



NASCA

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State Chief Administrators

INNOVATIONS
IN STATE
GOVERNMENT

State of Michigan

Department of Technology
Management and Budget

2019 Innovations in State Government

Circumventing Risk with Contract
Management

Financial Management



Executive Summary

It is axiomatic that any organization – regardless of size – that purchases goods and/or services has an obligation to monitor and manage their procurement efficacy. With large organizations, whether public or private, that self-evident notion is necessarily a massive undertaking. Inefficiencies in private sector procurement lead to diminishing profits. In the public arena, however, it leads to the poor stewardship of public funds. While neither is optimal, the public procurement organization typically has far more stakeholders and a larger spotlight. This is certainly true for Michigan.

In order to better manage its contracts, Michigan’s Central Procurement Services (“CPS”) developed a proactive Contract Management program by which it would ensure greater contract compliance by both the State’s agencies and its vendors. At its core, this program builds upon and formalizes the policies for what we *should* have been doing all along, while adding new processes, policies, and positions to effectuate the needed change. This program is designed to ensure that the State gets the full benefit of its contracts.

This has been a project that has been a source of pride for CPS. Not only has it been lauded internally, but it has also been the subject of industry recognition. Michigan’s Contract Management procedures were recognized as a finalist for the World Procurement Risk Mitigation Award and was the only public sector project recognized. (See Exhibit 1)¹ More recently, Michigan received its individual evaluations from the biennial Governing Survey and notes an award of 89% in the Post Award and Contract administration category. This was over 25% above the overall Procurement Survey Average (based on all States that submitted). The evaluation noted in its “Best Practices” section that “[t]he Contract Monitoring Plan is comprehensive and among the best seen.” (See Exhibit 2)²

With the system we now have in place, individuals are given defined roles and responsibilities for monitoring key aspects of every contract. Automated processes exist to remind these individuals to rate these aspects of performance at a regular cadence. Program managers (“PM”), who deal with the day-to-day workings of the contract, have an explicit guide to their responsibilities. These ratings are then aggregated and turned into reports to be distributed to management. While the vast majority of our contracts perform well, those that underperform are sent to a team specifically designated to remediate the issues manifest. In doing so, the State of Michigan feels confident that there are substantial unnecessary costs being incurred for services not performed or not up to contractual sufficiency.

Innovation

CPS engaged a private firm to perform an assessment of our contract management practice, benchmark comparisons of public and private companies, conduct a gap analysis, and make recommendations for a more comprehensive enterprise-wide program. This engagement was also critical for developing strategic goals to assist in implementing a Supplier Relationship Management (“SRM”) section.

Tautologically, this is the process of actively managing Michigan contracts to ensure compliance with the requirements of an executed contract. It begins with identifying a Contract Management Team,

¹ Exhibit 1 has been edited for brevity, but not content, so as to only include the referenced award. The complete shortlist for all awards can be found at: <https://www.procurementleaders.com/events/awards/world-procurement-awards?tab=2019-shortlist>

² Exhibit 2 has been edited for brevity, but not for content. The overall results of the Governing Survey have not been released publicly at the time of this submission.

consisting of but not limited to a Business Owner, Contract Administrator, and PM. The extent and degree of participation is directly related to the level of risk associated with the procurement.

Procurement professionals now draft a Contract Monitoring Plan (“CMP”) with each new contract meeting certain criteria (generally larger and more strategic/high-risk contracts). The purpose of these plans is to ensure that the contractor is performing all duties in accordance with the contract and to allow the agency to be aware of and address any developing problems or issues. Contract Monitoring compliance is monitored via a highly interactive dashboard that can target specific agency compliance all the way through individual PMs. (See Exhibit 3)³

In drafting these plans, the procurement professional responsible for drafting a solicitation reviews the statement of work and other contract terms, including contractor requirements. Then the plan is developed by focusing on items that are most important. Generally, this means focusing the monitoring on the outcomes that result from the contract. Specifically, this involves documenting the most important deliverables, reports, SLAs, and invoicing terms of the contract. Drafting this plan allows our issue resolution responders, whether SRM or agency level, to efficiently review and resolve.

In addition to the CMP, success is measured by how well we monitor contract adherence and performance and how well new policies and procedures are adhered to when spot checks are performed. We utilize metrics regarding Contract Compliance Report (“CCR”) responses, percent of contracts with contract monitoring plans in place, CCR resolution metrics, and vendor performance metrics. These CCRs are required at least annually, beginning six months after contract execution, and as frequently as quarterly for our more high-risk contracts.

CCRs are required from every agency PM listed in the database. Contract administrators (buyers) can edit this database to keep the most current PMs updated. Using a hyperlink provided via monthly email, the PM completes a CCR. If a CCR is entered with an overall average negative score, a notice appears for the buyer when they open the CPS administered Contract Database. The buyer reviews the ratings and comments.

Contact is made to both the PM and Agency Procurement to substantiate negative ratings. PM comments are presumed to be valid, however, our buyers use their discretion and professional judgment to review. If, in the buyer’s professional opinion, the PM’s reviews are unwarranted they can manually change the status on the form to the “claim dismissed by buyer” status. If the reviews are warranted, the buyer and PM enlist the services of the SRM team to entering a formal Vendor Complaint and take steps to resolve the issue. This is entered in the state’s ERP system, SIGMA. The process for resolution at this stage can vary dramatically, based on the nature of the issue.

There are two types of Contract Issues: (1) Minor Contract Issues, and (2) Major Contract Issues. The two types of Contract Issues are defined as follows:

A “Minor Contract Issue” is typically transactional and includes contract issues that can be easily resolved with a call or email. An issue that has not been resolved within 30 calendar days, or is recurrent, may become a Major Contract Issue.

A “Major Contract Issue” is a Minor Contract Issue that has not been resolved within 30 calendar days, or is repetitive, or is a Contract Issue that substantially impacts the performance of the contract, or immediately impacts the needs of the State.

³ Exhibit 3 is a screen capture of the interactive Power BI dashboard.

The Contract Administrator and PM should resolve each Contract Issue in accordance with the contract issue resolution process described above. This process varies slightly depending on whether the contract is an agency contract or a Central Procurement contract. Regardless of the situation, consultation with SRM is always available, as necessary.

Overall this scheme is encompassing, and it begins at the solicitation development stage, with a formal contract monitoring plan built into the solicitation, and continuing throughout, culminating in a contract closeout procedure at expiration. The benefits of this program include improved control over contract deliverables and objectives throughout the lifecycle, increased accountability for agencies, vendors, and central procurement, better monitoring of contracts, and fewer audit findings related to managing contracts.

Transferability

Contract management is a necessary function of any procuring entity. Every government agency that enters into contracts for goods and services must manage contracts as a matter of course. The State's contract management policy is, at its core, merely a formalization of policy decisions geared at more effective monitoring and accountability. Implementing such a plan requires no special software, consulting, or any cost whatsoever other than labor. Such a plan only requires commitment to a process and a concerted effort towards its implementation.

In Michigan's case, an outside consultant used to identify areas of improvement, but as will be discussed below, we made the entirety of the changes ourselves and achieved substantial cost savings. However, as ours is now up and running – successfully – transferring our plan is as simple as sharing ideas with any other interested state entity. Our process is formalized in policy, which can be copied in total, or in part. The state has training materials that have been created, and those could be shared. Specifically, the Contract Monitoring Plan template itself can be utilized in its totality; it is found at the end of our User Guide, which lays out roles and responsibilities, as well as a complete breakdown of how and when we utilize formal Contract Monitoring Plans. (See Exhibit 4)

Perhaps the only component of our comprehensive plan that would be difficult to transfer would be the internal database we utilize to track and monitor compliance. While this process involves State-specific processes of integrating data from our ERP system, it is ultimately done using commonplace Microsoft office tools that almost any state procurement body already has access to. Automation of the process would therefore require some effort on the part of any state choosing to adopt such a scheme. However, automation is merely an additional efficiency that is not a requisite in overall effective contract management.

Efficiencies Created

The State of Michigan maintains over 4000 individual contracts, and CPS administers over 800 of those. The aggregate value of those contracts is over \$50 Billion (USD). Therefore, the import of effective contract management cannot be understated. While the formalized Contract Management scheme has only recently been put into place (effective for contracts executed on or after October 1, 2018), the

construct for to plan has been in place for over a year and many of its concepts have thus been utilized. This allows us to give a principled assessment of its efficacy.

Confusion over roles and responsibilities often causes lapses in effective and efficient contract management. Utilization of a formal Contract Management scheme has resulted in clarification of those roles and responsibilities. The addition of staff dedicated to these goals has helped as well. Having written policy, as well as detailed user guides, eliminates this confusion and is easily accessed.

By way of example, one specific incident embodies these efficiencies in a very tangible manner. Our Secretary of State department was engaged with a supplier who provided queue management for their drivers' licensing, registration, and titling division. The procured deliverable included hardware and corresponding queue management software. The agency in question had 18 documented material deficiencies. The vendor performance was utterly deficient, but given the nature of the deliverable, simply termination of the contract and replacement of the vendor was infeasible.

The matter, which under previous protocols would be left to the agency to resolve, was referred to the newly created SRM section. Utilizing the team, and our newly documented procedures for issue resolution and corrective action planning, the matter was resolved within four months and the vendor has remedied the persistent issues that were previously considered unfixable. Further, we were able to leverage the deficient performance to add SLAs to the contract. Ultimately, the process proved to be substantially more efficient than our previous practices. This concrete example emboldens our confidence that full implementation of formal contract monitoring for all contracts going forward will eliminate much of the time and tedium required to address contract issues.

Thus, the ultimate goal of this project is preventative in nature: avoiding unnecessary costs, mitigating damages from deficient performance, and quick remediation of contract issues. The Contract Management project is by its very nature meant to enhance qualitative performance, and logic dictates that quantitative savings follow automatically.

One area in which we can establish cost savings is in the CCR automation process. By taking estimates of hourly time spent by PMs and Buyers (the employees who would complete and review CCRs, respectively) manually performing CCR tasks, we can easily demonstrate principled savings. The manual process involved was not overly burdensome, but did require retrieving a physical file, printing and filling out a form, scanning the form, sending it to the right person, and returning the file. This process is now initiated by sending one e-mail and completing the form electronically and takes a minute or two. This has ultimately resulted in estimated annual savings of \$128,046.50. (See Exhibit 5)

Furthermore, CPS alone has seen substantial savings, recovery of almost \$100,000 in administrative and other fees, and resolution of 17 distinct contractual disputes, both in-agency and out. The SRM section has taken the burden off the sourcing personnel by removing many complicated resolution efforts from their work responsibilities. Perhaps the greatest empirical hard savings metric that Michigan can site is the money saved by implementing the process we now have in-house. Michigan was quoted a cost of \$562,500.00 for implementation. The entirety of that implementation was done by the Reporting and Technology and SRM sections, both of which are housed within Central Procurement.