



State of South Carolina Office of the Inspector General

June 30, 2013

Director Delbert H. Singleton, Jr.
Procurement Division, Budget Control Board
Post Office Box 12444
Columbia, South Carolina 29211

Re: Contract Monitoring

Dear Delbert:

Thank you again for allowing me the privilege to attend and speak at the Budget Control Board's Procurement Director's Conference at Hickory Knob State Park. I learned a lot, and met many passionate, committed state leaders who do the tough work in the trenches everyday to keep the wheels of state government turning.

The purpose of this email is to formalize my observations of scanning the contract monitoring practices in South Carolina State Government. Based on two State Inspector General (SIG) investigations, I saw the wide variance in how several state agencies monitor contracts. Additionally, contract monitoring is generally viewed as a high risk of waste in all governmental agencies, and I have firsthand experience in federal government, particularly in information technology contracts.

Although the SIG has not conducted any testing on the state's procurement laws and procedures, from what I have seen, I am impressed. I do have concerns about agencies' contract monitoring capabilities. The Procurement Division's training curriculum, which is not mandatory, certainly covers contract monitoring. However, much like the SIG observed in the Information Security (INFOSEC) crisis, there is no central authority providing standards to state agencies on contract monitoring expectations. Based on my presentation and class interaction, the Procurement Directors certainly contract monitor, but it was clear there was no common approach in agencies and some reservation about how thorough this function was being executed throughout their organizations.

I will use an INFOSEC example to illustrate my views. In a survey, 100% of the Agency Chief Information Officers responded they had mitigated their respective agency's INFOSEC risk. Yet, other survey questions tested for the fundamental building blocks of a successful INFOSEC program, which determined a 63% compliance rate with half the agencies being less than 50% compliant. Because there were no central standards to compare to an agency's practices, it may explain their overconfidence. I suggest this may also be a factor with contract monitoring.

My scan of other state governments found, much like INFOSEC, a handful of states really appearing to be getting after this issue, with Florida looking like the best in class. The contract management risk generally manifests when procurement officers have to delegate the contract monitoring function to other organizational employees with varying skill levels, experience, training, and available time to commit to this responsibility.

Unlike INFOSEC, the state can quickly upgrade its capabilities by setting basic standards and guidance. A little training, structure, and common language, can upgrade capabilities in a short time with little cost and likely a much greater savings in terms of dollars and time, let alone providing Agency Directors due diligence assurance in this high risk area for waste.

I spent a lot of time looking for contract monitoring audit programs, and learned the audit profession spends the vast majority of their time on audit procedures for the procurement side of the cycle and only a small fraction on the monitoring side of the cycle. Ultimately, I pulled together the best pieces of my research into a DRAFT SIG Audit Program. There is no reason for the SIG to audit the state's contract monitoring capabilities because we can both forecast the result with some confidence based on the lack of central standards. I suspect a wide bell curve, much like agencies' INFOSEC programs. The SIG should not be in the "gotcha" business, and I have no intention of conducting any audits in the near term while agencies are without common central standards and expectations.

My suggestion is for your team, the subject matter experts, to put out standard policies, procedures (checklists), terminology, and training, possibly a short DVD. This central effort will save Agency Procurement Directors time and simplify implementation. I will likely weigh in with the Agency Heads in coordination with what you do, to raise their awareness and organizational expectation to have a functioning contract monitoring program in their agencies. I am confident Agency Heads will look into this once alerted. It has been my experience that Agency Heads' will handle issues, and the challenging part is for them to get the issue on their executive radar screen in the first place. I can help them with that.

Attached is my DRAFT SIG Audit Program, which may give you a running start on ideas for policies, procedures, and terminology. I am hopeful the Procurement Division will "grab the ball" on this issue to set out basic central guidance and/or standards. I will hold in abeyance testing this statewide function to allow your agency time to address central guidance and standards. I will commit to coordinating my testing with any new program you implement to ensure it has time to be fully implemented prior to testing. Hopefully, this will reinforce the need for agencies to look at their policies and procedures to meet your expectations, and give you feedback on the level of success in its implementation.

Often times, enterprise-wide changes are huge tasks. In this case, I think your Procurement Directors were hungry for some standards and guidance, and contract monitoring is just fundamental management, often with just basic checklists and training to simplify the efforts of many monitors who lack training and experience.

Please don't hesitate to call me 24/7 on my cell phone with any questions or if I can help in any way possible. Thanks again for your personal hospitality, guidance, and wisdom during my scanning process.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick J. Maley", followed by a long horizontal flourish.

Patrick J. Maley
Inspector General

PJM/pjm

cc: Director Marsha Adams, Budget Control Board