



Florida Inspectors General

Melinda M. Miguel
Chief Inspector General

CONTRACT MONITORING

presented by Florida Department of Financial Services

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Enhancing Public Trust in Government



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Why is Monitoring Important?

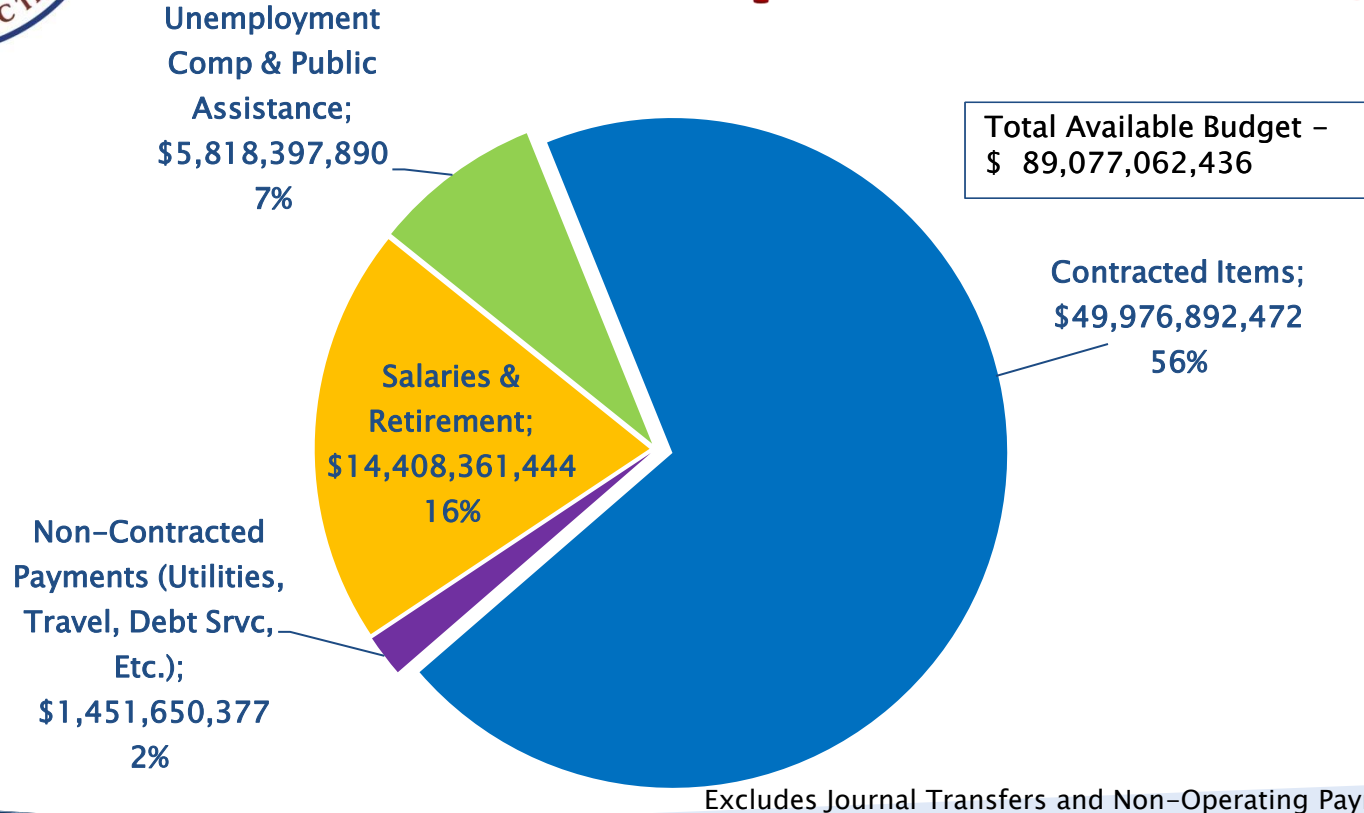
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Total State Spend – FY10/11



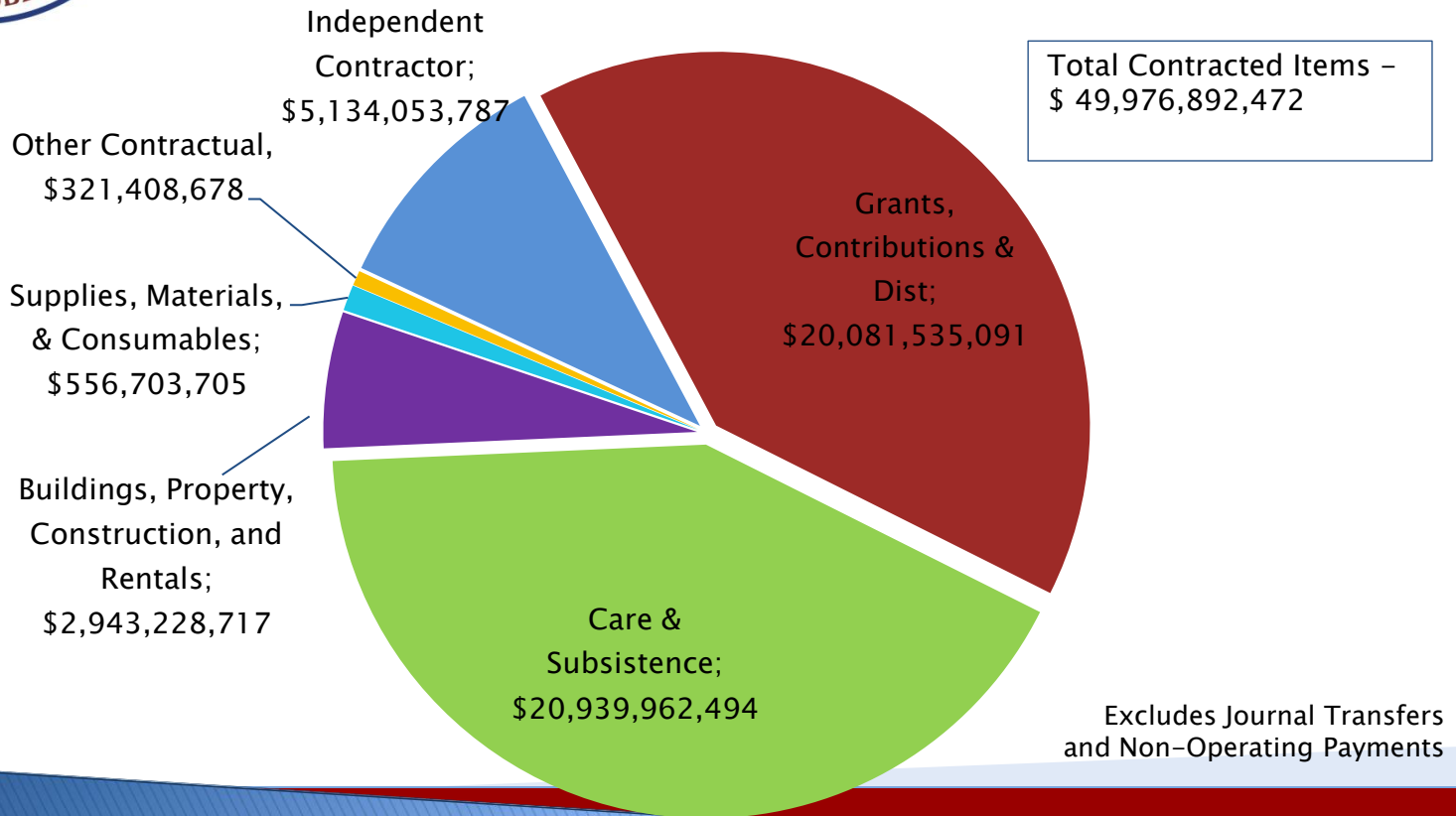
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Contractual Spend Breakdown



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The Agreement

Every contract and recipient/subrecipient agreement must contain a clear scope of work and deliverables that must be accepted in writing by the agency before payment is made.

s. 287.058 (1) *F.S.* and s. 215.971 *F.S.*



The Agreement

The agreement document provides a clear blueprint that all parties can follow to make sure the Agency's expectations and objectives are met.

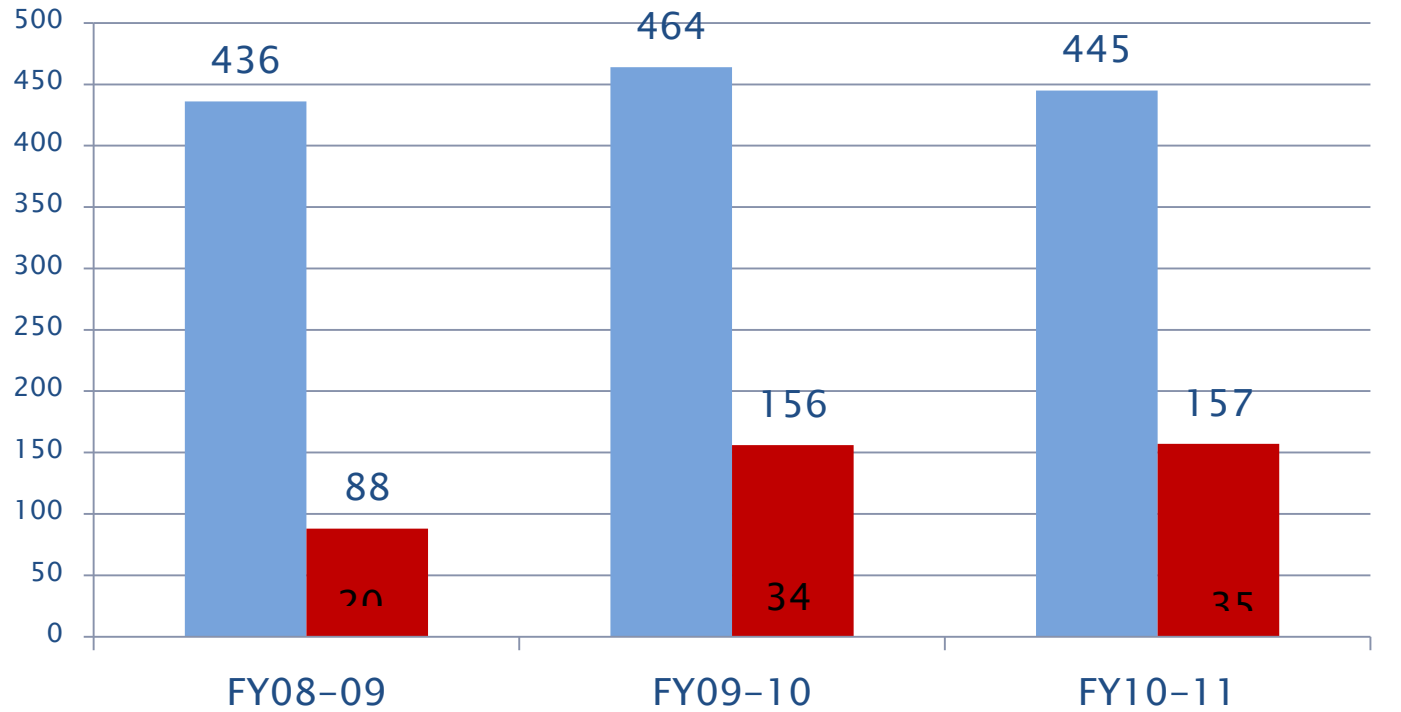
- Has a direct effect on the payment and monitoring processes.
- Has a direct effect on the project's success.



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Contract and Grant Reviews



■ Number of Contracts Reviewed ■ Number of Contracts with deficiencies

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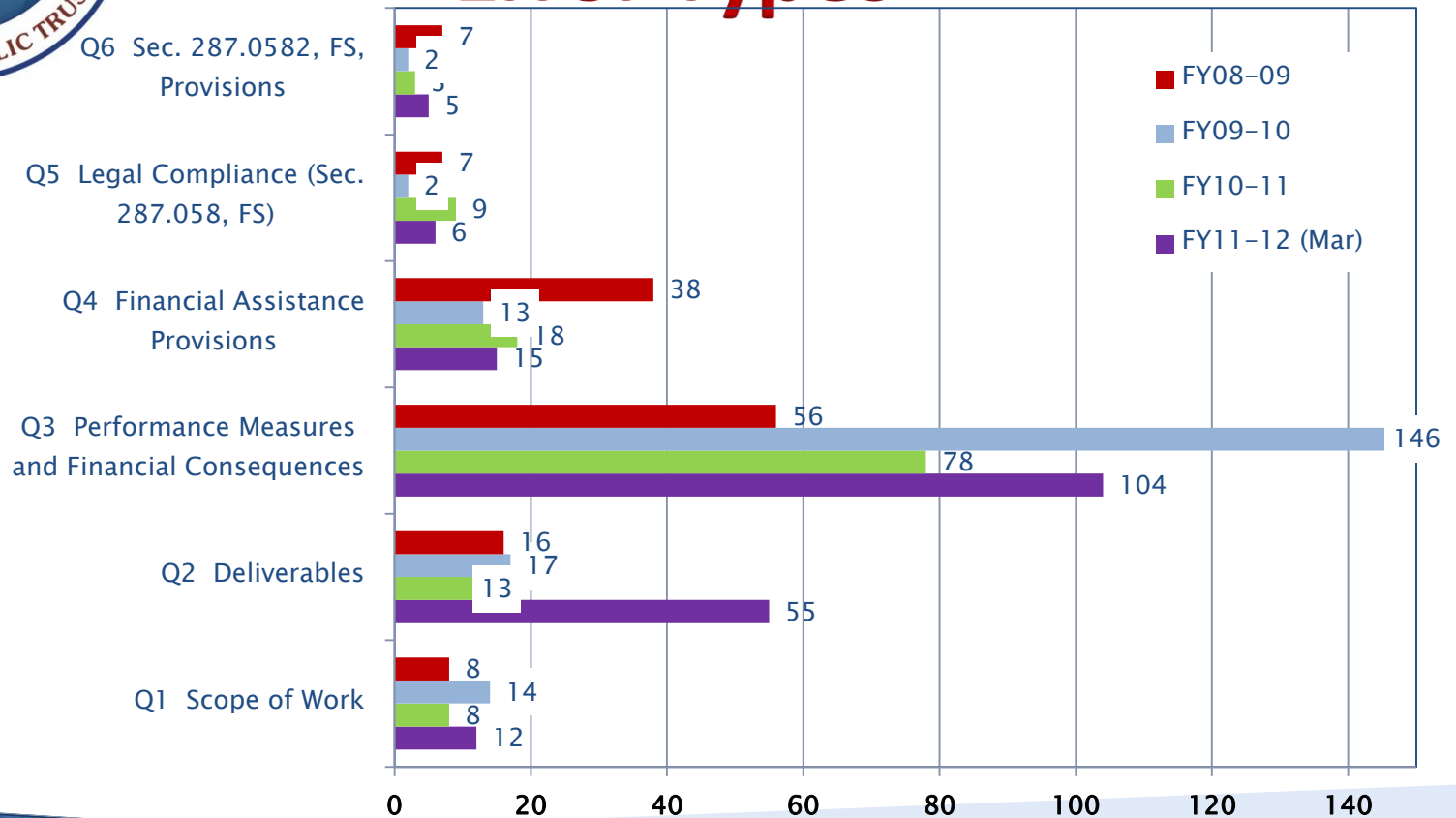


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Error Types

Deficient Contracts



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Monitoring Overview

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Agency

For each contractual services contract, the agency shall designate an employee to function as contract manager who shall be responsible for enforcing performance of the contract terms and conditions and serve as a liaison with the contractor.

The procedures shall include, but need not be limited to, procedures for **monitoring** and documenting contractor performance, reviewing and documenting all deliverables for which payment is requested by vendors, and providing written certification by contract managers of the agency's receipt of goods and services.

Section 287.057, Florida Statutes



Purpose of Monitoring

To ensure the provider's performance and compliance with the requirements in the agreement.





Monitoring

It's not an isolated event!

Monitoring is an ongoing process that is both interactive and proactive.





Monitoring

It's not an exact science!

There are different ways of utilizing various activities to effectively monitor your agreements.





Monitoring Activities

- Review Periodic Provider Reporting**
- Onsite Reviews and Observations**
- Desk Reviews**
- Periodic Contact with Provider**
- Review of Audit Reports**
- Invoice Reviews**
- Client Surveys**



Monitoring: Two Aspects

- **Programmatic** – determines compliance with terms and conditions, and service delivery related requirements.
- **Fiscal** – determines if funds are accounted for and being used appropriately by the service provider (*Cost reimbursement and/or recipient/subrecipient agreements.*)



Programmatic Monitoring

Determines whether:

- Provider is complying with all terms and conditions of the agreement, laws, and rules.
- All services/tasks identified in the Scope of Work are being performed and documented.
- Deliverables are being met.
- Program goals are being achieved.



Programmatic Monitoring

Is the provider complying with program requirements, laws, and rules?

For example:

- Business Qualifications/Requirements
- Staff Qualifications
- Client Eligibility
- Allowable Activities (per funding source)
- Licensure



Programmatic Monitoring

Is the provider performing all required services?

For example:

Scope of work

- Required activities are being performed
- Complying with minimum standards

Deliverables

- Completion of project phases
- Number of clients served
- Number of acres surveyed
- Percentage of completion



Common Programmatic Issues

- Services performed prior to execution of agreement
- Insufficient documentation to evidence service delivery
- Ineligible clients for program
- Unable to validate services due to poor scope of work



Effective Monitoring Possible?

Vague

“The services provided by all of our Contractual Services Vendors include but are not limited to a plethora of tasks that change day to day”



Fiscal Monitoring

Fiscal monitoring of providers normally applies to:

- Recipient/Subrecipient Agreements
- Cost Reimbursement Agreements



Fiscal Monitoring

All expenditures are:

- In accordance with applicable laws, rules and regulations;
- Authorized by the agreement;
- Directly related to the project;
- Properly documented; and
- Properly accounted for (Advance Funds)



Allowable Expenditures

- Attorney General Opinion #78-101 - states an agency must have expressed or implied **statutory authority** to expend state funds.
- An agency cannot delegate to a provider an authority the agency does not possess. If an expenditure is unallowable for an agency, it is generally unallowable for the provider.



Determining Allowable Costs

- Authorized by:
 - State Laws
 - State Rules
- Reference Guide for State Expenditures
- Federal Laws, Rules and Regulations





Federal Funds

1. Project CFDA# (Catalog of Federal Domestic Assistance)
2. Referenced CFRs (Code of Federal Regulations)
3. OMB Circulars:
 - A-110 - General Admin. Requirements
 - A-133 - Federal Single Audit
 - A-122 - Cost Principles for Not-For-Profits
 - A-87 - Cost Principles for State & Local Govt.
 - A-21 - Cost Principles for Educational Institutions



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Evaluate Necessity and Reasonableness of Proposed Costs.

- Must be necessary to provide services.
- Use sound business practices in purchase.
- Requires professional judgment.
- Justification should be documented.

Ask - Can I defend this purchase?

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Allocating Proposed Costs

- A cost cannot be allowable, reasonable, and necessary unless it is allocable.
- A cost must be allocated in proportion to its benefit to the agreement.
- Must be able to prove the proportional benefit to the agreement.

Ask – What is the basis for the allocation?



Common Expenditure Issues

- Insufficient documentation
- Expenditures not relevant to agreement
- Consultant agreements where payment rates are not supported or justified
- Transactions such as leases, consultants, sub-contracts and sub-grants with related parties. Requires extensive justification and/or documentation.



Some Questionable Expenditures

- Candy
- Alcohol
- Banquets
- Decorations
- Greeting Cards
- Gift Cards
- Lobbying
- Personal Cellular Telephones
- Fund Raising
- Promotional Items
- Entertainment
- Refreshments
- Meals not in accordance with Section 112.061, F.S.

Note: some of these items may be allowable with statutory authority.



Monitoring Preparation

With limited resources, you must determine which providers will receive the most of your monitoring resources.

Consider:

- Which providers need the most assistance?
- What is the most effective, efficient use of your resources?



Risk Assessment

- Evaluation of each agreement using established criteria to determine the level of risk (e.g. low, medium, high).
- The foundation for an effective monitoring plan.
- Helps determine the timing, nature, and extent of monitoring.



Risk Assessment

Examples of Risk Factors

Consider which factors are material to the success of the agreement and your program.

- Total dollar amount of each agreement
- Complexity of services
- Risks to clients and the public
- Providers' experience and expertise
- Providers' past performance
- Program fiscal requirements



Monitoring Plan

After a risk level is assigned to each agreement, a monitoring plan is completed to identify the timing, nature, and extent of monitoring activities.



Monitoring Plan Example

Based on the ranking, monitoring activities are applied to address the risk level

- **Low Risk** – annual desk monitoring, review monthly invoice processing with budget, quarterly reports, and audit report.
- **Medium Risk** – quarterly desk monitoring, selective deliverable review (with source documentation), and audit report review.

Note: Program laws and rules may impact monitoring plan.



Monitoring Plan Example

Based on the ranking, monitoring activities are applied to address the risk level

- **High Risk** – annual on-site review, selective deliverable review (with source documentation), audit report review, monthly expenditures review, monthly invoice processing with budget review, and quarterly review of reports

Note: Program laws and rules may impact monitoring plan



Monitoring Tool

Documents the process used to determine compliance with requirements including sampling, testing, reporting, and corrective action.



Documentation

- **Sufficient** (*enough*)
- **Reliable** (*dependable & trustworthy*)
- **Relevant** (*related to the agreement*)

"The palest ink is better than the best memory."

Chinese Proverb



Documentation

Examples:

- Paid detailed invoices – Statements are not adequate
- Cancelled Checks/Bank Statements
- Payroll Registers/Signed Employee Project Time Sheets
- Travel vouchers in accordance with Section 112.061, *F.S.*
- Case notes
- IRS Return (Not-For-Profit Organizations)
- Attendance records/Sign-in sheets



Reporting Monitoring Results

Findings/results must be reported in a timely manner in order to be effective.

Monitoring results should be communicated to:

- Provider
- Agency management
- Others that may need/require the information



Monitoring Pitfalls

- Relying on provider generated documentation such as timesheets, spreadsheets and reports that have not been validated.
- Validating provider generated data against other provider generated data.
- Relying on testimonial evidence (e.g. interview with provider) without supporting documented evidence.
- *One and done monitoring* – One monitoring event then no verification of service delivery.



Programmatic Closeout

Includes, but is not limited to, determining and documenting that:

- All deliverables and services have been delivered and accepted in writing.
- All reports have been received and accepted in writing.
- Agreement objectives have been met.
- Financial consequences have been assessed for non-performance/non-compliance.



Fiscal Closeout

Includes, but is not limited to, determining and documenting that:

- Acquired non-expendable property has been returned to state agency.
- Advances and/or interest earned on advances have been recovered or applied against what is owed.
- Match requirements have been met.
- Amounts assessed as financial consequences for non-performance/non-compliance have been recovered.



Fiscal Closeout

Includes, but is not limited to, determining and documenting that:

- Disallowed costs and/or unused grant funds have been recovered.
- *Financial Status Report has been reviewed and approved in writing.
- *Cost reconciliation has been performed.
- Final payment to provider is made **only** after all programmatic and fiscal steps have been completed.

**Required for agreements with recipients or sub-recipients and all cost reimbursement agreements.*



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Questions?

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Department of Financial Services

Bureau of Auditing

