the former building owner. The previous elevator/escalator contractor performed repairs when needed, but preventative maintenance was not being conducted as required by the contract. As a result, the current contractor has focused resources on elevator repairs without adequate attention to routine preventative maintenance. DAS management is currently working to communicate the expectation to the vendor of the required level of service. Several of the other state-owned facilities are performing some level of monitoring over the routine maintenance of the elevator contractors, but the level of service provided could not be verified.

In addition, the vendors have not been submitting the required reports to management as stated in the contract. The vendors are required to submit reports to DAS every six months indicating the amount of business the vendor has generated by the contract.

The lack of appropriate monitoring of the contractor and the agreed upon deliverables can lead to underperformance of service and thus an increased cost to the state to remedy problems.

#### **Recommendation**

Create and implement a modified version of the process currently used by the building manager



at the North High Complex to monitor the elevator contractors for all buildings within the preventative maintenance contract.

Modify the monitoring process at the North High Complex to include the following:

- Require a building employee to validate that the service was actually performed to an appropriate level and evidence the review on the elevator service log.
- Require the building manager to agree the date on the elevator service log to the date on the invoice of when services were performed to be paid.
- Utilize the bi-annual reports from the contractor to assist in sample testing the elevator service logs to ensure that the maintenance performed by the contractors has been appropriately validated by the buildings in support of the payments made. It could also serve as a reconciliation of the contractor's services to the DAS contract payments to ensure they are in agreement, and any discrepancies are addressed.

In addition, require all building managers to submit weekly action reports (currently utilized by the building manager of North High Complex) to management in order to stay apprised of the level of service being provided by the contractors. An increase in the frequency of reporting to management could help ensure deficiencies in the contractor's performance are identified and communicated in a timely manner.

### Management Response

Communicate expectations to ensure contract compliance.

In late 2013, DAS recognized that bi-monthly preventive maintenance on the elevators/escalators at both Rhodes and Riffe. Resources were focused on emergency repairs and we suspected contractual items were not being addressed. In February 2014, the DAS Facility Manager provided clear expectations of their performance and deliverables to be provided. During this time, past violations were identified and a report was generated of all outstanding violations inherited from previous contractor. A performance improvement plan was created and implemented with regular follow up.

Correct all past elevator/escalator violations as issued by the Ohio Department of Commerce.

Past violations at the Rhodes are 100% complete. Past violations at the Riffe are approximately 95% complete. The anticipated completion date is 8-1-2014. These do not account for possible future violations.

Conduct Monthly update meeting with the vendor.

During these meetings, we discuss the overall elevator/escalator status, uptime/availability of each elevator/escalator for each week, call-back repairs, timeliness of repairs once notification provided, manpower, future repairs/inspections, expectations, strategies to implement



improvement solutions, other topics as needed.

Ensure preventive maintenance and contract maintenance tasks are complete.

Each month, the vendor provides DAS with a detailed report of each preventive maintenance task and repair that was completed throughout the previous month. We anticipate our desired state of bi-monthly preventive maintenance to be complete by 12-31-2014. Maintenance repairs, call backs and emergency responses are currently taking place within the contractual specifications.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Rhodes Tower Facilities Manager	December 2014

## Observation 2 – Service Organization Review

When using a service organization, appropriate monitoring controls must be designed and implemented to reasonably ensure management’s goals and objectives are met. Service Organization Control (SOC) Reports are internal control reports on the services provided by a service organization providing valuable information that users need to assess and address the risks associated with an outsourced service. SSAE 16 engagements, specifically SOC-2 Reports address the controls affecting the user entity’s security, availability, processing integrity, confidentiality, or privacy.

DAS-HRD receives vendor services for Benefits Consulting. The contract includes the following terms and conditions: maintaining a robust boundary security capacity, must use firewalls, zones for handling public traffic, host-to-host management, internet protocol specifications for source and destination, strong authentication, encryption, packet filtering, activity logging, must comply with HIPAA requirements, validate discounts, provide re-pricing analysis, consultation on health care strategy, annual plan renewals, rate setting, provide annual audits/health plan assessments, claims audits, and assist in the RFP process. The vendor also provides DAS-HRD with consulting services for the Pharmacy Benefits Program contract and as such, must comply with HIPAA requirements.

The terms and conditions regarding the vendor’s IT security have not been validated by DAS-HRD or another independent party. After inquiring from the vendor, DAS-HRD determined that a SOC 1 engagement had not been completed. Moreover, DAS-HRD was unable to confirm if any other type of review was completed by an independent party over their systems’ internal controls.

Without an internal or other independent review, DAS may not have sufficient information to determine whether contract terms and conditions are being met and proper controls are in place



to ensure the integrity and security of the data processed, maintained, and reported by the vendor.

**Recommendation**

DAS should inquire with the vendor to determine if an SSAE 16 or SOC-2 engagement has been completed over their internal control operations. If the reports have been completed, DAS should request copies to keep for their records. After obtaining the reports, DAS should review the reports and follow up on any reported issues. If these engagements have not been performed for the vendor, consider either requiring the audit to be completed or engaging DAS personnel to conduct a review of the controls. DAS should also consider creating a clause in future contracts requiring the annual completion of a SOC-2, funded by the service organization.

**Management Response**

DAS was able to confirm that a SOC 1 engagement or any type of independent review over the vendor's systems' internal controls had not been completed by the vendor. DAS communicated to OIA the vendor's contention that it did not have a SOC 1 report under the requirements of SSAE 16 for their consulting business. Further, the vendor contends that "SOC 1 reports are designed to test controls in an outsourcing engagement where the outsourcing provider has taken over the regular and repeatable processes from a company." Thus, DAS Management deems that the language in the terms and conditions related to this observation is not applicable to the services provided by the vendor.

Nevertheless, DAS has provided the vendor's 44-point IT security controls policy, a copy of their data center infrastructure, and an email addressing their hardening process, network security, and remote access to OIA. Although self-reported, DAS deems that we can reasonably rely on this policy in securing DAS data handled by the vendor.

Going forward, DAS, working with the State IT Security Office, plans to review this type of contract (consulting, not outsourcing the administration and claims processing activities) to determine if we need to require an independent verification of these controls and address them appropriately.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Benefits Manager	December 2014

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.



\* Refer to Appendix A for classification of audit observations.



## Appendix A – Classification of Conclusions and Observations

### Classification of Audit Objective Conclusions

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Major Improvement Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

### Classification of Audit Observations

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee