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OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY

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Avoid Mismanagement of Public Funds in Contracting

Our Contract Oversight staff conducted contract administration reviews of government contracts to determine if the parties met contract requirements. As a result of our review, we identified areas in which contract administration can be improved to reduce potential fraud, waste, and abuse.



What is Contract Administration?

Contract administration refers to those activities¹ that take place after contract award.² Contract managers trained in contract administration are equipped to recognize mistakes within the contract administration process and/or detect contract fraud. Contract fraud, also known as Procurement Fraud, is one of the most common and costly of all white-collar crimes.³ Effective contract administration helps minimize the risk that the contract terms will not be met and protect the contracting parties.

Elements of Effective Contract Administration

- Read and understand contract requirements
- Be familiar with deliverables, due dates, and costs
- Develop and utilize a contract administration plan, also known as a CAP
- Convene a kick-off meeting (post-award conference) to discuss expectations
- Establish a two-way line of communication between the parties
- Train contract manager(s) in vendor performance monitoring
- If invoiced prices do not match the contract, ask the vendor to correct the invoice
- Document and approve change orders prior to allowing the vendor to do the work
- Amend the contract when any element of the contract changes
- Have an Invoice Review and Payment Approval Checklist
- Have a procedure in place for contract disputes and claims

¹ Contract Administration activities include, but are not limited to, payment, monitoring of progress, inspection and acceptance, quality assurance, monitoring and surveillance, modifications, negotiations, contract closeout, and many others. Elizabeth Wright and William Davison, *Contract Administration in the Public Sector Second Edition* (NIGP: The Institute of Public Procurement, 2011) p. 10.

² Wright and Davison, *Contract Administration in the Public Sector Second Edition* p. 10.

³ Tom Caulfield, "The Anatomy & Illusiveness of Procurement Fraud," *Journal of the Association of Inspectors General*: p. 1.

"Enhancing Public Trust in Government"

Contract Administration Deficiencies Discovered Through Our Contract Administration Reviews

We have found the following problems throughout Palm Beach County:

- ✦ Contract expired without extension prior to completion of deliverables
- ✦ Contract terms and conditions not enforced
- ✦ Improper payment(s) issued
- ✦ Contractor failed to deliver services or products at the agreed cost and/or specifications
- ✦ Duplicate payment of invoices or fraudulent cost submission⁴
- ✦ Unauthorized changes or excessive change orders
- ✦ Loss of grant funding or repayment because grant requirements were not met

Suggestions

Training and developing staff on the elements of effective contract administration, utilizing contract administration plans, and monitoring contract compliance can reduce the risk of procurement fraud, waste, and abuse and help identify contract fraud indicators. When in doubt, stop and contact your attorney or our office.

SCENARIO

An entity awards a contract to a new Vendor. The entity's Contract Manager overseeing the deliverables and invoices received a copy of the contract, but did not review it. A few days later, the Vendor provides services under the contract. The Vendor, however, provides an additional service that is neither approved or within the scope of the contract. A change order was not processed for the additional work. The Vendor submits an invoice for the additional work. The invoice is paid in full without question by the Contract Manager.

PROBLEM: Potential for payment of services not authorized by the contract could result in a waste of taxpayers' dollars.

SOLUTION: Read the contract, discuss and document approved changes, and verify the invoice against the contract before issuing payment.



⁴ In all cases, mis-charging is a serious matter even when the act appears to be without a fraudulent motive, because future procurements rely in large part on accurate historical cost figures. 21st Annual ACFE Fraud Conference and Exhibition, Procurement Fraud Schemes in Your Contracting Process, Association of Certified Fraud Examiners, P. 15, 2010.