



# Department of Veterans Services

## State Operations-Contract Management Audit

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**Audit Period: July 2014 through March 2015**

### Results Summary:

Objective	Conclusion
Contract Initiation	Improvement Needed
Contract Monitoring and Payment	Well-Controlled with Improvement Needed

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## **Executive Summary**

### **Background**

Ohio has the sixth largest population of veterans in the U.S. with nearly 900,000 living in the state. The goal of the Ohio Department of Veterans Services (DVS) is to ensure that all veterans receive the benefits they have earned from both the U.S. Department of Veterans Affairs and the State of Ohio. DVS is comprised of four sections: Veterans Services; Ohio Veterans Homes; Veteran Educational Programs; and Veterans Bonus Program.

DVS' operating contracts includes contracted services related to its Medicare provider agreement, as well as general operating contracts which are used to provide support to the veterans living at homes in Sandusky and Georgetown, and all across Ohio. During the period July 2014 through March 2015, DVS made purchases from 80 operating contracts (either procured by DVS or the Department of Administrative Services) and expended approximately \$4 million.

During the audit, OIA identified opportunities for DVS to strengthen internal controls and improve business operations. OIA conforms with *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DVS 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 engagement related to the controls over the agency's contract management process. This work was completed March through June 2015. The scope of this audit included key processes related to DVS' management of operating contracts. The objectives of the review included the following:

- Evaluate the design and effectiveness of controls over contract initiation.
- Evaluate the design and effectiveness of controls over contract monitoring and payment.

### **Detailed 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 – Compliance with Procurement Requirements

The Department of Administrative Services - State Procurement (DAS) manual provides requirements surrounding the procurement processes. At a minimum, state agencies are required to adhere to the DAS requirements. Documenting actions taken to address required procedures helps to ensure the procedures are completed accurately and timely.

Currently, DVS does not have a formal process in place to evidence compliance with all procurement requirements. The agency employs the use of a 'Request to Purchase' form to document purchasing needs and whether the purchase is a sole source or emergency contract, but does not require justification/explanation on such purchases, nor does the form consider other key procurement requirements. OIA selected a sample of eleven contracts which were active during the period July 2014 through March 2015. DVS procured seven (7) of the contracts in the sample and the Department of Administrative Services (DAS) procured four (4) of the contracts. OIA tested the contracts to determine evidence of DVS' compliance with state procurement requirements.

For the seven contracts procured by DVS:

- Four contracts were eligible for competitive bid (solicit bids or proposals); however, one of the four (25%) eligible contracts was not competitively bid. DVS determined the contractor to be a sole source provider but did not document the sole source determination process. Additionally, for two of the three contracts (67%) in which DVS received bids, there was no evidence that DVS selected the lowest bidder.
- DVS personnel communicated to OIA that DVS Legal Counsel reviews and approves invitations to bid (ITB) or requests for proposals (RFP) prior to posting to the DVS website. However, there is no evidence that DVS Legal Counsel reviewed and approved the ITB prior to posting on the DVS website for any of the three contracts (100%) in which it solicited bids. Additionally, DVS does not post contract opportunities exceeding \$25,000 on the Ohio Business Gateway procurement portal, as required by Executive Order 2008-12S.
- For one contract (15%), DVS did not have evidence the contracts were reviewed and approved or drafted by DVS Legal Counsel.
- Two contracts were covered by a DAS blanket release and permit. DVS did not include the blanket release and permit number on the contracts' purchase orders, as required by the state fiscal year 2015 blanket release and permit.

For the four contracts procured by DAS:

- Two of the contracts were purchased from State Term Schedule (STS) suppliers. However, DVS did not obtain a minimum of three quotes from various STS suppliers



offering similar or like items, as required by DAS Directive No. GS-D-12.

Failure to document adherence to purchasing compliance requirements can lead to variations in competitive selection processes, selection of less than optimal vendors to meet compliance requirements, paying more than necessary for contracted goods and services, and non-compliance with state purchasing requirements.

**Recommendation**

Develop and implement a contract procurement policy and procedures detailing the roles and responsibilities of those involved in the process to ensure requirements are met. Create a checklist(s) or update the existing purchasing request document to record completion of required actions when procuring contracts for goods and services. Such a checklist should include all elements of the state procurement rules, as well as areas for agency purchasing staff to make note of special circumstances in contracts, such as determination of sole source providers or extended contracts, when certain requirements are not applicable. The checklist should also include a reminder to management to ensure all contract opportunities exceeding \$25,000 are posted to the Ohio Business Gateway procurement portal. Finally, develop and implement a supervisory review process over the checklist to help ensure purchasing activities are completed consistently and timely.

Additionally, to facilitate quicker access to initial purchase request documentation, consider creating a central database or shared drive folder to centrally store contract procurement documentation.

**Management Response**

DVS will develop and implement a policy, procedure, and checklist to document actions to ensure compliance with state purchasing requirements. The procedure will outline roles, responsibilities, and timeframes for completing and reviewing required procurement activities. The checklist will outline all state purchasing requirements and any special circumstances, such as determination of sole source providers, and will serve as documentation of task completion. DVS will develop and implement procedures to centrally maintain contract documents, including the procurement checklist. Finally, DVS will post contract opportunities exceeding \$25,000 to the Ohio Business Gateway procurement portal.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Chief Financial Officer	September 2015

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