

# OIIA Contract Review Process

Office of Independent Internal Audit (OIIA)

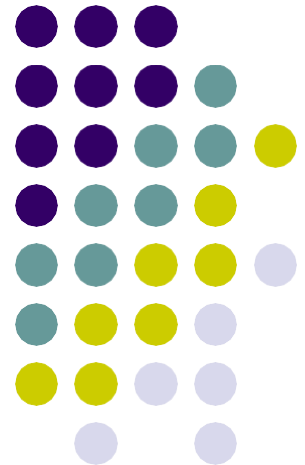
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The Institute of  
**Internal Auditors**  
Atlanta

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DeKalb County  
GEORGIA

# Presentation Outline

- Introduction
- Background
- Contract Review Methodology and Considerations
- Results of Reviews
- Final Thoughts



# What's an auditor?

*“An auditor is a one who watches the battle from the safety of the hills and **after the battle** comes down to bayonet the wounded.”*

*Sir Charles Lyell, 1797 - 1875, American accountant.*



# Introduction

Gone are the days when internal auditing was a checklist ticking exercise. These days to remain relevant and effective most internal audit shops strive to be seen as “*trusted advisors*,” delivering “value added” activities, providing services that help push the organization to achieve its goals and objectives.

Imagine if instead of arriving **after** the battle, you could help identify opportunities to improve the battle plan, **before** the battle begun, opportunities to save thousands of dollars before a single shot was fired?

One great example for proactively adding value is the review of procurement activities, **before** the contracts are executed, before they are even awarded, before the battle has begun....

However, appropriate safeguards are necessary so that internal auditor’s independence and objectivity is not compromised.



# Background

# Background



In October 2018, the DeKalb County Board of Commissioners (BOC) initiated requests for the DeKalb County Office of Independent Internal Audit (OIIA) to conduct reviews of procurement-related agenda items valued at least \$3 million, as determined by management.

The reviews are considered non-audit services and are done only at the request of the BOC **prior to the approval** by the BOC. The reviews normally involve the following types of proposed procurement activities :

- ❖ Initial contract award (Low Bids, Request for Proposals (RFPs), and Cooperative Agreements)
- ❖ Renewal of existing contract(s)
- ❖ Change orders to existing contract(s)

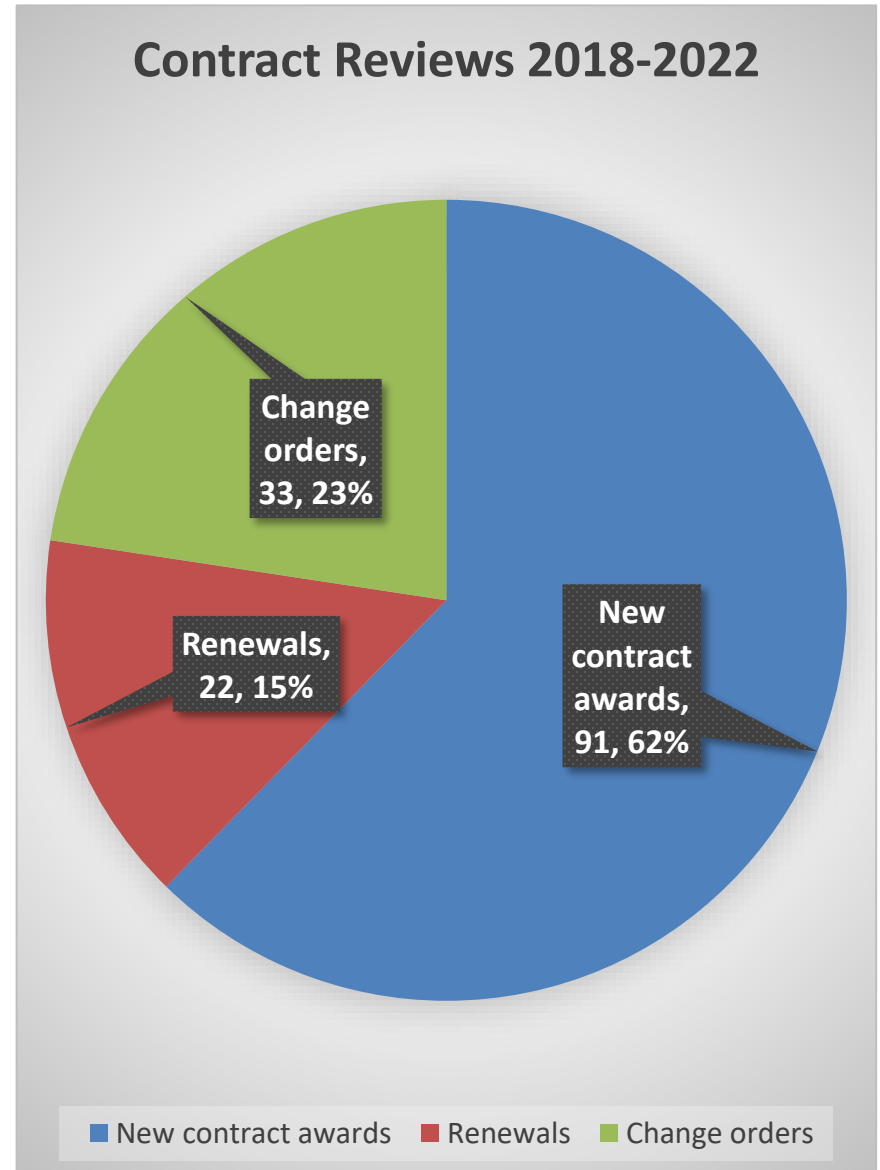
# Review Objectives



- To determine whether the processes used by management in performing their procurement and contracting responsibilities, including the determining contract value, recommended vendor awardee, are supported.
- The reviews are not intended to substitute for management responsibilities for procurement, purchasing, and contracting. Rather they seek to give the BOC reasonable assurance of the reliability and validity of the analysis and assessments performed by management in recommending contract award.

# Results To Date

Since October 2018 through December 2022 , OIIA has reviewed **146** procurement activities- pre-award with an initial value totaling approximately **\$ 1,633,691,054 !**







# Results To Date

As of December 2022, the 146 contract reviews completed by OIIA have identified a reduction in the initial value of the procurement activities by approximately:



**\$99,264,178**

*or 6% less than the initial value!*

## Interesting FACTS

- ❖ This amount is approximately 15 times the operating budget of the OIIA over that period!

# Polling Question # 1



The following is a type of a procurement-related agenda item:

- A. The award of a newly issued ITB or RFP
- B. The renewal of an existing contract.
- C. Change Order to an existing contract.
- D. All of the above.

# **Contract Review Methodology and Considerations**

# Safeguarding against Threats to Independence



Once a request is received from the Board of Commissioners (BOC) we first evaluate if the nonaudit service pose a threat to independence and implement safeguards, as necessary GA. (GAGAS 3.17). When safeguards will not sufficiently mitigate the threats to independence the OIIA **will not** accept the review request. we implement procedures to help ensure independence and objectivity:

- ❖ The auditors assigned to the reviews are required to first evaluate each type of thereat to independence and attest to whether their independence is impacted before they can begin the review. (GAGAS 3.30).
- ❖ If the request is accepted, the acceptance response also includes a statement/reminder that the agenda item and process under review are the sole responsibility of management.
- ❖ The reported results do not include recommendations regarding the approval or award of the procurement activity.

# Safeguarding against Threats to Independence



## **Additional safeguards**

- ❖ Management and staff performing these reviews will refrain from providing recommendations on the design, and development of related policies and procedures.
- ❖ Staff managing and performing contract reviews will refrain from working on audits that might relate to procurement items previously reviewed.

# Review Approach and Considerations

## General Considerations

Examples of documents reviewed include:

- BOC agenda item details.
- Bid tabulation, and the vendor bids or proposals received
- Copy of solicitation documents
- RFP evaluation criteria and scoring information
- Related contracts – previous contracts or corporate agreements.
- Financial information (historical expenditures and other data)
- Market surveys (when less than 5 bids are received)
- User department recommendations/rationales for proposed vendor awards.

Things we generally exclude from scope of the reviews:

- Pre-award determinations of vendor responsiveness and responsibility, and the accuracy of the county financial records.
- Determination evaluation criteria and judgement used to award scores granted to vendors on RFPs



# Review Approach and Considerations



## Initial Awards - Low Bid Solicitations

- Verify the **bid tabulation includes unit prices, and estimated quantities** for each line item, which are consistent with estimated quantities in the solicitation. If no estimated quantities, determine what method was used to determine contract price.

**Figure 1: Sample Bid Tabulation**

Description			DEPARTMENT OF PURCHASING							
ITB No. 22-XXXXXXX			DEPARTMENT OF PURCHASING							
ITB Name: Tree Cutting and Removal			DEPARTMENT OF PURCHASING							
Three (3) Year Multiyear Contract)			DEPARTMENT OF PURCHASING							
			<b>BID TABULATION</b>							
			Vendor A		Vendor B		Vendor C		Vendor D	
Tree Removal			Unit Price	Extended Price	Unit Price	Extended Price	Unit Price	Extended Price	Unit Price	Extended Price
Description	Unit	Estimated Quantity	Unit Price	Extended Price	Unit Price	Extended Price	Unit Price	Extended Price	Unit Price	Extended Price
1.	Tree Removal- 4" to 12"	Per Tree	\$175.00	\$175.00	\$200.00	\$200.00	\$600.00	\$600.00	\$200.00	\$200.00
2.	Tree Removal- 13" to 24"	Per Tree	\$750.00	\$1500.00	\$800.00	\$1600.00	\$1,200.00	\$2400.00	\$500.00	\$1000.00
3.	Tree Removal - 25" to36"	Per Tree	\$1,950.00	\$1950.00	\$2,100.00	\$2100.00	\$3,600.00	\$3600.00	\$1,150.00	\$1150.00
4.	Tree Removal- 37" to 48"	Per Tree	\$2,500.00	\$2500.00	\$3,000.00	\$3000.00	\$4,800.00	\$4800.00	\$1,600.00	\$1600.00
5.	Tree Removal- 49" to 60"	Per Tree	\$3,500.00	\$7000.00	\$3,100.00	\$6200.00	\$6,000.00	\$12000.00	\$1,800.00	\$3600.00
6.	Tree Removal- 61" or Greater	Per Tree	\$4,500.00	\$13500.00	\$3,100.00	\$9300.00	\$6,100.00	\$18300.00	\$1,885.00	\$5655.00
7.	Tree Removal w/Stump	Per Tree	\$195.00	\$975.00	\$300.00	\$1500.00	\$650.00	\$3250.00	\$280.00	\$1400.00
8.	Trec Removal w/Stump	Per Tree	\$825.00	\$2475.00	\$1,000.00	\$3000.00	\$1,300.00	\$3900.00	\$600.00	\$1800.00
<b>Total</b>			<b>\$14,395.00</b>	<b>\$ 30,075.00</b>	<b>\$13,600.00</b>	<b>\$ 26,900.00</b>	<b>\$ 24,250.00</b>	<b>\$ 48,850.00</b>	<b>\$ 8,015.00</b>	<b>\$ 16,405.00</b>

# Review Approach and Considerations



## Initial Awards - Low Bid Solicitations

- Recalculate the bid tabulation - by line item the aggregate prices to determine if any **mathematical errors**.
- Review for **vendor mistakes**.
- **Unbalanced bidding**. This can be performed by verifying material price variations by line item amongst the vendors and by reviewing the unit prices from previous year contracts.
- Verify that each awarded vendor (if multiple) was awarded a portion of the total estimated quantity, instead of each being awarded the full contract workload.
- If the solicitation is awarded to 2 or more vendors, determine if the award was proposed to the **vendors with the lowest aggregate price** or lowest line-item price if the solicitation was awarded per line item.



# Review Approach and Considerations



## Initial Awards - Cooperative agreements

Some contract activities may leverage existing Cooperative agreements/contracts owned by other counties, State of Georgia, or other national cooperative purchasing groups.

- Determine if the proposed listed items and unit prices are consistent with those in originating cooperative agreement.
- If there are additional items not on the original cooperative agreement, determine if additional vendor quotes were obtained to help ensure competitive prices for the new items other rationale exists for the additional items.

## Initial Awards - Request for Proposals

- For RFPs, ensure that the vendor selected for award was the highest scored (in points) vendor; that the scoring was mathematically accurate; and the evaluation criteria was consistently applied to all competing vendors. The specific criteria elements used to evaluate RFPs established by the selection committee is excluded from the scope of our review.
- Verify the basis used to determine contract cost is supported and reasonable.

## EXAMPLES

# of Results of Reviews Initial Awards



Seven agenda items totaling about \$40 million were overstated by millions because of quantity estimates in the bid tabulations which:

- Were overstated based upon the supporting documentation provided.
- Repeated the estimated quantities from the previous solicitation without considerations of updated/current requirements.

Three **cooperative agreement** agenda items totaling about \$31.6 million were reduced by **\$383,000** because the review detected line items in the agreement which had unit prices higher than the unit prices from the originating contract

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## EXAMPLES

# of Results of Reviews Initial Awards



Bid evaluations were not adequate for nine agenda items totaling about \$57.9 million. OIA review showed that:

- Two agenda items were not awarded to the vendors with the lowest prices per line item or in aggregate
- One agenda item had undetected mistakes in bids for eight line items
- The bid tabulation schedule was incorrectly tabulated for three agenda items.
- One item did not split the awarded amount award among the three awarded vendors, but rather included the entire bid amount for all three vendors.

As a result, the awarded amounts for the agenda items were overstated by about **\$23.8 million**

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# Review Approach and Considerations



## Change Orders

- Determine if the proposed change order includes “added” work or revised performance standards that were not **already** included in the requirements of the original contract.
- Determine if there is a rational for any proposed additional work and scope change in the change order.
- Review the contract provisions to determine if it allows for additional funding without a change in the scope of work.

## EXAMPLES

# of Results of Reviews Change Order



- Two agenda items totaling **\$41.8 million** for change orders contained increases in unit prices and cost items that were not justified. The agenda item contained line items that had increases in unit prices without P&C approval. Also, labor positions were added to the change orders without justification. The OIIA review reduced the awarded amount by about \$1.4 million for the two agenda items.
- One agenda item totaling about \$5.8 million did not contain workload data to support the requested amount. The workload data provided from the review justified an amount of \$2.1 million which reduced the awarded amount by about \$3.8 million.

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# Review Approach and Considerations



## Renewal Contracts

- Determine if the estimated quantities and \$amount for the renewal period appears reasonable compared to previous year(s) contracts expenditure and workload usage.
- Verify if unit prices and consistent with original contract.
- If the preceding year (s) contract expenditures are considerably less, determine if the user department has projected workload data to support the requested amount.

## EXAMPLES

# of Results of Reviews Renewal



- For one agenda item, the amounts reported as spent on the previous or initial period of the contract were overstated. The agenda item reported the amount spent by the vendor for all contracts rather than the amount spent on the specific contract. This is impactful on renewal contracts. This overstated the awarded amount by about \$2.2 million.
- One agenda item did not update their award based upon updated or revised contractual requirements. The award for the renewal period was merely duplicated based on the amount awarded for the initial period. As a result, the renewal period award was overstated by about \$750,000.

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## Polling Question #2



Which of the following can be a reason the proposed award value for a procurement-related agenda item could be reduced?

- A. Mistakes in Bids/unit prices
- B. Inaccurate Quantity estimates in the bid schedule
- C. Unapproved unit price increases on line items on change orders
- D. All of the above



# Review Approach and Considerations



## **Other Opportunities to reduce the costs of the proposed contract award.**

- Determine whether it would have been more cost effective to award/execute the contract activities to multiple vendors based on the lowest prices by line items or group of line items. This depends on the severability of the contracted services/product.
- Determine whether an existing cooperative agreement exists that could provide the same service at a lower cost. Verify with user departments had considered that option.
- Discuss with the user department (UD) if they have considered if similar work has been done by an existing County contracts and if specific line items could be executed by an already existing contract at a lower prices.

# Other Issues



During our reviews, OIIA has detected other internal control weaknesses that may not be directly related o the specific agenda item. For example:

While reviewing historical data in at least four instances, the vendors' historical invoices were not consistent with the bid tabulation.

While these issues did not ,materially impact the review of the new contract or renewal under review, the issue was disclosed in the report.

# Communicating the Results



- At the conclusion of the review, We discuss and validate our results with management. To ensure our results are accurate and considered all available information.
- Prepare a memorandum style report addressed to the respective BOC subcommittee that requested the review.
- The report cites whether the contract amount initially requested was supported. The reasons for our assessment of either, “supported” or “not supported”, are outlined in the report along the amount the review was able to validate.
- If the user department and Purchasing and Contracting Department agrees with the OIIA review results, then a substitute agenda item with the revised amount request is submitted to the BOC for review and award.
- The report does not contain recommendations as to the whether the proposed contract activity should be awarded. Management is again reminded that is their sole responsibility.

# Polling Question # 3



Which value added activity poses the least threat to auditor independence?

- A. Developing evaluation criteria to assess vendor RFPs submissions.
- B. Designing and developing policies and procedures
- C. Pre-award reviews of proposed contract activities, with appropriate evaluation of and safeguarding of auditor independence.
- D. Concluding which vendor should be awarded a contract?

# Final Thoughts – Other Value-Added Activities



- Not a large time commitment usually takes one to two weeks to complete.
- Great opportunity to identify, summarize and communicate systemic control issues observed across multiple reviews and involving multiple departments.
  - No support/rationale for how contract value was determined.
  - Estimated quantities/workload not included in solicitation
  - Or estimated workload repeated historical quantities without adequate consideration of expected future need.
  - Awarding multiple vendors each a 100% of contract workload.
  - Significant mathematical errors or vendor mistake or material unbalanced bidding not detected by internal review process.
- Identifying potential training opportunities for the client management:
- Pre-award contract reviews also support the risk-based identification of contracts for a possible future post-award contract performance audits.

# OIA Contacts



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