



Sound Transit

Post-Award Goods and Services Contract Management Performance Audit Final Report

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I. EXECUTIVE SUMMARY

A. BACKGROUND

Sound Transit elected to conduct a performance audit of post-award goods and services contract management as part of continuous improvement initiatives that include revising Agency policies, developing new procedures for day-to-day operations, and implementing system upgrades for accounts payable automation. Sound Transit relies heavily on goods and services provided by private entities and other governments. There were 581 active goods and services contracts at the time this audit was conducted, with a total commitment, or budgeted value, of \$326 million.

B. SCOPE AND METHODOLOGY

The purpose of this objective analysis of post-award goods and services contract management is to assist management and those charged with governance and oversight to improve operations and performance, facilitate decision making, and contribute to public accountability. The major objectives of the audit are to 1) evaluate Sound Transit's post-award goods and services contract management practices, and 2) provide recommendations for potential contract management improvement opportunities, with a focus on Agency business practices that enhance efficiency and effectiveness.

For the purposes of this audit, the following definition of contract management is utilized: Post-contract award, *contract management* is 1) the administration of contracts made with vendors and 2) the management of associated projects, as detailed below:

1. *Contract administration*: The post-award administration of contracts to ensure compliance with the terms of the contract by both the contractor and the governmental entity. Specific contract administration duties vary between contracts, detailed further in Section II.
2. *Project management*: The post-award management of the schedule, budget, and quality of a project. Project managers perform vendor management, performance assessment, and quality assurance tasks, detailed further in Section II.

The audit methodology consisted of four phases, including 1) project initiation and ongoing management, 2) fact-finding, 3) analysis, and 4) reporting. The fact-finding phase included interviews of more than 40 Sound Transit personnel, review of relevant Agency documentation, research of best practices in post-award contract management, study of the contract management structure and policies of peer transit agencies, and analysis of a sample of active goods and services contracts.

C. SUMMARY OF FINDINGS AND RECOMMENDATIONS

Through the performance audit process, the audit team gained broad and deep exposure to Agency management and staff with roles and responsibilities associated with post-award goods and services contract management. It is evident that Sound Transit's personnel are dedicated to achieving Agency goals and objectives and committed to good stewardship of public funding.

Many elements of post-award contract management appear to align with best practices, including dispute resolution, contract termination, and the payment process. In addition, within operating departments there were best practices identified. For example, the Facilities Division meets bimonthly with its assigned contract specialists to review all open contracts for budget and schedule issues. In addition, the recent addition of a Business Manager to oversee the contracts process within IT has improved consistency and documentation.

Findings and recommendations are summarized below. They address the potential for greater efficiency and effectiveness in the post-award goods and services contract management process, structure, and practices. The primary finding is goods and services contract management is inconsistent across the Agency. There are a number of factors (subordinate findings) that contribute to the primary finding. Various steps can be taken to achieve greater consistency. However, some key policy and organizational decisions should be made before all of the recommendations can be implemented. As such, the action plan in Section IV of this report presents recommendations in three phases:

1. Zero to six months, when organizational structure, workforce, and resource allocation are studied in detail, and changes not dependent on the selected organizational structure are begun;
2. Six to twelve months, when changes dependent on the organizational structure are begun; and,
3. Twelve months and up, when resources are added if needed.

Primary Finding	
Goods and services contract management practices are inconsistent across Sound Transit.	
Primary Recommendation	
Minimize risk by maximizing consistency across goods and services contract management practices.	
Subordinate Findings and Recommendations	
Decentralization	
<i>Finding</i>	Responsibility for administration of goods and services contracts is broadly dispersed, involving project managers within multiple operating departments or divisions.
<i>Recommendation</i>	Evaluate structural options to centralize contract administration responsibilities.
Roles and Responsibilities	
<i>Finding</i>	The contract management roles and responsibilities of the Procurement and Contracts Division (P&CD) and operating department personnel are informal and insufficiently articulated.
<i>Recommendations</i>	Restructure and formalize roles and responsibilities for all individuals with a role in contract management. Establish a contract compliance monitoring function within the Internal Audit Division. Create a contract performance and quality assurance role within P&CD.

Policies and Procedures	
<i>Finding</i>	Formal contract management policies and procedures are insufficient and not fully understood.
<i>Recommendations</i>	Expand and formalize toolkit and guidelines, formalize agency-level policies and procedures, and incorporate in a Procurement and Contracting Manual (PCAM) update. Develop a guide to project management for operating departments. Develop and formalize a post-contract review process.
Training	
<i>Finding</i>	Agency staff has been provided minimal training in contract management best practices, policies and procedures, and guidelines.
<i>Recommendation</i>	Provide role-specific training to personnel with responsibility and authority for goods and services contract administration and project management.
Systems	
<i>Finding</i>	Agency financial and IT systems are not widely utilized to support contract administration and project management.
<i>Recommendations</i>	Develop and provide regular training to applicable personnel that addresses accounting and reporting systems needed to effectively perform contract management duties. Expand the use of existing system capabilities to automate processes that support contract management responsibilities.
Documentation	
<i>Finding</i>	Department-level contract working files and documentation do not adequately support strong contract administration and project management.
<i>Recommendation</i>	Develop a centralized repository for working contract documents within departments, and establish regular Division- and Department-level reporting on contract status.
Accountability	
<i>Finding</i>	Sound Transit does not track contract administration performance metrics or leverage performance-based contracting.
<i>Recommendations</i>	Develop and report on key contract administration performance metrics to Executive Management and the Audit & Reporting Committee via the annual P&CD budget scorecard. Utilize performance-based contracting models to improve vendor accountability.

II. BACKGROUND, SCOPE, & METHODOLOGY

A. BACKGROUND

Sound Transit operations utilizes a “contracting out” business model for the provision of many goods and services, relying on contractors rather than hiring employees. These contracts encompass goods, services, and aspects of the Agency’s capital program. For example, other transit agencies provide many of Sound Transit’s operating services; construction contractors implement capital programs such as Link Light Rail; and service contractors deliver services such as security, vehicle maintenance, marketing, and landscaping. Contract management at Sound Transit is governed by agency Policies 5 and 6, Resolution 78-2, the Procurement and Contracts Administration Manual (PCAM), and applicable federal and state regulations.

There were 581 active goods and services contracts at the time this audit was conducted, with a total commitment, or budgeted value, of \$326 million.

Department	Contracts	Value
Communications & External Affairs	50	\$7,347,209
DECM	59	\$25,206,824
Executive	82	\$8,592,209
Finance & IT	142	\$57,466,221
Legal	63	\$29,113,120
Operations	169	\$195,082,653
Planning, Environmental, & Project Development	16	\$3,299,967

As of May 2013, \$176.5 million had been spent against these contracts. Contracts are administered in a decentralized manner, with the Procurement and Contracts Division (P&CD) primarily providing support throughout the procurement process, while the operating departments conduct contract administration as an additional duty associated with managing their projects and functional areas. As the Agency continues to grow in assets and service, the number and value of goods and services contracts is expected to increase.

Sound Transit elected to conduct this performance audit of post-award goods and services contract management as part of its commitment to continuous improvement, which includes other initiatives such as revising agency policies, developing new procedures for day-to-day operations, and

implementing system upgrades for accounts payable automation. Previous audits conducted by the Agency have addressed the contracting process, such as a blanket purchase order audit conducted in November 2012. Changes to contracting guidelines and processes are ongoing. The Director of P&CD is working closely with the Accounting Division to develop training and guidelines for contract management that were initially provided to all contract managers at Sound Transit in May 2013.

B. SCOPE

The purpose of this independent analysis of post-award goods and services contract management is to assist management and those charged with governance and oversight to improve operations and performance, facilitate decision making, and contribute to public accountability. The major objectives of the audit are to:

- Evaluate Sound Transit’s post-award goods and services contract management practices; and
- Provide recommendations for potential contract management improvement opportunities, with a focus on Agency business practices that:
 - Establish, monitor, and control contracting processes and procedures to ensure performance and compliance with key terms and conditions;
 - Establish and communicate roles and responsibilities for all parties involved in contracting processes;
 - Train managers and administrators regarding roles and responsibilities and the tools available to assist them;
 - Ensure adequate information is available for decision making and reporting;
 - Enable efficient and effective delivery of goods and services; and
 - Identify appropriate knowledge, skills, and abilities for staff positions involved in contract management.

There are three types of contracts within the scope of this audit. They include 1) blanket contracts, 2) single-service contracts, and 3) contracts that represent stand-alone purchase orders. The audit did not review capital project contracts managed by Design Engineering and Construction Management (DECM), which are administered by the Project Controls Division. The areas of focus for this audit of active goods and services contracts included, but were not limited to:

- Key contract terms
- Contract monitoring, control, modifications, extensions, and termination
- Completion reports
- Documentation and reporting
- Dispute resolution
- Payment process

For the purposes of this audit, *contract management* is defined as: Post-contract award, 1) the administration of contracts made with vendors and 2) the management of associated projects. Specific activities are detailed below:

1. *Contract administration:* The post-award administration of contracts to ensure compliance with the terms of the contract by both the contractor and the governmental entity.¹ Specific contract administration duties vary between contracts and are outlined in FAR 42.3 and typically include, but are not limited to:
 - Review and approve or disapprove the contractor requests for payment under progress payment or performance-based payment clauses;
 - Ensure contractor compliance with small business subcontracting plans and any labor surplus area contractual requirements, and maintain documentation of the contractor's performance under, and compliance with, these plans and requirements;
 - Support the operating departments regarding contract reviews, status, performance, and actual or anticipated problems;
 - Negotiate and execute supplemental agreements; and
 - Manage evaluations of contractor performance.²

2. *Project management:* The post-award management of the schedule, budget, and quality of a project.³ Project managers perform vendor management, performance assessment, and quality assurance tasks, which typically include, but are not limited to:
 - Developing the project charter, preliminary scope, and project plan;
 - Executing the project and producing or verifying receipt of deliverables;
 - Monitoring the progress of the project, integrating change controls, and closing the project;
 - Defining, verifying, and controlling the scope of the project;
 - Managing project communications, resources, time, cost, and quality;
 - Performing vendor management; and
 - Managing risk, including identifying risks and planning risk response.⁴

The definitions above do not include functions related to accounts payable, including the vendor payment process.

Procurement policies and practices were outside of the scope of this audit. However, there are a number of areas where the procurement process impacts contract administration and project management, including a well-defined scope of work, establishing a strong relationship with the assigned contract specialists in P&CD, and understanding the requirements and timing of the contract. Successful contracts are based on principles of strong procurement, such as economy, efficiency, effectiveness, fairness, transparency, reliability, and accountability. As such, audit findings and recommendations may include procurement activities where applicable.

¹ FTA, *Best Practices Procurement Manual*

² FAR Subpart 42.3 – Contract Administration Office Functions

³ FTA, *Project Management Office Manual*

⁴ PMI, *Project Management Body of Knowledge*

Intergovernmental agreements, which are a major element of the Agency's business model, were not within the scope of this audit. However, any changes that are considered as a result of the recommendations in this report should address intergovernmental agreements, budget review, procurement, accounts payable, and other processes related to post-award contract management.

C. METHODOLOGY

The audit methodology included four phases, including 1) Project initiation and ongoing management, 2) fact finding, 3) analysis, and 4) reporting. Specific audit activities included:

- Conducting interviews and process walkthroughs with more than 40 Sound Transit personnel, representing:
 - Agency leadership;
 - Individuals with roles in the contracting process, including budget, accounts payable, diversity, finance, and procurement and contracts divisions; and
 - Contract managers within the eight operating departments that manage a high volume of contracts, ranging from 12 to 65 active contracts at a time.
- Reviewing Agency documentation, including policies and procedures, prior audits, organization charts, job descriptions, training, and guidelines.
- Researching best practices in post-award contract management, from various sources, including:
 - Federal Transit Administration (FTA)
 - State of Washington
 - Project Management Institute (PMI)
 - National Association of State Procurement Officers (NASPO)
 - National Contract Management Association (NCMA)
 - National Institute for Government Procurement (NIGP)
 - International Association for Contract and Commercial Management (IACCM)
 - American Public Transportation Association (APTA)
- Studying the contract administration structure and policies of peer transit agencies.
- Analyzing a sample of 40 active goods and services contracts representative of contract types, operating departments, and nature of goods and services contracted.

Throughout the project, the audit team met with a group of stakeholders representing Sound Transit executive leadership, finance and accounting, facilities, IT, and procurement and contracts. Audit team members met collectively and individually with stakeholder group participants. The stakeholder group validated facts, provided input on the feasibility of recommendations, and participated in the development of the action plan.

D. STATEMENT ON COMPLIANCE WITH GAGAS

Moss Adams conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

III. FINDINGS AND RECOMMENDATIONS

A. PRIMARY FINDING

Goods and services contract management practices are inconsistent across Sound Transit.

As of May 2013, 120 personnel across eight operating departments managed 581 goods and services contracts within the scope of this audit, with a total budgeted value of \$326 million. Due to multiple intersecting causes, the practices in place to administer these contracts are inconsistent across the Agency. These causes, presented in priority order, are:

1. **Decentralization:** Responsibility for administration of goods and services contracts is broadly dispersed, involving project managers within multiple operating departments or divisions.
2. **Roles and responsibilities:** The roles and responsibilities of P&CD and operating department personnel are informal and insufficiently articulated.
3. **Policies and procedures:** Formal policies and procedures are insufficient and not well understood.
4. **Training:** Agency staff has been provided minimal training in contract administration and project management best practices, policies and procedures, and guidelines.
5. **Systems:** Agency financial and IT systems are not widely or effectively utilized to support contract administration and project management.
6. **Documentation:** Department-level documentation does not support strong contract administration and project management.
7. **Accountability:** Neither accountability or performance reporting functions related to contract management are in place at Sound Transit.

As a result of these causes, project managers within operating departments administer contracts independently, in the manner most effective for them, with varying levels of management or P&CD oversight. The current goods and services contracting process requires operating departments to request assistance from contract specialists within P&CD, who accordingly provide varying levels of support to operating department personnel. Sound Transit's contract management model could assume less risk, be more effective and efficient, and have stronger controls.

It is important to note that the widely varying contracts in place at Sound Transit are a contributing factor to this finding. As noted above, there are multiple variations of contract types, the nature of goods and services rendered, and the scopes, schedules, and budgets of goods and services contracts. In addition, funding agencies like the FTA have specific requirements that also impact contract scopes, schedules, and budgets to varying degrees. As such, there is no "one size fits all" approach that will satisfy the various needs of all 581 goods and services contracts.

Recommendation: Minimize risk by maximizing consistency across goods and services contract management practices.

Sound Transit leadership should take action to maximize consistency and minimize risk in the goods and services contract management process, by addressing both inconsistent contract administration and project management. As the Agency continues to grow and assets age, the operations and maintenance burden on operating departments will increase, as will contracting activities. Consistency in contract administration and project management across the agency is critical to achieving desired results, successful vendor relationships, and managing costs.

In May 2013, P&CD and Accounting prepared contract management guidelines and procedures aimed at improving consistency across the Agency. A mandatory training was also delivered to all contract managers on the new guidelines and procedures. These are strong steps toward greater consistency, but significant work is still to be accomplished to establish more efficient and effective, less risky contract administration and project management procedures.

The subordinate findings and recommendations articulated below and the action plan located in section IV of this report detail specific action steps to maximize consistency in policies and practices. To the extent possible, guidelines and procedures should be standardized and formalized. Where exceptions are necessary, as with legal contracts, effort should be made to provide visibility to P&CD of the contract administration process.

B. SUBORDINATE FINDINGS

Decentralization

1. Finding: Responsibility for administration of goods and services contracts is broadly dispersed, involving project managers within multiple operating departments or divisions.

Goods and services contracts at Sound Transit are managed in a decentralized manner. Resolution 78-2 delegates procurement and contract administration responsibilities to the CEO, who, in turn, has the authority to delegate to employees to act as purchasing and contracting agents. A “responsible manager,” typically the requesting division director, is assigned ultimate authority over each procurement, but the level of involvement of division directors varies by contract and is typically minimal. Procurements and subsequent contracts are usually initiated and managed by the requesting project manager or assigned to an individual with the most subject matter expertise. Agency policy, which does not specifically assign procurement or contract administration authority to the P&CD Director or staff, is a contributing factor to decentralized contract administration.

For each good or service procurement, two key Agency personnel are assigned: a contract specialist from P&CD and a project manager from the relevant department. The contract specialist is assigned based on availability and timing. Some departments with high contracting needs, including IT, Communications, and Facilities, work with a single point of contact. Post-award, the day-to-day responsibility for contract administration resides within each department, and P&CD is involved when requested to provide assistance.

Decentralized contract administration has resulted in a wide span of control at Sound Transit. Of the Agency's 682 personnel, 18% (120) are designated contract managers. Any staff member assigned by their division manager can be a contract manager. Most are hired as project managers with some subject matter expertise over the contracts they are subsequently assigned to manage. There are no requirements for specific education, training, or experience for contract managers. In a few divisions, informal policy restricts less-experienced personnel from contract administration or project management; however, the agency norm is that contracts are managed by both entry level and senior staff. As a result, the experience, skills, and knowledge of contract managers can differ significantly even between individuals with the same title, in the same department. This leads to inconsistency in the procedures and systems used by contract managers, as well as the level of documentation they maintain to oversee their contracts.

Sound Transit has a strong record of compliance with funding requirements. However, staff lacking full knowledge of contractual obligations could put Sound Transit at risk, both of legal action and of losing federal and state funding as a result of noncompliance. In some departments, administrative personnel monitor contract budgets, schedules, and expiration. In other departments, contract specialists within Procurement & Contracts provide contract administration assistance, including invoice processing. The IT Division recently hired a Business Manager with specific responsibility for assisting project managers with contract administration. However, this type of role is an exception to the norm, since most contracts are administered, and associated projects managed, by individuals in the manner that works best for them.

Decentralized contract administration allows the operating departments more autonomy and flexibility to meet their unique needs, but it also creates a greater risk of failure if contract administration capacity is not strong and reinforced with formal policies and procedures, frequent training, and accountability. With most staff infrequently using agency systems like E1 (Enterprise One ERP) and BOE (Business Objects) Reporting, there is a greater chance for error or misreporting. As Sound Transit continues to grow and mature, the Agency's assets will both increase in number and age, requiring a greater attention to operations and maintenance activities, a vast majority of which are contracted out. Consequently, there is a growing need for consistency, capable staff, and capacity-building programs addressing contract and project management.

1. Recommendation: Evaluate structural options to centralize contract administration responsibilities.

Sound Transit should evaluate contract administration resources and allocation to assess structural options and the appropriate level of Sound Transit staffing and resource allocation for a more centralized contract administration model. An evaluation of contract administration responsibilities and procedures should also consider related activities, such as budget oversight, procurement, and intergovernmental agreement review. The evaluation should consider, but not be limited to, the following elements:

- Integration of other planning processes, including the Agency's strategic plan, budget, and human resources planning.
- Analysis of workflows and business processes by contract type and function.

- Specific responsibilities for post-award contract administration and project management should reside within Sound Transit, P&CD, and operating departments.
- Workforce supply analysis, including a current workforce overview with expected retirements and attrition, and identification of the capabilities and capacity of current contract specialists.
- Workforce needs, including any competencies and experience needed.
- Target service levels to be provided by Agency personnel and the required workload to achieve these service levels.
- Gap analysis.
- Policy changes or enhancements to assign appropriate authority and responsibility.
- Strategies and actions to address needed and surplus skills.

A more centralized contract administration model would result in greater consistency and lower risk to the Agency. A more centralized model could take varying forms, which include, but are not limited to:

- Fully centralizing contract administration responsibilities and authority within P&CD;
- Fully centralizing contract administration responsibilities and authority within another support department;
- Utilizing a combination of centralized contract administration within P&CD or other support department and contract administration within some operating departments with large or labor-intensive contracts, such as the Operations Division; or,
- Placing contract administration personnel within each operating department with joint reporting to P&CD and operating departments.

A fully centralized contract administration within P&CD would likely produce the most consistent, transparent, and predictable results for P&CD, operating departments, Agency management, and vendors. Through such a model, contract administration responsibility and authority would reside within P&CD, and project management responsibility and authority would reside within operating departments. This model aligns with the FTA Best Practices Procurement Manual, as well as recommendations by many industry associations, including APTA, PMI, and NIGP.^{5,6,7} See Finding 2: Roles and Responsibilities for more information.

A partially centralized contract administration model is in place at Capital Metro in Austin, TX. This model differs from Sound Transit's in that it centralizes some contract administration responsibilities within the operating departments. In 2012, Capital Metro established a six-member centralized "Contract Performance Team" within the Operations Division to "ensure that solid contract monitoring plans are implemented including processes to support a sound Quality Assurance (QA)/Quality Control (QC) program."

Any organizational changes will take time to design and implement. Appropriate change management support will be essential to implementation success. While structural options are assessed, the

⁵ APTA, Bus Procurement Guidelines

⁶ PMI, Project Management Body of Knowledge

⁷ NIGP Resolution 1002: Centralized Purchasing

recommendations provided below can begin to be implemented, which will improve consistency within both P&CD and operating departments.

Roles and Responsibilities

2. Finding: The contract management roles and responsibilities of P&CD and operating department personnel are informal and insufficiently articulated.

Until the materials and training introduced in May 2013, the expectations for, and roles and responsibilities of, individuals participating in contract management were not articulated by Sound Transit management. However, these materials apply mainly to the responsibilities during the invoicing and payment processes, not the duties of contract administration and project management. In addition, these roles and responsibilities are not aligned with a more centralized contract administration approach as recommended in Finding 1: Decentralization.

The following departments and individuals are typically involved in contract management: P&CD Contract Specialists (Contract Manager and P&CD Director as needed), operating department project manager and/or business manager/administrative staff (division directors and executive director as needed), Diversity Program (as needed for small business vendor relations), and Accounts Payable.

An analysis of a sample of job descriptions revealed an inconsistent approach to contract management responsibilities for division directors, who are designated “responsible managers,” ultimately accountable for contract management in their divisions. Of twelve director and executive director job descriptions reviewed, only five detailed contract oversight responsibilities. They included the directors of Community Outreach, Operations, Facilities and Asset Control, Operations Support Services, and Planning and Development. The remaining seven, with no contract oversight in their job descriptions, included the Human Resources Director, whose division manages 37 contracts within the scope of this audit, with a budgeted value of \$4.1 million; and the Director of IT Operations, whose staff manages 48 contracts within the scope of this audit, with a budgeted value of \$12.2 million.

Conversely, the job descriptions of Senior Contract Specialists, who make up the majority of P&CD procurement staff, detail specific post-award contract administration responsibilities that are, in practice, currently provided by operating department project managers. These duties include:

- Administers assigned contracts in accordance with contractual terms and conditions, Agency’s internal policies and resolutions, FTA Circular, and applicable state and federal laws.
- Administers assigned contracts to ensure compliance with contractual requirements including deliverables, schedule, quality, cost, notices, insurance, etc.
- Reviews and processes invoices for payment consistent with contractual requirements and Agency’s policies and procedures.
- Negotiates contract prices, terms and conditions, modifications and change orders.

As a result of the unclear departmental roles and responsibilities for contract management, Agency personnel reported not understanding the appropriate role of P&CD in the contract administration process. The level of involvement in contract administration by P&CD contract specialists varies by

operating department and individual, and appears to be in response to the level of experience of operating department project managers and their workload.

Sound Transit also lacks a formal contract compliance role and does not perform regular quality assurance reviews of contracts and vendors. While contract cost auditing of capital projects is conducted on a sample basis, and specific contracts have been audited as part of internal audit activities, routine compliance monitoring of goods and services contracts is not a current practice. Both contract compliance and quality assurance provide the opportunity for improved efficiency and effectiveness, as well as cost savings and reduced risk.

2a. Recommendation: Restructure and formalize roles and responsibilities for all individuals with a role in contract management.

Goods and services contract management can require input from multiple departments within Sound Transit, including P&CD, operating department project managers, administrative staff, legal and diversity staff, risk management, and executives. A shift toward a more centralized model will require clearly defined roles and responsibilities for each participant in the contract process. Relevant contract administration and project management responsibilities should be incorporated in job descriptions and annual performance reviews. The resource assessment recommended in Recommendation 1 will fully inform roles and responsibilities. To align with the FTA Best Practices Procurement Manual and other industry best practices, and to adhere to a more centralized contract management model, recommended roles and responsibilities for individuals involved in contract management include:

- **Contract Administrator:** Provides cradle-to-grave procurement and contract administration services, including negotiation of terms and conditions, review of deliverables and invoices for compliance, administration of change orders, and contract close out. Leads post-contract review. Monitors and provides BOE reports on schedule and budget status on a regular basis to project managers. Responsible for maintaining official contract file. (See Finding 3: Policies and Procedures for more information.)
- **Project Manager:** Within the requesting operating department, acts as technical representative, providing subject matter expertise to the contract administrator and interfacing with the vendor on day-to-day project management activities. Approves deliverables and manages budgets and schedules. Responsible for department working contract file. (See Finding 6: Documentation for more information.)
- **Division Director/Department Head:** Oversees, at a high level, the schedule and budget status of all division/department contracts, and assists project managers as needed, to ensure the Agency's needs are met.
- **Business Managers or Administrators:** Within operating departments, administrative or financial personnel may be responsible for maintaining the department's working contract files on behalf of project managers. Responsible for developing and providing summary-level contract status reports to division and department directors.

- Compliance Auditor: Within Internal Audit, provides regular compliance monitoring of contracts through testing and reporting. (See recommendation 2b for more information.)
- Contract Quality Assurance: Within P&CD, provides subject matter expertise, provides guidance on appropriate use of change orders, participates in post-contract reviews, and compiles and disseminates lessons learned and best practices. Responsible for Agency contract administration performance reporting. (See Recommendation 2c, Finding 3: Policies and Procedures, and Finding 7: Accountability for more information.)
- Diversity Program: Continue to provide support to P&CD, operating departments, and vendors as needed when negotiating terms, disputes, or payment issues with small businesses.
- Accounting and Budget Divisions: Continue to perform duties that include accounts payable (e.g., invoice circulation, coding, and processing), budget support, and E1 and BOE technical assistance as requested.
- Risk Management: Continue to provide support related to contract drafting, review, and negotiation of indemnification provisions and insurance requirements.

The benefits of establishing clear roles and responsibilities in a more centralized contract management model include greater consistency and predictability throughout the process, a more standard set of criteria against which to evaluate personnel, and greater transparency for operating departments and vendors. Contract administrators with more authority and responsibility over the contracting process will have more experience with effectively utilizing systems and complying with requirements, and can avoid duplication of effort. In addition, refocusing operating department personnel toward project management better leverages their skills and abilities to effectively deliver the goods or services, and can lower administrative costs.

2b. Recommendation: Establish a contract compliance monitoring function in the Internal Audit Division.

A portion of the work of the Internal Audit Division is dedicated to contracts, due to of the large volume and dollar value of contracts the Agency processes. Some of this work is contracted to third-party auditors, which typically applies to contract cost audits on capital projects. The Internal Audit Division's contract focus should be expanded to include contract compliance for goods and services.

The contract compliance auditor function should be staffed by auditors with specialized experience in developing and conducting contract compliance audits in the public sector. An analysis of the position's requirements and anticipated workload should be conducted to determine the appropriate staffing for this function. Responsibilities should include, but not be limited to:

- Work with operating departments, Risk Management, and P&CD to identify risks associated with contractual relationships.
- Conduct regular audits of closed contracts to assess compliance with terms and conditions, agency policies and funding entity regulations, controls, documentation requirements, and change order processes.

- Identify potential cost recovery opportunities where applicable.
- Conduct contract cost audits of capital, goods, and services contracts according to Internal Audit Policies and Procedures.

2c. Recommendation: Create a contract performance and quality assurance role within P&CD.

Given the large number and dollar value of Sound Transit contracts, efficient, effective, and high quality contract administration is critical to the Agency's success. The Agency should establish a role within P&CD for contract quality assurance. This role should be performed by a Senior Contracts Specialist or Contracts Manager with experience analyzing and developing policies, procedures, and performance metrics.

Duties of the contract quality assurance role should include, but not be limited to:

- Provide contract administration subject matter expertise to contract administrators and operating departments.
- Participate in post-contract reviews and compile and disseminate lessons learned and best practices.
- Develop and report on contract management performance metrics.
- Assist in the development of training programs and guidelines.

The FTA Best Practices Procurement Manual provides examples of programs to improve vendor performance, which Sound Transit could also consider when implementing this role. For example, New York City Transit (NYCT) compiles vendor performance data to identify the "100 Worst" and "Top 100" vendors, based on criteria including on-time performance and maintaining good relationships with contract and project managers. NYCT reports that these initiatives are "highly successful in improving vendor performance."

See Finding 3: Policies and Procedures and Finding 7: Accountability for more information.

Policies and Procedures

3. Finding: Formal contract management policies and procedures are insufficient and not fully understood.

Sound Transit's current Procurement & Contracts Manual (PCAM), last updated in 2010, provides minimal guidance on goods and services contract management. Only ten pages of the 100-page PCAM are dedicated to contract management, and the PCAM approaches contract management from the perspective of capital projects in DECM. For instance, several roles listed, such as project controls and the Change Control Board, do not apply to goods and services contract administration or project management. Audit interviewees reported low utilization of the PCAM, and several thought it was a DECM document.

In part due to decentralization and unclear roles and responsibilities, departments, divisions, and individuals have developed and documented various procedures for goods and services contract management in an assortment of ways. While the PCAM states that "Departments and Divisions may

issue their own procedures and forms to supplement [the PCAM] in collaboration with P&CD,” interviews with project managers and contract specialists revealed that procedures were developed most often on an individual basis, without leveraging the expertise of P&CD. Without formal guidelines and enforcement, there is little standardization of both contract administration and project management policies, procedures, or guidelines across the Agency.

Current policies and procedures do not require specific project management or vendor performance management milestones. The level of effort devoted to vendor performance management also varies based on the good or service delivered. For example, professional services contracts may require milestone deliverables, such as draft reports. Other services, such as landscaping or painting, have historically required an in-person review of the work. Some contractors are required to submit photos of completed work as a quality control measure. If a contractor fails to properly perform the work or comply with terms and conditions, then contract managers may refuse payment and involve P&CD to resolve disputes. However, there is not a defined process with levels of materiality.

In May 2013, P&CD and Accounting produced a series of guidelines and documents to assist project managers with goods and services contract management. These included contract guidelines, contract manager’s checklist, contract roadmap, contract manager’s “quickguide” to responsibilities, and an invoice and payment management roles and responsibilities matrix. P&CD provided mandatory training on these documents, and instituted a policy of conducting formal “contract handoff” meetings upon award to hand over contract responsibilities and the contract roadmap to the project manager. P&CD requires all project managers to sign the contract management guidelines to acknowledge that they have read and understand the guidelines. It is too early to assess the impact of these new items, but Facilities staff noted to the audit team that the handoff meetings and contract roadmaps are helpful.

The guidelines, checklists, and policies introduced in May are a strong first step toward achieving consistent, well-understood policies and procedures related to goods and services contract management. However, the new procedures have not yet been formalized, do not yet apply to all aspects of the contracting process, and do not align with the PCAM or job descriptions. In addition, these policies and procedures are not aligned with a more centralized contract administration approach as recommended in Finding 1: Decentralization.

3a. Recommendation: Expand and formalize contract management toolkit and guidelines, formalize agency-level policies and procedures, and incorporate in a Procurement and Contracting Manual (PCAM) update.

Written policies and procedures serve as a guide to contract administrators and project managers to ensure a consistent, high-quality contract management process. Key components should include:

- Contract administration plan: A high-level summary of planned and completed activities that can be used throughout the contract period as a status report. It should detail the methods and performance measures that the contract administrator and project manager will use to monitor the vendor and their specific responsibilities. The existing contract roadmap should be a component of a contract administration plan.

- Contract kickoff meeting: Also referred to as a pre-performance conference, the contract specialist, project manager, and vendor should meet to review contract terms and conditions and discuss each other's roles and responsibilities.
- Project plan and schedule templates: A sample of basic project management tools for use by operating departments should be developed to facilitate better scope of work development and project management.
- Contract change management procedures: Change order administration policies and procedures are presented in the PCAM. Like other procedures, these should be revised to reflect a more centralized contract administration model and more effectively address goods and services contract management.
- Dispute resolution procedures: A dispute resolution process should be developed and formalized to define the roles and responsibilities of the project manager, contract administrator, legal department, and diversity program where applicable.
- Invoice and payment processing procedures: The AP automation project currently underway will require changes to incorporate these enhanced procedures.
- Closeout procedures: Contract closeout procedures are detailed in the PCAM. They should be reviewed for adherence to a more centralized contract administration model and applicability to goods and services contracts.
- Post-contract review: See Recommendation 3c.

It is important to note that while policies and procedures are critical to consistency and effectiveness, they must be formalized, training must be provided, and personnel must be held accountable to adhering to them. Due to the historical lack of training and insufficiency of guidelines, and especially if the Agency chooses to change to a more centralized contract administration model, the need for training will be greater in the future. Likewise, as policies and procedures evolve over time, training should be revised and re-delivered to ensure consistency.

3b. Recommendation: Develop a guide to project management for operating departments.

Effective contract management requires the project manager to observe performance, collect relevant information, and measure progress against goals. A more centralized contract administration model refocuses operational departments on project management. As such, project managers should be provided with tools to effectively manage projects and vendors. The Agency should develop a high-level guide to project management best practices, and how to maximize value through collaborative vendor relationships. Project and vendor management topics should include, but not be limited to:

- Project scoping and requirements definition
- Negotiation strategies
- Budget and schedule management
- Change order policies and guidelines

- Performance monitoring and reporting
- Documentation guidelines

At the department and division level, these guidelines should be enhanced to apply specifically to the types of services frequently contracted. The guidelines will differ greatly between the types of goods (e.g., large format printers vs. paint) and services (e.g., planning consultants vs. skilled trades) contracted. Even within divisions, there will be a range of project and vendor management requirements. For example, the IT department may have service level agreements and hardware purchase orders with the same vendor. Subsequent to their development, project managers should be trained to these procedures.

While outside the scope of this audit, strong project management starts with good procurement. For example, a well-defined scope of work should clearly articulate expectations, requirements, and deliverables; define terms and conditions that are acceptable and achievable for both parties; and provide a realistic, collaborative approach to establishing schedules and budgets. Clear channels of communication between the contract administrator and project manager are critical to successful contract delivery.

3c. Recommendation: Develop and formalize a post-contract review process.

At the completion of each contract, contract administrators, project managers, and relevant staff should review vendor performance and the contract monitoring process. This process should be facilitated by the contract administrator and include a review of status reports, deliverables, and performance measures. The post-contract review should result in a written vendor performance evaluation. Depending on the results of the post-contract review, a programmatic review or financial audit could be recommended.

The contract quality assurance specialist in P&CD should attend post-contract reviews and evaluate the results in order to determine lessons learned and Agency best practices in procurement, contract administration, and project management. Lessons learned should be incorporated into subsequent contracts, procedures, policies, and training for contract agency personnel.

Instituting standard post-contract reviews will provide the opportunity for both P&CD and the operating department to share lessons learned, strengthen processes, and increase the cost-effectiveness of follow-on or subsequent work. The practice of post-contract review also provides P&CD the opportunity to strengthen relationships and reinforce training and guidelines with the operating departments. Due to the volume of contracts at Sound Transit, the Agency should consider a dollar value or schedule threshold for post-contract review, or select a representative sample of closed contracts per month to review.

Training

4. Finding: Agency staff has been provided minimal training in contract management best practices, policies and procedures, and guidelines.

Historically, contract-related training at Sound Transit has focused on the procurement process. All audit interviewees reported that they had received no on-boarding or technical training related to contract administration. The lack of standard training contributes to inconsistency in contract execution, created by a lack of awareness and/or understanding of policies, procedures, systems, and guidelines.

Recently, the Agency has taken steps to provide more training to all personnel. New employee orientation has been expanded and includes an introduction to Agency procurement and contracting practices. P&CD has recently instituted quarterly workshops for all interested Agency staff. The P&CD Director estimates that 30-60 personnel attend each session, representing one-third to one-half of current project managers. The contract management training offered in May 2013 was mandatory for all contract managers and eligible for training credit. P&CD intends to offer this training annually.

Within P&CD, contract specialists are required to hold CPPB (Certified Professional Public Buyer) certification or equivalent experience. However, there is no annual CPE requirement for contract specialists or contract managers. Under a more centralized model, contract administrators would have unique responsibilities that may warrant additional training.

4. Recommendation: Provide role-specific training to personnel with responsibility and authority for goods and services contract management.

Training in contract administration and project management establishes a baseline of knowledge and increases the likelihood that staff will administer and monitor contracts consistently and reliably. Training should be mandatory for new employees, and regular refreshers should be offered, especially as processes and policies change. A baseline level of training and understanding of the contract administration process, roles and responsibilities, and agency policies should be required for project managers and division and department directors. Likewise, all contract administrators should be trained to an adequate level of expertise on the use of E1 and BOE reports to support day-to-day contract administration and project management. At a minimum, the individuals with roles in the contract management process should be trained on the following principles:

- Contract administrators: Agency policies and procedures and relevant regulations; roles and responsibilities; E1 and BOE reporting for contract administration; procurement and contracting ethics; compliance; invoices and payment procedures; and best practices. (See Finding 3: Policies and Procedures for information.)
- Project managers: Contract management processes, roles and responsibilities, and policies; procurement and contracting ethics and risk management; E1 and BOE reporting for project management; change management; and project and vendor management. (See Recommendation 3b for more information.)

- Division and department directors: Contract management processes, roles and responsibilities, and policies; and procurement and contract risk management.

As noted previously, the initial training needs for all agency personnel may be higher than future needs, especially during and following an organizational change. To ensure that expertise is developed and maintained, the Agency should establish an annual training requirement for contract specialists and project managers. For example, the federal government encourages project managers serving as Contracting Officer's Representative (COR) to complete a minimum of eight hours of contract administration training every three years, and many federal agencies have established mandatory COTR training programs.⁸

Systems

5. Finding: Agency financial and IT systems are not widely utilized to support contract management.

Sound Transit maintains several systems that support contract administration and project management: E1, the enterprise resource planning system; BOE, business intelligence software; and Livelink, which contains official contract files. Audit interviewees provided consistent feedback that these systems were not user-friendly, too complicated, and under-utilized. P&CD personnel reported that E1 queries were less accurate than BOE reports, and they often asked Finance to perform the queries due to their own lack of system expertise. The E1 system and BOE reports are used to varying degrees across the Agency, with Finance and IT personnel using them most frequently. Many operating department project managers do not manage enough projects to drive regular system access, so they do not develop comfort with the systems.

A weekly E1 open house is co-hosted by Finance and P&CD; however, it appears that the operating department personnel who currently administer contracts are either not receiving or soliciting support, because they are not utilizing the system. During the interview phase of this audit, only one current project manager reported using BOE queries to retrieve contract financial information. All other individuals reported setting up their own spreadsheets or other tracking systems to monitor contract data, including budgets and expenditures, rates, invoices, and purchase orders. The results of these dual systems are redundant activities, inefficient processes, and potentially inaccurate information.

A recent survey of E1 users revealed significant training needs. Respondents were asked to list enhancements that would enable them to better utilize the E1 system. Of note, many of the needs related to contract administration and project management, which included PO and contract balances, vendor payment, and electronic contract files. These are existing capabilities within E1, BOE reporting, or Livelink that staff appears to be unaware of. The survey also asked respondents to list E1-related training needs.

⁸ FAR Subpart 2.1 – Definitions

Needs that applied to contract management include:

- Role-specific training for new employees
- Roles and responsibilities of contract specialist, contract manager, and approvers
- How to process changes and approvals
- Roles and responsibilities
- Blanket releases
- How to ensure that invoices are paid
- Invoice processing

While an automated accounts payable project is currently underway, automated budget and schedule alerts and workflow tracking for project management were also listed as desired system enhancements. The opportunity for automation was mentioned most frequently in terms of contract expiration dates and budget alerts. While Accounting provides a monthly BOE report to division directors on all purchase orders set to expire within 180 days, interviewed project managers did not report learning of expiration dates in this manner. The Agency's eBid system has recently been upgraded and now includes the capability to provide automated schedule alerts for projects over \$100,000.

5a. Recommendation: Develop and provide regular training to applicable personnel that addresses accounting and reporting systems needed to effectively perform contract management responsibilities.

Sound Transit personnel should be trained to use relevant systems in accordance with their roles. Training should take into consideration to level of system use: infrequent use by employees who manage one or two projects a year and more frequent use by employees who manage multiple projects at a time. When expertise in systems is a requirement of the position, experience and/or training should be reflected in job descriptions and performance reviews.

As noted in Recommendation 4a, contract administrators should be trained to an adequate level of expertise to support contract administration activities. Contract administrators should be able to utilize E1 and BOE to pull relevant reports without the assistance of Finance or IT. Contract administrators should provide regular updates on key contract data to project managers.

Within operating departments, project managers should be provided with step-by-step manuals and related training on how to query E1 and create BOE reports to support project management with accurate schedule and budget information. Business managers and/or administrative personnel who support departments with high contract volumes should also be trained to a level of expertise sufficient to report summary data to division and department directors and query detailed data for project managers as needed.

See Finding 4: Training for more information.

5b. Recommendation: Expand the use of existing system capabilities to automate processes that support contract management responsibilities.

Some elements of the procurement and contract administration processes are automated in E1, such as approvals and requisitions. An accounts payable automation project is currently underway that is expected to significantly improve invoice and payment processes. The Agency should consider using system capabilities or adjusting business processes to further automate contract administration through ongoing system analyses and planned upgrades. For example, automated invoice tracking systems would help to track vouchers and provide information on payment history.

As noted previously, audit interviewees requested the ability to receive automated alerts on expiration and budget status. Sound Transit should publicize and train project managers to use the alerts in eBid, and determine whether E1 or eBid has the capability to provide alerts for all contracts.

The Agency should investigate how to enhance systems to accommodate better contract administration. For example, LA Metro has developed approximately 300 electronic templates, or “contract wizards,” that automate the process of building contracts and “drastically reduce the time contract managers must spend drafting contract documents... The electronic wizards prompt contract administrators with questions about a given services or materials contract, and by filling in the answers and using some boilerplate clauses, the contract can be drafted very quickly. Customization can be done by individual contract administrators as needed.”⁹ In addition, contract lifecycle management modules are available for the E1 system. E-contracting systems are utilized by other governments.

Documentation

6. Finding: Department-level contract working files and documentation do not adequately support strong contract management.

Official contract files are maintained by P&CD and accessible in the procurement library or online using Livelink. At the department level, most working contract files are owned by the project manager, with little standardization even within divisions. Contract documentation is sufficient to create an official contract file, but the level of working documentation and tracking varies depending on the individual. Audit interviewees who all manage at least 10 contracts within the scope of this audit reported myriad document management and tracking practices including network folders organized by contract expiration date, spreadsheets, Word documents, handwritten lists, and printed binders. Few interviewees reported sharing their organization system, process, documentation, or lessons learned with peers.

Most divisions have central file locations but no policies or guidelines for contract document retention. Departments also do not appear to have department-level, summarized contract data available, although the Finance Department provides a monthly expiring PO report to division directors. The Facilities Division maintains a spreadsheet showing all active, closed, and anticipated future contracts and

⁹ NCMA, *Contract Management Magazine*, January 2007

purchase orders. Information for each contract includes current status, scope summary, assigned personnel, contract and PO numbers, account codes, expiration dates based on schedule, burn rate and expected expiration date, budgets and expenditures, and change orders.

The administrative costs of maintaining multiple document management and tracking processes and systems are high. Lack of standard documentation and department-level tracking can lead to inefficiencies and project management difficulties. For example, if clear documentation is not kept related to communications and deliverables, then dispute resolution can be complicated. In addition, reliable division- and department-level contract tracking could improve management oversight and operational efficiency.

Often contracts, especially OB (blanket) contracts, are inherited by a new employee, with varying levels of documentation and orientation. Without standardized documentation and tracking mechanisms, contracts may be at risk of expiration and service lapse. Several interviewees reported that one or more of their inherited contracts had expired without their knowledge during their first year on the job. There is also a risk of expiration if a project manager does not receive an expiring PO report from their division director, as procurement guidelines require a notice of 120 days for a new requisition and 60 days for a contract extension.

6. Recommendation: Develop a centralized repository for working contract documents within departments, and establish regular Division- and Department-level reporting on contract status.

Where feasible, contract management should be supported by systems that store key contract data, including expiration dates and financial data, to enable contract administrators and project managers to extend contracts, exercise option years, or prepare for a new procurement in a timely manner. Division Directors are ultimately responsible for contract compliance and project success, and key contract information, such as expiration dates and budget status, should be regularly reviewed in summary form. This data is accessible via BOE reports, which should be used by divisions and departments to review contract schedule and budget status on a regular basis with assigned contract specialists. For example, Facilities meets every two weeks with P&CD to review all open contracts and discuss any issues. Contract specialists should also regularly provide detailed contract-specific data to project managers. (See Finding 7: Accountability for more information.)

Working contract files should be organized so that contract history can be understood in the absence of the project manager. The FTA's Best Practices Procurement Manual states:

It is good practice for the procurement official to maintain the "official" contract file. The "official" file would include all official correspondence relating to the administration of the contract so as to verify the contractor's adherence to the terms of the contract and demonstrate that the agency is following good administrative practice and sound business judgment in settling all contractual and administrative issues arising during contract performance.

P&CD should continue to host official contract files. These files should, at a minimum, include the signed and executed copy of the contract, any contract modifications or stop work documentation, proof of

payment, prevailing wages statement, final acceptance report, and closeout documentation. These files are not sufficient for a new project manager or contract administrator to understand a contract in progress, so each department should maintain a robust working file on each contract.

Sound Transit should utilize existing document management resources to develop a standard, centralized, accessible location for all department-level working files. P&CD should work with the Records Manager and operating department representatives to determine the most effective standard folder structure and organizational policies for department contract files to be stored on SharePoint or another document management system. The working files should be stored chronologically and include, but are not limited to:

- External and internal correspondence: All relevant correspondence should be dated and stored. Telephone logs may be relevant.
- Meeting minutes
- Copies of deliverables, photographs, 360 reports, or other documentation of vendor performance.
- Progress reports: Progress reports should include deliverable, schedule, and budget status; identify potential risks; identify any variances between planned and actual performance; and show vendor achievement of performance metrics.
- Contract changes
- Project history: If a project is large, such as a multi-year implementation, has multiple stakeholders, has or will be experiencing a leadership change, or has a history of strained vendor relations, then it may be appropriate for the project manager to keep a chronological project history recording the facts of the project as it progresses.
- Contract checklists, work breakdown structure, and other project management tools.
- Proof of completion of work and contract closeout checklist.

Accountability

7. Finding: Sound Transit does not track contract administration performance metrics or leverage performance-based contracting.

Sound Transit has a strong culture of accountability through regular reporting to the Audit & Reporting Committee, annual milestone reporting, and quarterly divisional performance reporting to the Executive Team in budget documents. P&CD reports on several procurement metrics, but there are no performance metrics related to contract administration. In tandem with contract compliance monitoring and quality assurance, performance metrics can help organizations to provide executive visibility and help achieve greater efficiency and effectiveness.

The traditional approach to contracting at Sound Transit, particularly for long-term contracts, is the “waterfall approach,” in which payment is related to completion of milestones and project deliverables. Goods and services contracts are not established using performance-based incentives for achieving outcomes. The use of performance-based contracting methods can improve vendor accountability by better linking costs with outcomes.

As noted in prior recommendations, accountability should be reinforced through training on formal policies and procedures and evaluating responsible managers for performance.

7a. Recommendation: Develop and report on key contract administration performance metrics to Executive Management and the Audit & Reporting Committee via the annual P&CD budget scorecard.

The NIGP recommends performance reporting as a best practice in public procurement as follows: “A standard set of metrics that are aligned with strategic goals should be developed and regularly measured by all units within the procurement function.” NASPO also recommends contract-related performance reporting. Examples of NIGP and NASPO recommended metrics for contract administration include:^{10,11}

- Volume of payments transacted via contract type: Blanket, Sole Source, Piggyback, P-Card, Stand Alone, etc.
- Contract management operating costs as a percentage of operating department budgets
- Response time between requisition submission and purchase order placement
- Processing time for task orders on blanket contracts
- Average value of change orders
- Percentage of contracts exercising option years
- Percentage of contracts with scope or budget change orders
- Number of goods and services contracts executed annually

7b. Recommendation: Utilize performance-based contracting models to improve vendor accountability.

When developing project management guidance and training for project managers, the Agency should consider establishing policies and guidelines that encourage the use of performance-based contracting. Performance-based contracting can reduce costs and result in better outcomes than traditional contracting. Other potential benefits of performance-based contracting are improved vendor accountability and improved customer and vendor understanding of performance and delivery expectations.

The NCMA has developed guidelines related to performance-based contracting.¹² Per these guidelines, key elements of performance-based contracts include:

- Performance work statement: A high-level description of the performance requirements for a contract
- Quality assurance surveillance plan: Agency plan to monitor quality, detailing the individuals responsible for contract administration and contract technical representative, the schedule and

¹⁰ NIGP, *Public Procurement Practice Performance Measures*, 2012

¹¹ NASPO, *The Measure of Our Success*

¹² NCMA, *Management and Administration of a Performance-Based Contract*

methods for contract administration, performance requirements summary, and deduction and incentive formulas

- Performance-based metrics: Common metrics include return on investment (ROI), return on assets (ROA), total ownership cost (TOC), number of milestones on time, on-time delivery percentage, and number of days from order to delivery
- Contractual incentives: The most common contractual incentives are specific dollar values related to cost performance, schedule or delivery performance, and quality performance; for example, a project that is over budget would be penalized, which a project that is delivered early would receive a performance bonus

Under a performance-based model, the operating department project manager would serve as the primary evaluator of the vendor's progress and actual performance in comparison to the plan, standards, and performance metrics.

Performance-based reinforcement of contract terms and conditions, such as financial incentives and consequences, can be one of the most effective methods of inducing high vendor performance. Consequences for poor performance can provide the Agency with the ability to take disciplinary action against a vendor that does not comply with contract terms. For contracts that involve monthly or quarterly payments, the Agency's standard progress reporting should require a vendor to submit programmatic reports in advance of or concurrent with its invoices. The programmatic reports should be directly related to the terms of the contract, report outcomes and deliverables, and used to determine if performance measures are being met.

IV. ACTION PLAN

Recommendation	Owner	Phase I 1-6 Months	Phase II 6-12 Months	Phase III 12+ Months
1. Evaluate structural options to centralize contract administration responsibilities.	Deputy CEO, with P&CD, Operating Departments, & Finance	Evaluate, select, and design the Agency's contract management structure and component parts, with appropriate, agency-specific definitions, roles, and responsibilities.	Conduct workforce and resource allocation study.	Implement structure, procedures, and roles.
2a. Restructure and formalize roles and responsibilities for all individuals with a role in contract management.	HR, P&CD, Operating Departments		Based on selected structure, revise and formalize roles and responsibilities.	Continue to refine and provide training.
2b. Establish a contract compliance monitoring function in the Internal Audit Division.	Internal Audit		Study position requirements and anticipated workload.	Staff contract compliance auditor function.
2c. Create a contract performance and quality assurance role within P&CD.	P&CD		Study position requirements and anticipated workload.	Staff contract performance and quality assurance function.
3a. Expand and formalize contract management toolkit and guidelines, formalize agency-level policies and procedures, and incorporate in a Procurement and Contracting Manual update.	P&CD		Based on selected structure, revise and formalize policies and procedures.	Continue to refine and provide training.

Recommendation	Owner	Phase I 1-6 Months	Phase II 6-12 Months	Phase III 12+ Months
3b. Develop a guide to project management for operating departments.	P&CD, Operating Departments	Establish project management workgroup.	Develop project management guide and provide training.	Continue to refine and provide training.
3c. Develop and formalize a post-contract review process.	P&CD	Establish post-contract review procedures.		
4. Provide role-specific training to personnel with responsibility in goods and services contract management.	P&CD, Operating Departments		Based on selected structure, develop and formalize role-specific training.	Continue to refine and provide training.
5a. Develop and provide regular training to applicable personnel that addresses accounting and reporting systems needed to effectively perform contract management responsibilities.	Finance, P&CD		Based on selected structure, develop and deliver role-specific training.	Continue to refine and deliver training to new hires and existing employees to enhance skills.
5b. Expand the use of existing system capabilities to automate processes that support contract management responsibilities.	Finance, IT, P&CD	Continue to implement accounts payable automation project.	Study potential system enhancements. Continue to implement accounts payable automation project.	Study potential system enhancements. Continue to implement accounts payable automation project.

Recommendation	Owner	Phase I 1-6 Months	Phase II 6-12 Months	Phase III 12+ Months
6. Develop a centralized repository for working contract documents within departments, and establish regular Division- and Department-level reporting on contract status	Deputy CEO, with P&CD, Records Management, Operating Departments	Evaluate and determine the particular agency-wide and department-level improvements that are necessary.	Establish “working file” location, structure, and naming conventions. Develop and formalize procedures.	Implement procedures and provide assistance as needed.
7a. Develop and report on key contract administration performance metrics to Executive Management and the Audit & Reporting Committee via the annual P&CD budget scorecard.	P&CD	Study potential performance metrics and existing data.	Select performance metrics, collect data, and report.	Continue to report.
7b. Utilize performance-based contracting models to improve vendor accountability.	P&CD, Operating Departments	Develop guidelines and training for performance-based contracting.	Publish guidelines and provide training.	Identify, track, and evaluate new procurements that include performance-based contracting features.

V. MANAGEMENT RESPONSE

Management concurs with the majority of the findings and recommendations of the Moss Adams Final Draft Report.

Our exceptions are relatively minor. We recognize and agree that greater consistency and standardization of post-award goods and services contract management is necessary. The Moss Adams report highlights the need for more centralized contract administration responsibilities. It defines “contract administration” as a subset of “contract management.”

The scale and scope of our goods and services procurements and contracts have grown significantly in recent years. Policies and procedures have not been adequately adjusted to keep pace with this increased activity level. Moving from current practices to a centralized system is a complex issue and our focus will be on designing the best system for Sound Transit and transitioning to that system in an efficient and effective way.

Our purpose is to establish a rational, comprehensive and cost-effective system of post-award management of our contracts for goods and services. This effort began in May of this year with guidance and materials developed by the Procurement & Contracts and Accounts Payable Divisions presented to Sound Transit contract managers and associated staff in mandatory training workshops.

Since we concur with the recommendations to a large degree, our specific observations that follow are brief, with only a small number of additions, corrections or exceptions. We support the three-phase Action Plan at the end of the report, as our implementation roadmap, which management has studied and provided input for that have been integrated into the plan.

Participating in this management response are the Deputy CEO, the Procurement & Contracts Division, the Accounts Payable Division, and the Operations Department representing the agency’s owner/user departments of goods and services contracts.

[Recommendations \(Nos. 1 thru 7, total of 13\):](#)

1. Recommendation: Evaluate structural options to centralize contract administration responsibilities.

Management concurs. We will evaluate, select and design our contract management model in the first phase of the three phase implementation plan.

2a. Recommendation: Restructure and formalize roles and responsibilities for all individuals with a role in contract management.

Management concurs. This is central to the design and ultimate success of our post-award contract management system. We will identify each function and task that must be performed under our model, and allocate them appropriately among our key players (that is, P&C Division, the owner Departments, Accounts Payable, Diversity and Legal) as specific roles and responsibilities. This, in

turn, will lead us to the formulation of our own, agency-specific, key definitions (including contract management, contract administration, project management, vendor performance management and invoice/payment management).

2b. Recommendation: Establish a contract compliance monitoring function in the Internal Audit Division.

Management concurs A contract compliance monitoring function is needed. The decision on where this will be located is dependent on the design of the post-award contract management system. Internal Audit will analyze the anticipated workload and appropriate staffing for this function as part of its development of the 2014 internal audit work program.

2c. Recommendation: Create a contract performance and quality assurance role within P&CD.

Management concurs. Details and structure to be determined.

3a. Recommendation: Expand and formalize contract management toolkit and guidelines, formalize agency-level policies and procedures, and incorporate in a Procurement and Contracting Manual (PCAM) update.

Management concurs.

3b. Recommendation: Develop a guide to project management for operating departments.

Management concurs with the clarification that the high-level guide to project management best practices be relevant for project managers in all Sound Transit departments that utilize contracts (not limited to “operating” departments), in accordance with our contract management model.

3c. Recommendation: Develop and formalize a post-contract review process.

Management concurs. Method and structure to be determined.

4. Recommendation: Provide role-specific training to personnel with responsibility and authority for goods and services contract management.

Management concurs. Initial training has been developed and implemented. Additional training content will be designed to conform to the allocation of roles and responsibilities selected by the agency during Phase I.

5a. Recommendation: Develop and provide regular training to applicable personnel that addresses accounting and reporting systems needed to effectively perform contract management responsibilities.

Management concurs with the recommendation to provide regular training to applicable personnel that includes and covers an understanding of accounting and reporting systems needed to effectively perform contract management responsibilities. Efforts have already started to develop training to

support Contract Management activities and are expected to be rolled out in Q4 2013/Q1 2014. Additionally the Enterprise Resource Planning (ERP) System will be undergoing a tools release that will significantly enhance the user's experience. Training will be provided to users of the system with specific training provided to those performing contract management activities. These efforts will be led collaboratively by Accounting and Procurement and Contracts

Following the implementation of changes in response to other findings in this report and implementation of the Accounts Payable automation project in Q2 2014, more detailed training will be developed and conducted. Management concurs with the recommendation to develop step-by-step manuals to supplement training programs. The ERP strategic planning process identified training and documentation as a significant gap, specifically identifying within that work plan the need for implementation of a sustainable training program to address ongoing training needs.

5b. Recommendation: Expand the use of existing system capabilities to automate processes that support contract management responsibilities.

Management concurs with the recommendation and currently has several initiatives planned to improve and automate areas within the contract management responsibilities. Most significantly, the AP Automation project and the tools release will bring additional functionality or usability, particularly in the area of querying of information. Projects identified within the ERP Strategic Plan that will further expand on existing system capabilities are as follows:

Implement 9.1 Tools (improved user interface/improved query capabilities) Q4 2013

E1 Usability Enhancements (implementation of improvements based on prioritized survey feedback/Page/One View Reporting) 2014

Deliver Training Q3 2014 to Q2 2015

Upgrade ERP Application to most current release in 2016

Redevelop ERP Strategic Plan for next 3 to 5 year period (contracting and sourcing needs analysis and alternatives solutions planning prioritized for the plan update) by 2017

Following the upgrade in 2016, watch list and automated alert capabilities will be available within the primary ERP system. Enterprise One, rather than EBid, will be evaluated for enhanced alert capabilities. Until such time, training on reports and other techniques to assist project managers with budget status and expiration will address informational requirements.

Procurement and Contracts will reach out to other transit agencies to identify productivity opportunities as suggested in this recommendation.

6. Recommendation: Develop a centralized repository for working contract documents within departments, and establish regular Division- and Department-level reporting on contract status.

Management concurs that our system of contract documents and records management should be evaluated to conform with, and effectively support performance under, the contract management model.

7a. Recommendation: Develop and report on key contract administration performance metrics to Executive Management and the Audit & Reporting Committee via the annual P&CD budget scorecard.

Management concurs. Details regarding specific measures are to be determined.

7b. Recommendation: Utilize performance-based contracting models to improve vendor accountability.

Management concurs. Training and “buy-in” at the department-level is essential to this recommendation. P&CD will take a lead role in education, training and the development of guidelines in this area.

See the three-phased Action Plan above, which includes management edits.

October 9, 2013