

## Schedule 13 Funding Request for the 2014-15 Budget Cycle

Department: Public Health & Environment  
 Request Title: Risk Based Contract Monitoring Process  
 Priority Number: R-3

Dept. Approval by: [Signature] [Signature] [Signature]  
 Date: 10/24/13  
 OSPB Approval by: [Signature] [Signature]  
 Date: 10/29/13

- Decision Item FY 2014-15
- Base Reduction Item FY 2014-15
- Supplemental FY 2013-14
- Budget Amendment FY 2014-15

Line Item Information		FY 2013-14		FY 2014-15		FY 2015-16
		1	2	3	4	5
		Appropriation FY 2013-14	Supplemental Request FY 2013-14	Base Request FY 2014-15	Funding Change Request FY 2014-15	Continuation Amount FY 2015-16
	Fund					
<b>Total of All Line Items</b>	<b>Total</b>	5,071,993	-	5,071,993	69,452	69,452
	FTE	62.0	-	62.0	1.0	1.0
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	-	-	-	-	-
	RF	5,014,693	-	5,014,693	69,452	69,452
	FF	57,300	-	57,300	-	-
<b>(1) Administration &amp; Support, (A) Administration, Personal Services</b>	<b>Total</b>	5,071,993	-	5,071,993	69,452	69,452
	FTE	62.0	-	62.0	1.0	1.0
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	-	-	-	-	-
	RF	5,014,693	-	5,014,693	69,452	69,452
	FF	57,300	-	57,300	-	-

Letternote Text Revision Required?    Yes     No:     If yes, describe the Letternote Text Revision:  
 a. Departmental indirect cost recoveries increased by \$69,452  
 Cash or Federal Fund Name and COFRS Fund Number:    Indirect Cost Recoveries 100  
 Reappropriated Funds Source, by Department and Line Item Name:  
 Approval by OIT?    Yes     No     Not Required  :  
 Schedule 13s from Affected Departments:    N/A  
 Other Information:



### ***Cost and FTE***

- The Department of Public Health and Environment is requesting one FTE and approximately \$69,452 total funds to hire an employee to implement and oversee a standardized process for contract monitoring. This increases the Administration Personal Services Line by approximately 1.3%.

### ***Current Program***

- The Department routinely enters into approximately 1,800 contracts, 1,500 purchase orders, and 500 other contractual agreements every year, totaling \$200 million. The number of contracts and the type of contractor places the agency at risk if the contracts are not monitored effectively for performance of contract terms and appropriate fiscal controls.

### ***Problem or Opportunity***

- Over the last 18 months the Department has received two separate audit reports recommending improvements in the Department's contract monitoring processes.
- Based on the audit findings, the Department feels it is imperative to standardize the contract monitoring process to protect the health and environment of the state by ensuring that the contractors selected meet the requirements and deliverables of their contracts.

### ***Consequences of Problem***

- The Department works with contractors to provide public health and environmental protection services. If the contractor fails to deliver, there could be an impact to public health or environmental quality.
- If the Department cannot ensure that contractors are providing services that fulfill the terms of the contracts, the goals of the Department for the public can be jeopardized.
- Aside from the risk of future audit findings, the Department faces the risk of losing public dollars to a contractor that either cannot deliver on the contract requirements, or misuses public funding.

### ***Proposed Solution***

- The Department proposes the creation of a position in the central Operations office that will develop and implement a standardized contract monitoring process that is based on contractor risk and performance. This process will establish contract monitoring practices, procedures and policies Department wide.
- The position would have a reporting relationship with contract monitors in each division. These monitors would be responsible for implementing the standardized practices and procedures.
- The position would provide technical assistance to monitors and contractors in the resolution of performance issues.
- This would be an ongoing, permanent position within the Operations section of the Department.

**FY 2014-15 CHANGE REQUEST**  
**Priority: R -3 Risk Based Contract Monitoring**  
**Request Detail**

**Problem or Opportunity:**

The Department is requesting one FTE and approximately \$69,452 total funds to hire an employee to implement and oversee a standardized process for contract monitoring. Over the last 18 months the Department has received two separate audit reports recommending improvements to the Department's contract monitoring processes. A few of the recommendations from both audits are paraphrased below.

Ensure the timely identification of grantee performance issues by: (a) leveraging data from grantees' monthly progress reports on individual project goals to measure and report on project-wide performance; (b) formally establishing a performance threshold in monitoring policies and procedures and in grant contracts; (c) establishing a risk based monitoring approach that includes conducting a programmatic site visit to all grantees within the first year of the grant; and (d) utilizing standard monitoring tools, forms and logs to guide and document routine monitoring activities.

Ensure grantee performance by taking corrective action when the results of monitoring activities show substantial underperformance with respect to project goals established in the grant contract.

Strengthen procedures for ensuring reimbursements paid grantees are allowable direct cost reimbursements that comply with grant contracts by: (a) implementing written policies and procedures for reviewing supporting documentation for a sample of reimbursements at least quarterly, based on the risk assessments, and revising contract language accordingly; and (b) conducting periodic desk reviews and site visits including at least one review or visit to grantees during the first 2 years of their grant and random reviews of other grantees annually.

The audit findings demonstrate the need for the Department to effectively implement the risk-based approach to contract monitoring outlined in its own *Guide to Best Practices in Contract Management*. The guide was developed in 2010 as a result of a LEAN process which included Department monitoring staff and other interested individuals. It describes best practices to be utilized in both fiscal and program monitoring of contracts but does not stipulate the process for implementation. The development of a standardized process to include tools, procedures and forms along with policies for their use is needed to ensure the resolution of audit findings and improve the effectiveness of monitoring activities. Implementing a standardized process will protect the health and environment of the state by ensuring that contractors meet all contractual requirements.

**Proposed Solution:**

The Department proposes the creation of a permanent, ongoing position in the central Operations office that will design, develop, implement and oversee a standardized process for contract monitoring. This will

include the development of reference documents, procedures, policies, templates, forms, and training tools to ensure that division contract monitoring staff can effectively and efficiently utilize the process.

The position will have a reporting relationship with an identified staff member in each division who will be responsible for the oversight of the monitoring process utilized by division monitoring staff. Additionally, this position will provide training and technical assistance to division monitoring staff and contractors and provide continuous evaluation of the monitoring process to include recommendations for improvements utilizing the LEAN method for process improvement. This position will provide for consistent monitoring of all contracts allowing the Department to identify and address compliance issues early before non-performance or fiscal inappropriateness arises.

The Department is also working on a LEAN process that will formulate the basis for this position moving forward. The defined opportunity statement for this project (why it is important to the organization) is:

Four factors point to standardization of fiscal processes (in this case contract monitoring) as an opportunity for improvement. These are (a) Desire to move towards a single agency perspective for internal (i.e., unified department) and external benefit (i.e., ease of doing business with us); (b) Adoption of Lean methodologies and the value of creating standard work focused on customers; (c) The development of expertise for fiscal and program (contract) monitors; and (d) Recent audit findings demonstrating opportunities for improved contract monitoring practices. Currently, divisions and programs have unique processes. The external customer experience reflects this. Leadership has determined that standardization and oversight of contract monitoring processes will create significant improvements in efficiency, effectiveness and customer service.

One audit finding pointed to inconsistent Departmental processes as an issue. The Department feels that it is critical to have a central position responsible for ensuring that all contract monitoring activities conform to the standardized process.

One FTE is needed to accomplish this work with \$69,452 indirect cost recoveries. This increases the Administration Personal Services Line by approximately 1.3%.

The break out of position responsibilities below shows the hours needed for specific activities with the corresponding percentage of time the position will spend on those activities. The majority of the first year is spent developing and implementing the process while the second and subsequent years are focused on oversight of the utilization of the process and process improvement activities.

**Duties and Responsibilities - Year 1:**

Design, develop, and implement contract monitoring process = 1,248 hrs or 60% time

Design, develop and implement a communication plan to inform and promote the process to division staff and contractors = 208 hrs or 10% time

Oversight of the contract monitoring process to ensure the practices, policies, procedures and tools are utilized appropriately and effectively = 208 hrs or 10% time

Design, develop and implement a training program for division monitoring staff to standardized process= 208 hrs or 10% time

Technical Assistance to division monitoring staff utilizing the process = 104 hrs or 5% time

Technical Assistance to division monitoring staff and contractors to resolve issues of noncompliance = 104 hrs or 5% time

**TOTAL HRS = 2080/ 100%**

**Duties and Responsibilities - Year 2 & Subsequent Years:**

Oversight of the contract monitoring process to ensure the practices, policies, procedures and tools are utilized appropriately and effectively = 1,352 or 65% time

Training division monitoring staff to standardized process= 104 hrs or 5% time

Technical Assistance to division monitoring staff utilizing the process = 104 hrs or 5% time

Technical Assistance to division monitoring staff and contractors to resolve issues of noncompliance = 416 hrs or 20% time

Process improvement activities to enhance the effectiveness and efficiency of the process = 104 hrs or 5% time

**TOTAL HRS = 2080/ 100%**

If this request is not funded, aside from the risk of future audit findings, the Department faces the risk of losing public dollars to a contractor that either cannot deliver on the contract requirements, or misuses public funding.

The Department works with contractors to provide public health and environmental protection services in many different programs across the Department. If the contractor fails to deliver, there could be an impact to public health or environmental quality. In addition, if the Department cannot ensure that contractors are providing services that fulfill the terms of the contracts, the goals of the Department for the public can be jeopardized.

**Anticipated Outcomes:**

The Department routinely enters into approximately 1,800 contracts, 1,500 purchase orders, and 500 other contractual agreements every year, totaling approximately \$200 million. The number of contracts and the type of contractor places the agency at risk if the contracts are not monitored effectively for performance of contract terms and appropriate fiscal controls.

Outcomes will be measured by:

- Resolution of audit findings
- Increased consistency in documentation of performance issues which supports statutorily mandated performance evaluations (C.R.S. §§ 24-102-205, 24-102-206, 24-103.5-101, and 24-105-102)
- Utilization of Performance Improvement Plans to resolve issues of noncompliance
- Increase in the number of payments withheld for non-performance.

***Assumptions and Calculations:***

The Department anticipates filling this position at a General Professional IV level as the employee will need to guide and influence the work of staff across the Department. The following was calculated using the Governor's Office of State Planning and Budgeting's FTE template.

General Professional IV - Minimum Salary \$4,764 = \$57,168

PERA @ 10.15% = 5,803

Medicare @ 1.45% = \$829

Total Personal Services Costs \$63,799

Operating expenses:

Basic Operating = \$500

Telephone = \$450

Computer = \$900

Software = \$330

Furniture = \$3,473

Total \$5,653

Grand total \$69,452 indirect cost recoveries.