



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

# Contract Management Audit

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## July 2019 – October 2020

October 2021

Prepared by the Audit Office Report Number: 19-06

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## EXECUTIVE SUMMARY

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The Audit Office of the California High-Speed Rail Authority (Authority) completed its audit of the Authority's contract management.

The purpose of our audit was to review the Authority's contract management. Our audit objective was to determine if:

- Contracts are managed in compliance with the Authority's contract management policies and procedures.

Our subobjectives consisted of reviewing the Authority's responses to the California State Auditor's November 2018 report to determine if the corrective actions are being consistently maintained.

The scope of the audit focused on contracts that were active during the period of July 2019 through October 2020. We tested a sample of 18 out of 218 (8%) contracts, with a dollar value of \$835,821,655 (12%), out of a possible \$7,137,477,573.

In summary, we found that procedures related to contract management documentation are not consistently understood and/or followed by contract managers. We were not able to find 150 of 630 documents (24%) required by the procedures. We also found that the Authority has generally maintained corrective actions in response to the California State Auditor's November 2018 audit report. Details of the issues and our recommendations are attached. Also included is the Authority's response to our report.

### Recommendations

We recommend the establishment of a workgroup that collaborates on the elements required in procedures. The workgroup would also work to develop a continuous improvement process for contract management. We also recommend the prompt release of the revised policies and procedure in progress, and that supervisors of contract managers document their review of contract manger performance.



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Paula Rivera, Audit Chief



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Date

# Audit Report

## BACKGROUND

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The California High-Speed Rail Authority (Authority) is responsible for planning, designing, building and operating the first high-speed rail system in the nation. California high-speed rail will connect the mega-regions of the state, contribute to economic development and a cleaner environment, create jobs, and preserve agricultural and protected lands.

To fulfill its responsibilities, the Authority entered into various agreements with contractors. Each contract was assigned an Authority staff member to be the contract manager responsible for work progress and deliverables, along with reviewing and approving invoices for payment.

In 2016 a contract management and administration branch was established in the Financial Office under the Chief Financial Officer, with the responsibility of managing the Authority's Rail Delivery Partner contract. Shortly after inception, the branch created the Contract Management Support Unit, which was renamed Contract Assessment Branch (CAB) in 2019.

CAB is responsible for developing the policies and procedures for contract management to standardize and strengthen existing practices. CAB also develops and administers training on the policies and procedures. A re-organization of the Authority in 2018 moved CAB from the responsibility of the Chief Financial Officer to the Chief Administrative Officer.

A constant challenge for the Authority has been its high staff turnover; this extends to contract managers and Authority management who are in a position to direct the contract management process. We define staff turnover to include both: those who leave the Authority and staff who change responsibilities. The positions of Chief Executive Officer, Chief Operating Officer, and Chief Deputy Director all turned over in the first half of 2018. High turnover has impeded consistency at the Authority and its ability to gain traction with the development of processes to their maturity. As a result, contract management processes have not been through a complete cycle of the PDCA (Plan-Do-Check-Act) continuous improvement process.

The Authority's contract management criteria include the existing nine policies and nine procedures for contract management, which were issued in March 2017 with minor revisions between December 2018 and March 2019. All policies and procedures are available on the Authority intranet. In 2020 CAB made substantial revisions to the policies and procedures; the revisions are currently in the review process.

In November 2018, the California State Auditor released their audit of the Authority in which they provided seven recommendations related to contract management. In the Executive Summary of the report, they stated "Without the contract management documentation its policies require, the Authority cannot demonstrate that the hundreds of millions of dollars it has spent to date on the contracts we reviewed has been necessary or appropriate." In response, the Authority implemented corrective actions.

In 2019, the Administration Office implemented one of the corrective actions by conducting the first assessment of contract managers. This assessment was led by a consultant working with authority staff. The

second assessment, in 2020, was conducted by CAB with authority staff and no consultants. CAB has a risk assessment process to determine which of the contract management policies and procedures they will look at during their contract assessment.

In the 2020 assessment, CAB performed a risk-based compliance assessment for six of the nine contract management procedures for all contracts. After an initial review in February 2020 to identify where improvement was needed, each contract manager received individualized instruction for noncompliances CAB found in the contracts they were managing. Contract managers were given an opportunity to correct the issues before the assessment's final report was issued in June 2020.

CAB prepared non-compliance reports (NCRs) for any issues that remained after the contract managers had been given instruction and the opportunity to correct in September 2020. The Quality Management Team (Quality) is responsible for tracking NCRs and working with staff to address root causes and develop corrective actions. Quality reviewed the information and concluded that the procedures did not require specified steps and documents and therefore NCRs were not merited. Quality recommended quality action reports instead of NCRs. In April 2021, quality action reports were issued by Quality as a result of CAB's 2020 contract management assessment.

To date, there has not been a full implementation of the assessment cycle. The delayed release of revised policies and procedures\* has resulted in no assessment for more than a year. Ongoing annual assessments would provide management with comparable year-over-year results.

Management and staff turnover and differences in approach between the first assessment (November 2018 – February 2019) and the second assessment (February – June 2020) make it difficult to compare the annual results. Delays in processing non-compliance reports or quality action reports from the 2020 assessment have limited the ability to understand if corrective actions have been identified and implemented. Revised contract management procedures\* have been developed; the revisions are expected to clarify expectations and compliance. After CAB has trained contract managers on the revised procedures, assessments can be conducted to identify problem areas and improve compliance, thereby improving contact management efficiency and effectiveness.

\* The revised contract management procedures were released in September 2021, between the issuance of a draft report and this final report.

## OBJECTIVES, SCOPE, and METHODOLOGY

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The purpose of our audit was to review the Authority's contract management. Our audit objective was to determine if contracts are managed in compliance with policies and procedures.

Our subobjectives consisted of reviewing the Authority's responses to the California State Auditor's November 2018 report to determine if the corrective actions are being consistently maintained.

To accomplish our objectives, we reviewed applicable criteria, interviewed staff involved in the contract management process, and tested selected contract files. We tested a judgmental sample of 18 out of 218

contracts, with a dollar value \$835,821,655 (12%), out of a possible \$7,137,477,573.

The scope of the engagement was limited to active contracts during the period of July 2019 through October 2020.

This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. The results were discussed with management on May 14, 2021. A draft report was issued on July 22, 2021 to obtain management's response to the recommendations. The Authority's response and corrective actions were received October 5, 2021 and are attached to this report.

## CONCLUSION

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We found that procedures related to contract management documentation are not consistently understood and/or followed by contract managers. We also found that the Authority has generally maintained corrective actions in response to the California State Auditor's November 2018 audit report.

Our findings are detailed below.

### ***Issue 1: Policies and Procedures Are Not Consistently Followed by Contract Managers***

Our testing criteria were the 35 key documents identified in the Authority's nine contract management procedures. In total, we reviewed for 630 documents (18 contracts x 35 key documents). Of those tested, contract managers were unable to provide 150 key documents (24%). 108 of the 150 noncompliant items were related to five specific procedures that had high rates of noncompliance (30% or higher), which indicates this subset of procedures is not well understood.

A contributing factor to this high noncompliance rate is that the required documents for each procedure are not clear. The procedures themselves identify key documents that are to be generated or used during that procedure. Our interviews with CAB noted that they did not consider every key document, or element within the nine procedures, to be mandatory. Furthermore, there is a lack of consensus within the Authority on the meaning of the terms such as "key," "deliverables," and "risk." Two of the five procedures with high rates of noncompliance were regarding deliverables management and risk management.

Another contributing factor is that some supervisors are not holding their contract managers accountable for complying with policies and procedures. Based on our interviews, supervisors do not have a process for documenting their contract manager oversight to give reasonable assurance that contract managers are in compliance.

Revised policies and procedures have been developed but the revisions review process has experienced many delays.

### **Recommendations**

- CAB should release the revised policies and procedures for contract management as soon as possible.

- Contract management supervisors should provide strong oversight by documenting their review of compliance with the procedures, retain copies of contract managers' assessments to use as a baseline to determine compliance, and document the meetings that they have with the contract managers to discuss areas of improvement.
- The Authority should form a workgroup of stakeholder representatives to collaborate on the elements required in the procedures and develop a continuous improvement process for reviewing and revising the policies and procedures individually and as a whole. The progress and results of the group should be vetted by the executive management team.
- When reviewing and revising the policies and procedures the multi-disciplinary group of stakeholder representatives should consider how contract management activities flow and align throughout the organization, ensuring that changes and revisions to procedures do not negatively impact any one area or hinder optimal performance. The group should give consideration as to what constitutes a deliverable and how risks are identified and managed.

### **Auditee Response**

1. The Authority concurs with this recommendation. The policy and procedures have been revised, approved, and released.
2. The Authority concurs with this recommendation and will proceed as follows:
  - The RACI Matrix (a responsibility assignment matrix) has been updated to include the contract managers Supervisor role and responsibilities.
  - CAB will conduct RACI meetings with the contract managers and their support teams to document roles and responsibilities. CAB will obtain concurrence and approval signatures from the contract managers and their Supervisor by 12/31/21.
  - The FY 2021/2022 Assessment Plan will be updated to include an additional review template for Supervisors to document areas of improvement and compliance with the contract management policy and procedures by 10/31/21.
  - CAB will begin the annual contract manager Supervisor Training by 12/31/2021.
3. The Authority concurs with this recommendation and will proceed as follows:
  - CAB will develop a charter for a multi-disciplinary contract management workgroup that will support the continuous improvement efforts of updating contract management policies and procedures by 10/31/21.
  - Executive Committee will receive monthly Contract Management workgroup updates, beginning 11/15/21.
4. The Authority concurs with this recommendation and the Contract Management Workgroup Charter objectives will include reviewing the flow of contract management activities throughout the organization. Consideration will be given to Deliverables Management and Risk Management in addition to other high-risk areas.

### **Auditor Analysis of Response**

The Audit Office verified the policies and procedures were revised and issued on August 31, 2021.

The Audit Office received a copy of the updated RACI on September 8, 2021.

The Authority's response addresses the audit recommendations.

## ***Issue 2: Assessments and Training Are Not Accomplishing Full Intent***

The dual purposes of the assessments in the 2020 Contract Management Assessment Plan were to measure contract manager performance against contract management procedures and to provide contract managers an opportunity for improvement in policies and procedures compliance. The plan did not identify specific goals for assessments (i.e., target compliance rate). Our testing shows that high noncompliance with the policies and procedures remains a problem for contract management.

Below are the final noncompliance results for CAB's 2020 assessments by office that examined selected elements of six of nine procedures for all contracts.

- ◆ Administration Office – 15%
- ◆ Financial Office – 0%
- ◆ Information Technology Office – 25%
- ◆ Legal Office – 0%
- ◆ Program Delivery Office – 16%
- ◆ Strategic Communications Office – 0%

Our testing results show that there was an overall 24% noncompliance rate for the comprehensive review of all nine procedures as measured in the sample of 18 contracts. While compliance improved for the CAB-assessed procedures, we were expecting a lower overall noncompliance rate post-assessment and our testing showed the overall noncompliance rate is higher than anticipated.

CAB has a risk assessment process to determine which of the contract management policies and procedures they will look at during their assessment. CAB's method of assessing the contract managers has led to an unintended outcome whereby contract managers have primarily addressed elements that were specifically pointed out in the assessment, but in general they did not address other procedures and elements. Compounding the issue, documentation in the Uniform Filing System is not well-monitored or enforced by contract management supervisors. Supervisor monitoring is mostly through meetings.

Overall, the positive effect of the assessments has been limited. Compliance has improved in the areas CAB reviewed (e.g., deliverables, invoice logs), but in the areas that the CAB did not review, noncompliance remains high (e.g. contracts claims tracking log, review notes) because contract managers and their supervisors may not be fully aware of where they are out-of-compliance with procedures.

We noted that the contract management training on all nine policies and procedures was limited to a single two-hour session. The training was originally longer but was shortened in response to management's request to condense the training time. In our interviews we found that even after receiving training some contract managers do not understand why certain requirements are important. CAB has acknowledged that the training should be expanded and they offer the contract managers individual training. However, this individual training relies on the contract manager being aware that they need help and reaching out to CAB for assistance.

### **Recommendations**

- Contract managers should understand the Authority's policies and procedures related to contract management.

- CAB’s contract management assessments should look for compliance on every procedure and element on a routine basis.
- Contract management supervisors should provide strong oversight by documenting their review of policy and procedure compliance, retaining copies of assessments to use as a compliance baseline, and documenting the meetings they have with the contract managers to discuss areas of improvement.
- CAB should revise and expand the training to allow sufficient time to adequately address all of the policies and procedures.

### **Auditee Response**

1. The Authority concurs with this recommendation. CAB provides contract management teams with training, tools, and resources to help them understand and be successful at contract management. There are 3 pillars of the branch which work to promote adherence to internal and external standards and requirements: policy and procedures, training, and assessments. CAB has noted significant improvement in all areas of contract management and CAB agrees that contract managers would benefit from additional training. To that effort, CAB has developed a new Contract Management Training Program prior to the release of this report. This mandatory training is for contract managers and support staff which includes 12 hours of expanded procedural training. In addition, CAB will be offering the opportunity to receive workshop style instruction to review the procedural job aids and templates. This training is more interactive and enhances the understanding of the policy and procedures for contract management teams. CAB has completed updated training materials and has begun conducting new training sessions for contract managers and their support staff effective 8/16/2021. In addition, Supervisors are provided with annual training by CAB that highlights their role as a supervisor to a contract manager. To further implement continuous improvement of supervisor oversight, CAB added the Supervisor Role to the RACI Matrix (a responsibility assignment matrix).
2. The Authority concurs with this recommendation and will proceed as follows:
  - The Contract Management Assessment Program will be updated to include every procedure, by 10/31/21.
  - CAB has begun conducting additional on-going Document Management assessments to ensure all required procedural documents are in the Contract Management File as of 8/20/21.
3. Same recommendation and response as depicted in Issue 1, recommendation 2
4. The Authority concurs with this recommendation. The Contract Management Training Program has been updated to provide 12 hours of instructional training in order to adequately address all the steps within the procedures. The contract managers are also given the opportunity to receive a workshop style training if further training is needed on how to utilize specific tools and or adhere to specific requirements. The expanded training program began 8/16/21.

### **Auditor Analysis of Response**

The updated Contract Management Training Program was received on September 8, 2021. It includes a 12 hours of training.

The Authority’s response addresses the audit recommendations.



### ***Issue 3: Applicability of Some Elements Within the Procedures Is Questionable***

During our interviews, six of 13 contract managers stated that they believed certain elements of the contract management procedures were impractical or not applicable to them. For example:

- The Uniform Filing System (UFS) structure was created with construction contracts in mind, and some contracts don't need as much detail and it's easier to organize files on SharePoint with the folders needed.
- Time and materials contracts don't always have tangible outcomes so deliverables management doesn't fit the procedure.
- The Risk Management Procedure and deliverables tracking not very useful for third-party or local agency contracts.
- Contractor assessment is not applicable to third-party or local agency contracts.
- Not all procedures apply to inter-agency contracts.

While the applicability of the contract managers' opinions can be debated, it shows that there is a need for more communication between CAB and the various Branches/Offices that are affected by the procedures.

The current policies and procedures were written in 2017 and 2019, by individuals who were not actively managing the contracts and contain requirements more applicable to Program Delivery contracts although they are required for all contract types. Attention was not given to the functional differences between various types of Authority contracts.

#### **Recommendation**

- The Authority should form a workgroup of multidisciplinary stakeholder representatives within the Authority to collaborate on the elements required in the procedures and develop a continuous improvement schedule for reviewing and revising the policies and procedures. The progress and results of the group should be vetted by the executive management team.
- The multidisciplinary group should consider how contract management activities flow and align throughout the organization ensuring that the changes to policies and procedures do not negatively impact any one area and/or hinder optimizing performance.

#### **Auditee Response**

1. Same recommendation and response as depicted in Issue 1, recommendation 3
2. Same recommendation and response as depicted in Issue 1, recommendation 4

#### **Auditor Analysis of Response**

The Authority's response addresses the audit recommendations.

#### ***Issue 4: California State Audit Recommendations Follow-Up***

We found that the Authority has generally maintained corrective actions implemented in response to the California State Auditor's (CSA) November 2018 contract management recommendations, however we noted the following:

- CSA Recommendation 7 required CMSU (now CAB) to establish a schedule to monitor individual contract manager compliance and report annually the results of this monitoring to Authority executive leadership.

##### Audit Office Follow-up

CAB has performed two assessments, completed in February 2019 and June 2020. The June 2020 assessment final report was given to the Chief Administrative Officer but there is no documentation that the results were communicated to the executive management team. The State Auditor recommendation was to perform assessments, which CAB has done. The 24% non-compliance rate identified in Issue 1 is the result of our testing of contract manager compliance with Authority procedures.

- CSA Recommendation 9 was to prevent the inappropriate use of contractors to perform state functions, the Authority should develop procedures by May 2019 for evaluating whether new or existing administrative duties should be assigned to contractors or to state employees.

##### Audit Office Follow-up

The Administration Office created the Contract Reporting and Government Code 19130 procedure, however our test sample showed that the completed forms were not filed in the Uniform Filing System (UFS) and CAB did not assess contract managers for this procedure. Therefore, we do not have reasonable assurance that the Authority is following this process.

#### **Recommendation**

- CAB should share the contract manager assessment results with the executive management team.
- The Authority created a procedure to address the recommendation. However, we do not have assurance that the procedure is effective. The Authority should assess if this procedure needs clarification.

#### **Auditee Response**

1. The Authority concurs with this recommendation and will proceed as follows:
  - The Contract Compliance Procedure will be updated to include formally annual reporting Contract Management assessment results to Executive Management
  - CAB will formally share results with the Executive Management of Contract Management Assessments
2. CAB reviewed the existing procedure and evaluated its effectiveness and believes the procedure is necessary. Government Code (GC) 19130 establishes standards for the use of personal services contracts. Each personal services contract is required to justify why the State should contract with a vendor rather than utilizing state staff. This requirement is found on the Department of General

Services form Std. 215 which is included with every personal services contract file. Generally, this is not a form the contract manager completes and signs, which is why CAB does not assess this requirement.

### **Auditor Analysis of Response**

The Authority's response addresses the audit recommendations.

This report is intended as information for the Authority's management. However, this report is a matter of public record and its distribution is not limited.

The Audit Office acknowledges that key contributors to our understanding of contract management were the CAB staff and various Authority contract managers. We thank them for their time and cooperation and look forward to providing assistance, as needed in addressing the issues identified.



# CALIFORNIA High-Speed Rail Authority

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## Memorandum

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**DATE:** October 6, 2021

**TO:** Paula Rivera, Chief Auditor

**FROM:** Jeannie Jones, Chief Administrative Officer

**CC:** Pam Mizukami, Chief Deputy Director

**SUBJECT:** Transmittal of Final Audit Response to Report #19-06

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The California High-Speed Rail Authority (Authority) appreciates the opportunity to respond to the Contract Management Draft Audit Report #19-06 to review the content for fairness and accuracy, in addition to reflect and take action on opportunities for improvement.

Our comments, responses and proposed corrective actions will follow the format of the audit report and are attached. To ensure that the proposed corrective actions align with Authority-wide processes and meet leading industry standard practices, the Contract Assessment Branch (CAB) under the Administration Office has included Executive Leadership, Contract Management stakeholders, and Contract Management Subject Matter Experts in the review of this response. CAB has developed the following response on behalf of the Authority and its contract management organization.

If you have any questions or would like additional information, please contact me at [jeannie.jones@hsr.ca.gov](mailto:jeannie.jones@hsr.ca.gov)

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**Jas Jones, Chief Contract Assessment Branch  
on behalf of Jeannie Jones, Chief Administrative Officer**

**Signature:** *Jaskaren Jones*

**Email:** jaskaren.jones@hsr.ca.gov



## Contract Management Audit Response

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Audit Timeframe: July 2019 – October 2020

Draft Report Release Date: July 22, 2021

**Prepared by the Contract Assessment Branch (CAB)**

This Contract Management Audit Response has been reviewed by Authority-Wide Stakeholders

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# Contract Management Audit Response

## 1 INTRODUCTION

The California High-Speed Rail Authority (Authority) appreciates the opportunity to respond to the Contract Management Draft Audit in order to review the content for fairness and accuracy, in addition to reflect and take action on opportunities for improvement. To ensure that the proposed corrective actions align with Authority-wide processes and meet leading industry standard practices, the Contract Assessment Branch (CAB) under the Administration Office has included Executive Leadership, Contract Management stakeholders, and Contract Management Subject Matter Experts in the review of this response.

CAB is responsible for developing and maintaining the policies and procedures for contract management to standardize and strengthen existing practices. CAB also develops and administers Contract Management Training to contract managers, support staff and their supervisors on those policies and procedures. On an annual basis, CAB conducts a Contract Management Assessment Program which includes all active contracts. The annual assessments are performed to monitor contract managers' compliance with policies and procedures and identify opportunities for continuous improvement.

The Authority acknowledges and values the support from the Internal Audit Team as part of the continuous improvement process. The internal audit focused on a small population of contracts, which included approximately 8% of total active contract volume (18 out of 218 active contracts) and approximately 12% of total active contract value (\$835,821,655 out of \$6.8 Billion). The focus of this audit did not include the Design-Build contracts. The audit also coincided with a development cycle of policy and procedure updates and thus most of the non-compliance related findings and recommendations by the Internal Audit Team were either already in process of being addressed or have since been incorporated into CAB's 2021 plan for improvements. We believe these efforts will help bring the audit results more in line with actual Contract Manager performance and with continued improvement strategies in place, the Authority plans to continue striving to build an exceptional Contract Management Program on the nation's largest infrastructure project.

# Contract Management Audit Response

## 2 CLARIFICATIONS TO THE AUDIT REPORT

While composing this response to the Audit Report, CAB reviewed the reports provided by the Audits team and identified which contracts were missing specific documents. Many of the identified non-compliance areas in the audit report were resolved as the issues were administrative in nature (i.e., reference documents not in the file) and not contract related non-compliance. The initial non-compliance percentage provided in the audit report was 24%. However, by eliminating the reference document findings, the percentage was reduced to 14%. In addition, CAB met with the contract managers whose contracts were the focus of the audit. Upon completion of the meetings with contract managers, the percentage of non-compliance was reduced to 5%. Any remaining non-compliance areas have been communicated to the contract manager and a corrective action plan is in place to continue efforts to close and correct those issues, further promoting continuous improvement and communication.

In addition, the Authority found that the interpretation of procedures did not recognize the variable nature of different contracts and points-in-time of contract life, which resulted in higher non-compliance results than expected. To eliminate any further misinterpretation, these elements have been clarified in the updated policies and procedures and further elaborated to differentiate between required documents and reference/supporting documents. The Authority believes that the implemented clarifications will help bring the audit results more in line with actual contract manager performance. Furthermore, the policy and procedures update process also included solicited feedback from a multi-disciplinary group of stakeholders, who provided recommendations to be incorporated into the policies and procedures.

## 3 RESPONSE TO FINDINGS AND OBSERVATIONS FROM AUDIT REPORT

The Authority's responses and corrective action addressing the Audit Report's findings are detailed below.

### 3.1 Issue 1: Policies and Procedures are not consistently followed by Contract Managers

Page 3, Paragraph 3 from the Audit Report: *"Our testing criteria were the 35 key documents found in the Authority's nine contract management procedures. In total, we reviewed for 630 documents (18 contracts x 35 key documents). Of those tested, contract managers were unable*

# Contract Management Audit Response

*to provide 150 key documents (24%). 108 of the 150 noncompliant items were related to five specific procedures that had high rates of noncompliance (30% or higher), which indicates this subset of procedures is not well understood.*

## Response to Issue 1:

The Authority concurs that some procedures are not consistently followed by contract managers, however the high rate of 24% noncompliance within the Audit Report is questionable. Of the “key” documents that the Audit Report cited as documents contract managers were unable to provide, 59 of the 150 documents are considered tools for contract managers to utilize as reference documents (i.e., List of Dispute Categories). Based on the report of the 18 contracts internal audits reviewed, it appears that contract managers do have a universal knowledge of which documents are not required to be in the contract file. For example, neither the Responsible, Accountable, Consulted, Informed (RACI) Matrix or the Lessons Learned log were included in 17 of the 18 contract files, as those documents are understood by all contract managers to be discretionary. Within the Contract Claim and Dispute Management Procedure there are two documents that are clearly utilized as informational only. The List of Dispute Categories and the List of Claim Categories are reference materials that are used to complete other documents within the procedure. The absence of these documents in the contract management file should not be considered as noncompliant. While there are other documents that may not be required to be in the contract file, just these four discretionary documents alone reduce the 24% noncompliance rate reflected in the audit report to 14%. The procedures are “living” documents and with CAB’s continued improvement practices already in place, the Authority plans to continue updating the Contract Management procedures to align with existing and streamlined processes.

## Issue 1 – Recommendations from Audit Report

1. CAB should release the revised policies and procedures as soon as possible.

### RESPONSE:

The Authority concurs with this recommendation. The policy and procedures have been revised, approved, and released.



# Contract Management Audit Response

2. Contract management supervisors should provide strong oversight by documenting their review of compliance with the procedures, retain copies of contract managers' assessments to use as a baseline to determine compliance, and document the meetings that they have with the contract managers to discuss areas of improvement.

## RESPONSE:

The Authority concurs with this recommendation and will proceed as follows:

- The RACI Matrix (a responsibility assignment matrix) has been updated to include the contract managers Supervisor role and responsibilities;
  - CAB will conduct RACI meetings with the contract managers and their support teams to document roles and responsibilities. CAB will obtain concurrence and approval signatures from the contract managers and their Supervisor by 12/31/21;
  - The FY 2021/2022 Assessment Plan will be updated to include an additional review template for Supervisors to document areas of improvement and compliance with the contract management policy and procedures by 10/31/21;
  - CAB will begin the annual contract manager Supervisor Training by 12/31/2021.
3. The Authority should form a workgroup of stakeholder representatives to collaborate on the elements required in the procedures and develop a continuous improvement process for reviewing and revising the policies and procedures individually and as a whole. The progress and results of the group should be vetted by the executive management team.

## RESPONSE:

The Authority concurs with this recommendation and will proceed as follows:

- CAB will develop a charter for a multi-disciplinary contract management workgroup that will support the continuous improvement efforts of updating contract management policies and procedures by 10/31/21;
- Executive Committee will receive monthly Contract Management workgroup updates, beginning 11/15/21.

# Contract Management Audit Response

4. When reviewing and revising the policies and procedures the multi-disciplinary group of stakeholder representatives should consider how contract management activities flow and align throughout the organization, ensuring that changes and revisions to procedures do not negatively impact any one area or hinder optimal performance. The group should give consideration as to what constitutes a deliverable and how risks are identified and managed.

## **RESPONSE:**

- **The Authority concurs with this recommendation and the Contract Management Workgroup Charter objectives will include reviewing the flow of contract management activities throughout the organization. Consideration will be given to Deliverables Management and Risk Management in addition to other high-risk areas.**

### **3.2 Issue 2: Assessments and Training Are not accomplishing full intent**

Page 4, Paragraph 3-5 from the Audit Report: *Below are the final noncompliance results for CAB's 2020 assessments by office that examined selected elements of six of nine procedures for all contracts*

- Administration Office – 15%
- Financial Office – 0%
- Information Technology Office – 25%
- Legal Office – 0%
- Program Delivery Office – 16%
- Strategic Communications Office – 0%

*Our testing results show that there was an overall 24% noncompliance rate for the comprehensive review of all nine procedures as measured in the sample of 18 contracts. While compliance improved for the CAB- assessed procedures, we were expecting a lower overall noncompliance rate post-assessment and our testing showed the overall noncompliance rate is higher than anticipated.*

#### **Response to Issue 2:**

The testing results from the 2020 Contract Management Assessment were draft percentages that CAB had identified prior to working with QMT. These percentages were not final and should not be considered as a method of determining compliance. For all future assessment reports, CAB will ensure to clarify that the results identified by CAB are

# Contract Management Audit Response

draft only. However, once QMT completes their process and issues final NCR's, CAB will utilize that data to finalize non-compliance percentages within the annual Contract Management Assessment Summary Report.

## Issue 2 -Recommendations from Audit Report:

1. Contract managers should understand the Authority's policies and procedures related to contract management.

### RESPONSE:

The Authority concurs with this recommendation. CAB provides contract management teams with training, tools, and resources to help them understand and be successful at contract management. There are 3 pillars of the branch which work to promote adherence to internal and external standards and requirements: policy and procedures, training, and assessments. CAB has noted significant improvement in all areas of contract management and CAB agrees that contract managers would benefit from additional training. To that effort, CAB has developed a new Contract Management Training Program prior to the release of this report. This mandatory training is for contract managers and support staff which includes 12 hours of expanded procedural training. In addition, CAB will be offering the opportunity to receive workshop style instruction to review the procedural job aids and templates. This training is more interactive and enhances the understanding of the policy and procedures for contract management teams. CAB has completed updated training materials and has begun conducting new training sessions for contract managers and their support staff effective 8/16/2021. In addition, Supervisors are provided with annual training by CAB that highlights their role as a supervisor to a contract manager. To further implement continuous improvement of supervisor oversight, CAB added the Supervisor Role to the RACI Matrix (a responsibility assignment matrix).

2. CAB's contract management assessments should look for compliance on every procedure and element on a routine basis.

### RESPONSE:

The Authority concurs with this recommendation and will proceed as follows:

# Contract Management Audit Response

- The Contract Management Assessment Program will be updated to include every procedure, by 10/31/21.

- CAB has begun conducting additional on-going Document Management assessments to ensure all required procedural documents are in the Contract Management File as of 8/20/21.

3. Contract management supervisors should provide strong oversight by documenting their review of policy and procedure compliance, retaining copies of assessments to use as a compliance baseline, and documenting the meetings they have with the contract managers to discuss areas of improvement.

## RESPONSE:

Same recommendation and response as depicted in Issue 1, recommendation 2

4. CAB should revise and expand the training to allow sufficient time to adequately address all of the policies and procedures.

## RESPONSE:

- The Authority concurs with this recommendation. The Contract Management Training Program has been updated to provide 12 hours of instructional training in order to adequately address all the steps within the procedures. The contract managers are also given the opportunity to receive a workshop style training if further training is needed on how to utilize specific tools and or adhere to specific requirements. The expanded training program began 8/16/21.

### 3.3 Issue 3: Applicability of Some Elements within the Procedures is Questionable

Page 5, Paragraph 1-3 from Audit Report: *"During our interviews six of 13 contract managers stated that they believed certain elements of the contract management procedures were impractical or not applicable to them. These elements include key documents listed in the procedures.*

#### Response to Issue 3:

An ongoing goal has always been to continuously improve the policies and procedures. CAB documents exceptions to procedural requirements where they are valid/legal and to

# Contract Management Audit Response

simultaneously promote compliance with: 1) leading industry standards, 2) external requirements such as Government Codes (GC) and the State Contracting Manual (SCM), and 3) internal Authority requirements. After two rounds of Contract Management Assessments on the original Policies and Procedures, CAB has identified very few contract types where leading industry practices and/or internal requirements may not apply. CAB is committed to improving the Contract Management procedures in addition to working with contract managers and their teams to address potential non-compliance issues.

## Issue 3 – Recommendations from Audit Report:

1. The Authority should form a workgroup of multidisciplinary stakeholder representatives within the Authority should collaborate on the elements required in the procedures and develop a continuous improvement schedule for reviewing and revising the policies and procedures. The progress and results of the group should be vetted by the executive management team.

### RESPONSE:

Same recommendation and response as depicted in Issue 1, recommendation 3

2. The multidisciplinary group should consider how contract management activities flow and align throughout the organization ensuring that the changes to policies and procedures do not negatively impact any one area and/or hinder optimizing performance.

### RESPONSE:

Same recommendation and response as depicted in Issue 1, recommendation 4

## 3.4 Issue 4:

We found that the Authority has generally maintained corrective actions implemented in response to the California State Auditor's (CSA) November 2018 contract management recommendations, however we noted the following:

*CSA Recommendation 7 required CMSU (now CAB) to establish a schedule to monitor individual contract manager compliance and report annually the results of this monitoring to Authority executive leadership*

# Contract Management Audit Response

## Audit Office Follow-up:

*CAB has performed two assessments, completed in February 2019 and June 2020. The June 2020 assessment final report was given to the Chief of Administration but there is no documentation that the results were communicated to the executive management team. The State Auditor recommendation was to perform assessments, which CAB has done. The 24% non-compliance rate identified in Issue 1 is the result of our testing of contract manager compliance with Authority procedures.”*

## Response to Issue 4:

As stated in the Audit Report, CAB has performed Contract Management Assessments completed in February 2019 and June 2020. High priority was given to the development and implementation of a Contract Management Assessment Program immediately after the State Auditor’s recommendation. While assessment results were summarized and discussed with executives, CAB will now provide an official final report to the Executive Management Committee, in addition to all contract management supervisors.

## **Issue 4 - Recommendations from Audit Report:**

1. CAB should share the contract manager assessment results with the executive management team.

### RESPONSE:

The Authority concurs with this recommendation and will proceed as follows:

-The Contract Compliance Procedure will be updated to include formally annual reporting Contract Management assessment results to Executive Management

- CAB will formally share results with the Executive Management of Contract Management Assessments

- CSA Recommendation 9 was to prevent the inappropriate use of contractors to perform state functions, the Authority should develop procedures by May 2019 for evaluating whether new or existing administrative duties should be assigned to contractors or to state employees.

- Audit Office Follow-up

# Contract Management Audit Response

The Administration Office created the Contract Reporting and Government Code 19130 procedure, however none of the completed forms were filed in the UFS and CAB did not assess contract managers for this procedure. Therefore, we do not have reasonable assurance that the Authority is following this process. The Authority created a procedure to address the recommendation. However, we do not have assurance that the procedure is effective. The Authority should assess if this procedure is necessary.

**RESPONSE:** CAB reviewed the existing procedure and evaluated its effectiveness and believes the procedure is necessary. In addition, Government Code (GC) 19130 establishes standards for the use of personal services contracts. Each personal services contract is required to justify why the State should contract with a vendor rather than utilizing state staff. This requirement is found on the Department of General Services form Std. 215 which is included with every personal services contract file. Generally, this is not a form the contract manager completes and signs, which is why CAB does not assess this requirement.