



**CALIFORNIA**  
**High-Speed Rail Authority**

# Contract Management Follow-Up

May 2016

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## EXECUTIVE SUMMARY

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The California High-Speed Rail Authority's (Authority) Audit Division has completed an audit of the Authority's contract management activities. The Authority has approximately \$1.3 billion in executed contracts as of July 1, 2015. To administer its contracts, the Authority uses contract managers. According to the State Contracting Manual, a contract manager is the authorized representative of the State of California responsible for administering a contract and monitoring the contractor's performance. The Authority's contract manager provides oversight of contract activities and deliverables, reviews and approves invoices, and responds to any concerns regarding contract performance.

The objectives of the audit were to determine if the Authority is managing contracts effectively and in accordance with the State Contracting Manual and the Authority's 2014 Contract Manager Handbook. We also wanted to determine if corrective action plans to address findings from the February 2015 Contract Management audit have been implemented and were sufficient to correct findings. To accomplish these objectives, we selected contract managers with contracts executed on or before July 1, 2015, that were not included in the February 2015 audit and a sample of contract managers interviewed from the February 2015 audit.

This Contract Management Follow-up audit identified the following issues:

- Lack of a consistently applied, structured contract management process in the area of oversight of contract managers.
- Responsibility for contract management continues to not always be well-coordinated when divided among Authority staff and/or other contractors.
- Lack of procedures to ensure complete contract files are transferred when the contract manager changes.
- Contract managers have not consistently considered what constitutes rework for contracts being managed.
- Not all contract managers are monitoring contract insurance provisions.

The report contains the following recommendations:

- Continue to perform Quality Assurance Reviews and implement improvements to Authority procedures to improve oversight of contract managers.
- Clearly communicate and document specific roles and responsibilities for Authority employees and outside entities who have contract management responsibilities.
- Develop procedures to assure all contract file documents are transferred when contract managers are changed.
- Outline clear expectations of contract managers in considering what constitutes rework for contracts they manage and document expectations in writing.
- Develop procedures that clarify how insurance contract provisions are monitored.

## BACKGROUND

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The California High-Speed Rail Authority's mission is to build the nation's first high-speed rail system. To achieve this, the Authority contracts with numerous consultants and governmental agencies to provide products and services. To administer these contracts, the Authority assigns contract managers to each contract. The Authority's contract managers provide oversight of contract activities and deliverables, review and approve invoices, and responds to any concerns regarding contract performance. The contract manager is required to follow applicable State guidelines and Authority policies and procedures.

The State Contracting Manual, Volume 1, Chapter 9, outlines requirements and recommendations for the conduct of contract administration and management. The State Contracting Manual states that a contract manager is the authorized representative of the State of California responsible for administering a contract and monitoring the contractor's performance. The Authority's Contract Manager Handbook was issued in July 2014 and details guidelines for contract managers to follow when managing and administering contracts. The Authority's 2014 Contract Manager Handbook replaced the Contract Administration Manual from 2009 that was previously used as a guideline for Authority contract managers.

The Authority's Audit Division performed an audit of contract management and issued the Contract Management audit report in February 2015. The February 2015 audit tested 23 of 31 (74%) contract managers and 72% of the \$1.8 billion of contract dollars as of August 2014, with the exception of the design-build contract. The February 2015 audit report noted findings and recommendations and the Authority management responded with corrective actions plans to address the findings. At the direction of the Authority Board, this contract management audit was performed to review all contract managers not reviewed in the February 2015 audit.

Corrective action plans were implemented by Authority management providing resources to assist contract managers in effectively managing their contracts. Contract management training is conducted by the Authority's Fiscal Services and Program Delivery Divisions and offered to employees engaged in contract administration and management activities. The Authority holds monthly meetings on contract management issues and contract managers are invited to attend these meetings. Beginning in September 2015, the Authority Program Delivery and the Financial Offices performed Quality Assurance Reviews of selected contract managers. At the direction of the Authority Board, this audit included an evaluation of the corrective actions implemented.

## SCOPE AND METHODOLOGY

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The contract management follow-up audit focused on all contract managers with active contracts as of July 1, 2015. Contract managers that were interviewed as part of audit testing during the February 2015 audit were excluded from this audit. However, follow-up on the corrective action plans relating to findings in the February 2015 audit were included as part of the follow-up component within this audit.

This audit examined contract management activities after contracts were approved and executed. The objectives of the audit were to determine if the Authority is managing contracts effectively and in accordance with the State Contracting Manual and the Authority's 2014 Contract Manager Handbook. Audit objectives also included determining if corrective action plans from the February 2015 audit have been implemented and were sufficient to correct findings.

The scope of the audit included interviewing 25 contract and task managers and reviewing contract file documentation for contracts active as of July 1, 2015. The aggregate total of contract dollars managed by the 25 contract and task managers interviewed was \$818,839,419. The contract and task managers were interviewed to determine if the Authority and its contract and task managers are effectively managing contracts in accordance with requirements of the State Contracting Manual and the Authority's 2014 Contract Manager Handbook. We also reviewed and analyzed the Authority's contract records and other supporting documents. Taking into consideration prior findings, contract amounts, and the complexity of contract management, we also selected four contracts from the February 2015 audit to determine if the findings were resolved.

Except as noted, this audit was conducted in accordance with the standards for the International Professional Practice of Internal Auditing. However, we are unable to cite compliance with the standards because the Authority's Audit Division has not undergone a peer review as required due to the recent formation of the Audit Division and the lack of a body of work to be reviewed.

The audit took place at the Sacramento and Fresno offices. The results of the audit were discussed with management on December 30, 2015. This report is intended for management's use. However, this report is a public document and its distribution is not limited.

## RESULTS AND RECOMMENDATIONS

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Our audit found improvement has been made in the Authority's contract management; however, the following issues persist:

1. The Authority continues to lack a consistently applied structured contract management process in the area of oversight of contract managers.

A structured contract management process ensures the lines of responsibility and information provided are clear for administering contracts, monitoring, and evaluating the contractor's performance. Authority contract managers did not always receive proper oversight and/or were not always provided with all contract documentation necessary to ensure effective contract management. Because oversight of contract managers is not fully developed or available to contract managers, a lack of a structured contract management exists within the Authority. Policy Directive POLI-FIN-01 identifies that Authority Managers are responsible for ensuring contract management practices are being administered and for conducting periodic evaluations. Management began performing quality assurance reviews in Fall 2015 and, as of October 2015, they had performed six reviews.

The lack of a structured of contract management process has resulted in the Authority taking on unnecessary contract risks:

- A task manager of an \$8,999,660 contract authorized work that was for staff augmentation and not within the scope of work of the contract.
- A contract manager of a \$495,498 contract did not have proper oversight to assure they were meeting their responsibilities such as monitoring contractor performance, invoice review and approvals, and tracking funding and expenditures.
- A contract manager of a \$32,176 contract incurred expenditures beyond the expiration date of the contract because they underestimated future expenditures prior to initiating an amendment request, which resulted in obtaining services without an executed agreement.

In our follow-up of the February 2015 corrective actions, the task managers of a since-expired, \$295,000,000 contract continued to not have sufficient information to determine if costs incurred for the work performed was billed correctly and was reasonable for the deliverables obtained. Missing information included identification of employees who worked on the task, hours worked, and description of the work performed at the task level.

### Recommendations:

- Continue to perform Quality Assurance Reviews.
- Oversight for contract managers should be established along with clearly documented expectations and regular communication to ensure progress and deliverables are met as required for each contract.
- Develop additional procedures addressing expired contracts and timelines for contract amendments for both time and cost that ensure contract amendments or new contracts are executed before expiration of contracts.
- Ensure that all persons performing contract management duties have sufficient information to ensure invoiced costs are reasonable and the deliverables are met.

2. Responsibility for contract management continues to not always be well-coordinated when divided among Authority staff and/or other contractors.

While segmented contract management evolved out of necessity due to low Authority staffing levels and the complexity of the Authority's various agreements, roles and responsibilities were not always clearly defined. The Authority contracts with the Rail Delivery Partner (RDP) that has expertise in high-speed rail programs. The RDP is often utilized to assist the Authority in monitoring contract performance of other contractors due to their expertise and the complexity of the agreements. However, roles and responsibilities were not always clearly defined and communicated between the Authority, contract managers and the RDP. Contract managers in some cases have delegated roles and responsibilities without adequate written documentation. In addition, the RDP has been performing tasks such as obtaining documentation necessary to show deliverables have been met, review of invoices, and retention of documentation of contract activities; however, the specific roles performed by the RDP were not well understood by the contract managers.

An Authority task manager for the RDP contract stated that they were not fully aware of their roles and responsibilities. As a result, the task managers may not be able to perform contract management functions efficiently or effectively and/or make decisions, putting the Authority at risk of not meeting contract deliverables.

Recommendations:

- Authority contract managers should communicate and document specific roles and responsibilities the RDP has in assisting contract managers with managing contracts. Authority contract managers who have the RDP assist with managing their contracts should assure roles and responsibilities are sufficient to ensure contracts are managed in accordance with the State Contracting Manual.
  - The contract manager for the RDP should communicate roles and responsibilities to individual task managers and document expectations. The RDP contract manager and task managers should also document key communications and assess how they are meeting established roles and responsibilities.
3. Lack of procedures to ensure complete contract files are transferred when the contract manager changes.

The Authority has transferred contract management duties from one contract manager to another as personnel changes. Contract managers inheriting contracts from other contract managers do not have clear guidelines for how file transfers should be conducted. Without sufficient information and documentation, contract managers may not have all the information regarding past contract activities to effectively manage their contracts. For example, one of the eight contract managers who inherited contract files was not proactive in assuring all documentation of past contract management activities was given to him. The Authority Contract Manager Handbook requires that contract managers immediately establish a contract administration file to be maintained through the life of the contract and for at least three years after the final payment under the contract.

Recommendations:

The Authority should develop procedures regarding the transfer of contract files when there is a change in contract manager. Procedures should address transfer of documentation and information related to all the contract manager's activities to the new contract manager.

4. Contract managers have not consistently considered what constitutes rework for the contracts being managed.

Fourteen of twenty contract managers interviewed for this audit have not considered what constitutes rework for the contracts they managed. Not documenting clear expectations puts the Authority at risk of paying for unacceptable deliverables. While the Authority contract manager training addresses rework issues, we found that contract managers have not proactively considered if and when rework applies to the contracts they manage. Per the State Contracting Manual, contract managers shall not authorize payment to the contractor for any work not performed satisfactorily.

Recommendations:

The Authority should outline clear expectations of contract managers in defining what constitutes rework for the contracts they manage. Contract managers should document expectations for deliverables to be proactive in preventing potential rework.

5. Contract managers are not all monitoring contract insurance provisions.

Seven out of fourteen contract managers interviewed for this audit and two of three contract managers re-interviewed from the February 2015 audit did not monitor insurance provisions for their contracts. Contract managers' lack of monitoring insurance contract provisions increases financial risk to the Authority because of uncertainty regarding whether contractors are carrying required insurance policies. Inquiries with contract managers and the Authority's Risk Management and Project Controls Division staff indicated Authority contract managers are not assuming responsibility for monitoring compliance with insurance contract provisions. In some cases, contract managers have assumed that this role is another Authority employee's responsibility.

Recommendation:

The Authority should revise procedures that address how contract managers ensure insurance contract provisions will be monitored.

## Memorandum

**DATE:** April 15, 2016

**TO:** Ms. Paula Rivera, Chief Auditor

**FROM:** Russell Fong, Chief Financial Officer  
Frank Vacca, Chief Program Manager  
Gary Griggs, RDP Program Director 

**CC:** Jeff Morales, Chief Executive Officer  
Dennis Trujillo, Chief Deputy Director  
Thomas Fellenz, Chief Council  
Deborah Harper, Chief Administrative Officer

**SUBJECT:** Contract Management Audit Response, March 30, 2016

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The Authority reviewed the draft Contract Management Follow-Up Audit, Report Number 15-02, dated March 30, 2016. Attached please find a written disposition of the findings and proposed actions for inclusion in the final report.

We concur with the recommendations in the draft report. Since the issuance of the Contract Management Audit in February 2015, the Authority has enhanced and clarified roles and responsibilities of contract management at the departmental level. Corrective actions have been implemented and reported to Audits quarterly. Improvements have been made in the Authority's contract management. However, we recognize that these implementations have not yet yielded the desired effectiveness.

Recognizing this shortfall, the Authority has established a Contract Administration organization, which includes the new Contract Management Services Unit (CMSU). This unit will develop policies and procedures, governance, process improvement, structure for systems and tools, training and templates applicable to all contract management areas. CMSU will also support the contract managers in ensuring payment controls and authorization limits are integrated and allocated to appropriate budget codes. This unit will provide significant assistance, bring compliance and consistency, and enhance communication and effectiveness to contract management in the Authority.

In addition, the Authority requests the Auditor to discuss the audit findings with the contract managers directly to ensure that everyone understands the importance of proper contract management.

If you have any questions or further discussion, please contact Russell Fong, Chief Financial Officer, at (916) 431-2929 or [Russell.Fong@hsr.ca.gov](mailto:Russell.Fong@hsr.ca.gov).

Attachment A: Response to Audit Division Report Number 15-02

High-Speed Rail Authority  
Response to Contract Management Follow-Up, Audit Report 15-02

At the beginning of 2016, the Authority made a major modification to the organization with respect to our approach to Contract Management. In order to focus attention to the management of this critical area, the Authority established the Contract Administration organization, which includes the new Contract Management Services Unit. This unit will develop policies and procedures, governance, process improvement, structure for systems and tools, training and templates applicable to all contract management areas. This fundamental change in the Authority's approach to contract management will provide the mechanism to eliminate these findings in future audits. The Authority's responses to the findings and recommendations are noted below.

**Finding 1**

The Authority continues to lack a consistently applied structured contract management process in the area of oversight of contract managers.

**Recommendations:**

- Continue to perform Quality Assurance Reviews.
- Oversight for Contract Managers should be established along with clearly documented expectations and regular communication to ensure progress and deliverables are met as required for each contract.
- Develop additional procedures addressing expired contracts and timelines for contract amendments for both time and cost that better ensure contract amendments or new contracts are executed before expiration of contracts.
- Ensure that all persons performing contract management duties have sufficient information to ensure invoiced costs are reasonable, and the deliverables met.

**Response:**

We concur with the finding and recommendations. With the recently established Contract Administration organization, the below actions have been initiated. Progress on the actions will be reported to the Division of Audits not less than every 90 days. The Acting Director of Contract Administration, Lam Nguyen, will be responsible for implementing these actions.

- Enhancing the existing quality assurance review and oversight of contract management policy.
- Performing regular internal contract compliance assessments.
- Assessing compliance, identifying variances, and reporting performance (Key Performance Indicators/Metrics)
- Enhancing review and oversight of contract management.
- Documenting and reporting expectations and communication for tracking performance and progress.
- Identifying and mitigating the gaps in the existing policies and procedures with respect to new and amended contracts.

- Incorporating additional procedures in contract amendment process to ensure amendment is executed before the contract expiration date.
- Implementing enhanced processes and training for all Contract Managers.
- Ensuring that the invoice reviews system aligns invoiced costs with services performed.

### **Finding 2**

Responsibility for contract management continues to not always be well-coordinated when divided among Authority staff and/or other contractors.

#### **Recommendations:**

- Authority contract managers should communicate and document specific roles and responsibilities the RDP has in assisting contract managers with managing contracts. Authority contract managers who have the RDP assist with managing their contracts should assure roles and responsibilities are sufficient to ensure contracts are managed in accordance with the State Contracting Manual.
- The contract manager for the RDP should communicate roles and responsibilities to individual task managers and document expectations. The RDP contract manager and task managers should also document key communications and assess how they are meeting established roles and responsibilities.

#### **Response:**

We concur with the finding and recommendations. With the recently established Contract Administration organization, the below actions have been initiated. Progress on the actions will be reported to the Division of Audits not less than every 90 days. The Acting Director of Contract Administration, Lam Nguyen, will be responsible for implementing these actions.

- Reviewing existing contract management Roles and Responsibilities (R&R's) and identifying gaps, i.e. R&R's not covered in State Contract Manual or Contract Manager Handbook and/or R&R's requiring clarity.
- Enhancing R&R's to ensure that they are documented, aligned with existing R&R's, State protocol, RDP contract requirements, responsibilities and deliverables.
- Implementing responsibility matrix for transparency in R&R's.
- Providing appropriate program communication and training.
- Establishing common protocol for documenting key communications and deliverables (meeting minutes, checklists, etc.) to support communications and meetings with Task Managers.

### **Finding 3**

Lack of procedures to ensure complete contract files are transferred when the contract manager changes.

#### **Recommendation:**

Develop procedures regarding the transfer of contract files when there is a change in contract manager. Procedures should address transfer of documentation and information related to all the contract manager's activities to the new contract manager

Response:

We concur with the finding and recommendations. With the recently established Contract Administration organization, the below actions have been initiated. Progress on the actions will be reported to the Division of Audits not less than every 90 days. The Acting Director of Contract Administration, Lam Nguyen, will be responsible for implementing these actions.

- Developing and implementing a contract management governance framework that will include:
  - Consistent use of the existing Uniform Contract Filing System to allow for commonality and standardization between contracts.
  - Enhancing guidelines for contract documentation management and retention.
  - Providing job-aides, orientation, and training to ensure that new contract managers understand the document management system and receive all necessary documents to perform the contract management duties.

**Finding 4**

Contract managers have not consistently considered what constitutes rework for the contracts being managed.

Recommendation:

The Authority should outline clear expectations for contract managers to consider when defining what constitutes rework for the contracts they manage. Contract managers should document expectations for deliverables to be proactive in preventing potential rework.

Response:

We concur with the finding and recommendations. With the recently established Contract Administration organization, the below actions have been initiated. Progress on the actions will be reported to the Division of Audits not less than every 90 days. The Acting Director of Contract Administration, Lam Nguyen, will be responsible for implementing these actions.

- Assessing the effectiveness of understanding rework.
- Providing recommendations for industry best practices with respect to rework, including scenarios of rework for various contract types.
- Enhancing guidelines and providing training to contract managers to identify, review, and process information related to rework.

**Finding 5**

Contract managers are not all monitoring contract insurance provisions.

Recommendation:

The Authority should revise procedures that address how contract managers ensure insurance contract provisions will be monitored.

Response:

We concur with the finding and recommendations. With the recently established Contract Administration organization, the below actions have been initiated. Progress on the actions will be

reported to the Division of Audits not less than every 90 days. The Acting Director of Contract Administration, Lam Nguyen, will be responsible for implementing these actions.

- Enhanced policies and procedures
- Clearly defined R&R's
- Job-aides

to provide contract managers with the tools necessary for monitoring specific contract requirements, including insurance provisions.