

Contract management: renewal and transition

Report to Parliament 10 : 2013–14



Queensland Audit Office

Location Level 14, 53 Albert Street, Brisbane Qld 4000

PO Box 15396, City East Qld 4002

Telephone (07) 3149 6000

Email qao@qao.qld.gov.au

Online www.qao.qld.gov.au

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December 2013

The Honourable F Simpson MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Madam Speaker

Report to Parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled
Contract management: renewal and transition.

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in
the Legislative Assembly.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Greaves', is written over a light grey circular stamp.

Andrew Greaves
Auditor-General

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Summary

Against the background of annual procurement spend of \$10.9 billion, including \$2.42 billion on general goods and services, Queensland government departments have a legal obligation to obtain value for money from their contracts.

Long term contracts, in particular, need to be well managed so departments can realise expected benefits throughout the life of contracts. Effective contract management practice can also significantly reduce the overheads associated with contract extension or renewal.

One indicator that the required contract management skills, systems and governance arrangements are in place and operating effectively is that, before a contract is due to expire, the department has clearly established whether it should terminate or renew the service being provided or the goods being supplied; and, if it is to renew, whether it would achieve better value for money by extending the existing contract or by re-testing the market.

Given a renewed emphasis on contestability, departments will move, in some cases, from service provider to 'enabler'. This requires new or strengthened contract management skills and capabilities. In turn, appropriately skilled resources need to be supported by robust contract management systems and sound contract governance arrangements.

The Procurement Transformation Division (PTD) of the Department of Housing and Public Works was established in July 2013 to increase value for money from procurement activities. Its first wave of transformation includes reviewing general goods and services contracts.

This audit examined whether agencies are demonstrably achieving value for money from their goods and services contracts in their decisions to extend, renew or re-tender their contracts. We reviewed 62 contracts across three departments selected for this audit—Department of Community Safety, Department of Housing and Public Works and Department of Transport and Main Roads. A total of 58 of these contracts had been extended in 2012–13.

Conclusions

The audited departments could not consistently demonstrate that they achieved value for money from their goods and services contracts, or got the best solution for the best price. Their ability to achieve value for money from their contracts was weakened by poor performance management of their suppliers and ineffective planning for contract expiry. They did not have in place sufficient contract management skills and systems to manage all their contracts consistently to the same high standards.

As such, there is a greater risk that their transition to outsourcing services under a contestability model would not achieve the desired outcomes.

Gaps in capability included the ability to establish contracts with clear performance expectations; to manage supplier performance during contract provision; and to make a considered decision to renew, extend or re-tender contracts.

Deficiencies in governance arrangements and contract management systems hindered the audited departments' ability to plan effectively for contract expiry. By not flagging in advance that a contract was due to expire, the departments did not give themselves enough time to plan for contract expiry and were more likely to extend without confirming that the current arrangements were achieving value for money.

These capability gaps, combined with inadequate contract management systems, will make it more challenging for PTD to achieve its objective of obtaining maximum value from government spending.

Key findings

Achieving value for money

When they award contracts, the audited departments did not consistently establish objective, measurable performance expectations. Only 13 of the 62 contracts examined contained sufficient elements, including key performance indicators (KPIs), targets and data sources, to enable an objective assessment of each supplier's performance.

The departments also did not consistently assess supplier performance during the life of the contracts. Of the 62 contracts examined, the departments regularly monitored the KPIs of 21 contracts.

Research shows that ineffective contract management can result in lower value for money over time. The lack of regard given to supplier performance at contract establishment—and inconsistent performance monitoring throughout the life of the contract—put at risk the ability to achieve value for money.

The audited departments typically performed demand and supply analysis when they first put goods and services contracts out for tender, but they did not validate their original analysis and risk assessments before extending contracts. Of 58 contract extensions reviewed before extending the contracts, the departments:

- evaluated the supplier performance for 15 contracts
- confirmed the ongoing business need for the goods and services for one contract only
- tested the supplier market for one contract only.

This lack of rigour to inform the decision to extend a contract weakened transparency and accountability, particularly when the performance of the existing supplier was the ostensible reason to justify contract extensions.

At a whole-of-government level, PTD has little visibility of the \$10.9 billion annual procurement spend. As departments lack systems to record contract activity, PTD cannot consolidate contract data at a whole-of-government level to enable strategic procurement planning.

Queensland government departments procure 17 per cent of their \$2.42 billion spend on general goods and services through whole-of-government supply arrangements. For the remaining \$2 billion, departments enter into contracts with suppliers independently, not using the combined buying power of the public sector to negotiate better value for money outcomes.

All audited departments had a significant number of multiple contracts for the same goods and services; at times, with the same suppliers. This increased the cost of contract administration unnecessarily and could result in inconsistent supplier performance management across multiple contracts.

The audited departments also did not comply fully with the contract disclosure requirements set under the *Queensland Procurement Policy 2013*; for example, instead of disclosing the details of contracts awarded worth more than \$10 000, two departments reported where they made monthly payments to suppliers of more than \$10 000, without disclosing the total contract value.

Skills, governance and systems

The audited departments did not have the necessary contract management skills, governance arrangements and systems to manage all awarded contracts consistently to the same high standards that would maximise value for money outcomes.

PTD identified a significant gap in skills capability across the public sector in areas that are critical for the government's contestability framework.

A contract management plan is a key element of contract governance and identifies how performance data will be collected and monitored and who is responsible for its collection, commensurate with the risk of the contract. The audited departments did not apply a risk framework to determine how they would manage contracts of differing levels of risk and value; for example, 25 of the 37 contracts worth more than \$1 million each did not have a contract management plan.

Delegated officers in the audited departments approved submissions for contract extension or renewal, despite those submissions not detailing how value for money was tested. Policies and procedures to outline expectations for submissions for contract extension and renewal either did not exist, were inadequate or were not applied. As such, the departments were unable to identify and correct where contract managers deviated from expected practice.

The audited departments did not have complete records of all their contracts or centralised records of all the contract management activities and their systems were inadequate to enable effective and efficient contract management.

The departments' systems for managing contracts did not:

- integrate with their financial systems
- provide automated alerts to enable early planning for contract expiry
- support and record details about the entire contract life cycle, including the initial procurement, contract formation and management, plus planning for contract expiry.

At a whole-of-government level, PTD is unable to access sufficient details about departments' contracts to make the most of its bargaining power with suppliers. A contract management life cycle system—Q-Contracts—is available to all budget sector agencies and could be used to plan, monitor and report procurement activities strategically at a whole-of-government level. However, at June 2013 only the host department, DHPW was using the software in five of its 30 business units. The standard product offering of the Q-Contracts system does not integrate with the departments' financial systems, thus reducing its effectiveness.

Recommendations

It is recommended that all departments:

1. **develop and implement a contract management capability framework to ensure the department has sufficient, appropriately skilled resources to manage contracts effectively**
2. **develop and apply a risk/value matrix approach to:**
 - **define expectations for effective contract management and establish supplier performance monitoring regimes to ensure value for money is realised with contracts**
 - **allocate resources commensurate to the risk of contracts for efficient contract administration**
3. **validate the value for money proposition of a contract, before extending or renewing it, by reviewing:**
 - **the original assessment of risk, demand and the supply market**
 - **the supplier's performance**
4. **implement a contract management life cycle system to enable:**
 - **consistent monitoring of supplier performance**
 - **spend analysis**
 - **an early trigger to prepare for contract expiry.**

Reference to agency comments

In accordance with section 64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Department of Housing and Public Works, the Department of Community Safety and the Department of Transport and Main Roads with a request for comments.

Their views have been considered and are represented to the extent relevant and warranted in preparing this report.

The full comments received are included in Appendix A of this report.

1 Context

1.1 Contract management

1.1.1 Introduction

Queensland government departments spend about \$10.9 billion annually with non-government suppliers. Long term contracts must be well managed to ensure value for money is achieved throughout their life. At the end of their term, contracts can be:

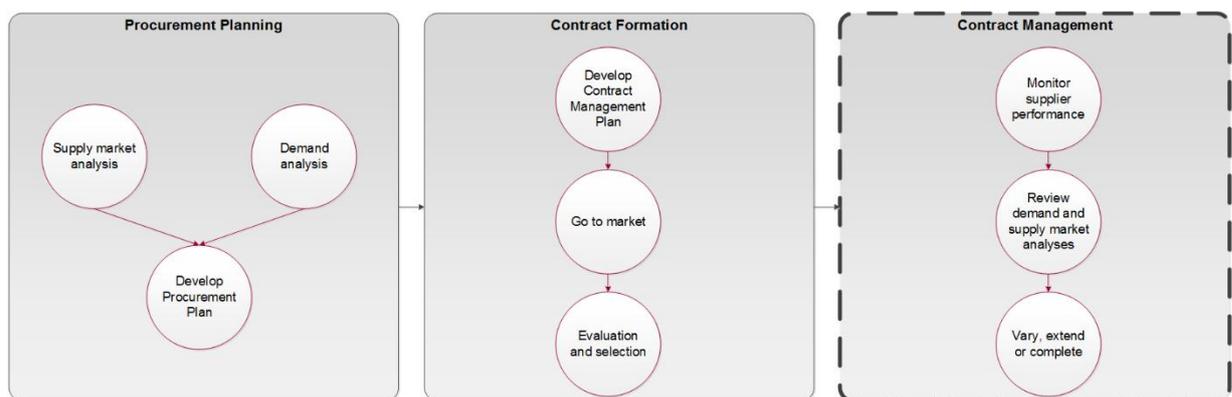
- completed
- extended through options in the contracts or by varying an existing contract when all extension options have been used
- renewed through establishing a new contract with the same supplier with similar or revised terms and conditions, without going back to the supply market.

Before the contract expiry date, departments should determine which approach will yield the higher value for money—exercise the extension option and continue the contract, or re-tender. To inform their decisions, departments should consider:

- the performance of the current provider and the management of the contract
- the changing needs or requirements of the entity
- current market conditions.

Figure 1A illustrates a typical procurement process which includes three major phases—procurement planning, contract formation and contract management. The audit focused on the contract management phase.

Figure 1A
Procurement process



Source: Queensland Audit Office

1.1.2 Contract value

Research found that ineffective contract management practices could result in the contract value, captured during the pre-award procurement phase, not being fully realised over the term of the contract. Even when contracts have a provision for extension, it is important that some evaluation is undertaken to confirm ongoing best value for money.

In 2012, we conducted a preliminary survey across government departments to determine the extent of goods and services contracts (more than \$50 000) being rolled over through extension and renewals. The findings were reported in Report to Parliament 5 for 2012–13 Results of audit: State public sector entities for 2011–12 tabled in November 2012:

...Departments advised that they had extended or rolled over more than \$1.2 billion worth of contracts in 2011–12 alone. Of most concern, according to the departments, 40 per cent of the contracts rolled over (worth \$423 million) had no provision for extension....

According to two studies completed in 2012, ineffective contract management can result in lower value for money outcomes over time. One study concluded that ineffective governance of contracts can cause contract value leakage of 17 to 40 per cent.

1.1.3 Transforming procurement

Following a 2012 review on strategic sourcing that found significant opportunities for government to achieve better value for money and make the procurement process easier for business, the Queensland Government established the Procurement Transformation Division (PTD) within the Department of Housing and Public Works. PTD will focus on enhanced sourcing practices, building staff procurement and contract management capability and streamlining procurement processes across government.

The procurement transformation program will run for three to five years, implemented in phases. The program aims to provide greater consistency in procuring across government and greater opportunity for suppliers to compete for government business. The goals for the first phase, running from April to October 2013, were:

- deliver \$60–120 million in validated benefits across five meta categories, including general goods and services, adopting a collaborative approach with key agency participation and a focus on capability development
- create the momentum for change across \$10.9 billion in procurement expenditure.

1.2 Entities subject to this audit

Based on our preliminary survey in 2012, the following departments were selected for this audit:

- Department of Community Safety
- Department of Housing and Public Works
- Department of Transport and Main Roads.

These departments represent 57 per cent of the total number of contracts and 48 per cent of the total value of contracts rolled over in 2011–12 across government departments.

1.2.1 Department of Community Safety

The Department of Community Safety (DCS) is a frontline service delivery organisation and, at the time of the audit, comprised the Queensland Ambulance Service, the Queensland Fire and Rescue Service, Queensland Corrective Services and Emergency Management Queensland. Examples of contracts managed by DCS include maintenance of ambulance vehicles, supply of firefighting gloves and offender reintegration support services.

Acquisition Services is a central unit providing support and advice for contract activities in the department, while designated client representatives in business areas undertake the role of contract manager and manage contracts on a day to day basis.

In September 2013, a Police and Community Safety review recommended transferring the Queensland Ambulance Service to Queensland Health and Queensland Corrective Services to the Department of Justice and Attorney-General. The Public Safety Business Agency was established in November 2013 to provide strategic and corporate services to the Queensland Fire and Emergency Service, Queensland Police Service and the Inspector General Emergency Management.

1.2.2 Department of Housing and Public Works

The services of the Department of Housing and Public Works (DHPW) include housing and support to Queenslanders in need, the Queensland Government's capital works building program and maintenance of public facilities, such as schools and hospitals.

DHPW business areas include the Accommodation Office, Building and Asset Services, Building Codes Queensland, Building Policy Unit, Corporate and Executive Services, Housing Services and QFleet.

DHPW also hosts PTD, which was established in July 2013 (previously called the Queensland Government Chief Procurement Office or QGCPO). The former QGCPO had several functions, including developing and managing the Queensland Procurement Policy, establishing whole-of-government supply arrangements and delivering procurement training programs. Going forward, PTD will support budget sector agencies with the overarching procurement framework; will help identify procurement priorities; and will provide specialist resources to help deliver these priorities.

1.2.3 Department of Transport and Main Roads

The core business of the Department of Transport and Main Roads (DTMR) includes road construction and maintenance, provision of transport infrastructure, public transport regulation and services, licensing and vehicle registration services. Examples of contracts managed by DTMR include supply and delivery of quarry products, equipment hire and supply of truck hire.

DTMR has contract managers in its Central Procurement Office section, as well as in the various business units. In July 2012, DTMR commenced work to develop a procurement and category management operating model.

1.3 Procurement policy

The *Queensland Procurement Policy 2013* (previously the *State Procurement Policy 2010*) is the government's overarching policy for the procurement of goods and services. All agency employees must apply the six principles outlined in the policy:

- Principle 1: We drive value for money in our procurement.
- Principle 2: We act as 'one government', working together across agency boundaries to achieve savings and benefits.
- Principle 3: We are leaders in procurement practice—we understand our needs, the market, our suppliers and we have the capability to deliver better outcomes.
- Principle 4: We use our procurement to advance the government's economic, environmental and social objectives and support the long term wellbeing of our community.
- Principle 5: We have the confidence of stakeholders and the community in the government's management of procurement.
- Principle 6: We undertake our procurement with integrity, ensuring accountability for outcomes.

On its website, DHPW has several guidance documents about procurement, including planning for significant procurement, supply market analysis and managing and monitoring supplier performance.

1.4 Audit objective, scope and approach

The objective of the audit was to examine whether agencies were demonstrably achieving value for money from their goods and services contracts, and in their decisions to extend, renew or re-tender their contracts.

The audit examined whether departments:

- rigorously monitored and evaluated current supplier performance against contractually agreed standards
- adequately planned and prepared for contract termination/succession.

The audit examined 62 contracts in detail—17 from DCS, 15 from DTMR and 30 from DHPW. A total of 58 of these contracts had been recently extended.

The cost of the audit was \$395 000.

1.5 Structure of this report

The findings in this report are structured as follows:

- Chapter 2—Achieving value for money
- Chapter 3—Skills, governance and systems
- Appendix A contains agency responses received
- Appendix B contains audit details
- Appendix C contains a glossary of terms.

2 Achieving value for money

In brief

Background

Effective contract management is fundamental to ensure that departments achieve value for money and realise the intended benefits.

Essential contract management activities include monitoring supplier performance throughout the life of the contract, efficient contract administration and timely planning for contract expiry.

Conclusions

The audited departments could not demonstrate consistently they achieved value for money from their goods and services contracts post-contract award. They established contracts with objective and measurable performance expectations on an ad hoc basis. They did not consistently assess supplier performance during or at the end of contracts.

Departments did not plan effectively for contract expiry. They could not always demonstrate that their decision to extend contracts was supported by business needs and supply market analysis and that the performance of the existing suppliers had met expectations. They had not checked whether they still needed the goods and service or if they could obtain better products for a better price.

When departments delay returning to the supply market without confirming the current arrangements still offer value for money, they forego the potential benefits of a re-tender.

Key findings

- The departments established performance management frameworks for their contracts on an exception basis.
- Of the 62 contracts reviewed, 41 contracts did not show evidence that supplier performance was monitored against objective and measurable criteria to ensure transparency for supplier performance assessments.
- While departments typically performed demand and supply market analysis when they tendered goods and services contracts, they did not test these before extending contracts.
- Departments did not fully comply with contract disclosure requirements because their systems did not capture the necessary information.

2.1 Background

Effective contract management is essential if the expected benefits of a contract are to be fully realised after it has been awarded. For good contract management, it is necessary to manage risk, resources, relationships, supplier performance and contract variations. Effective, risk-based contract management during the life of a contract means that, by the time a contract is due to expire, the department has clearly established whether it should extend or re-tender.

Options to extend the agreed terms and conditions beyond a given date can be an efficient way to apply resources commensurate to the risks. Departments need to allocate sufficient time to plan for contract expiry by testing their risk assessment of the arrangements and determine whether they can best achieve value for money through extending contracts or re-tendering.

This chapter reviews how effectively the audited departments managed supplier performance and planned for contract expiry. We examined 62 contracts in detail: 17 from the Department of Community Safety (DCS), 15 from the Department of Transport and Main Roads (DTMR) and 30 from the Department of Housing and Public Works (DHPW). More DHPW contracts were reviewed because the department hosts the former Queensland Government Chief Procurement Office which managed whole-of-government contracts.

A total of 58 of the contracts reviewed had been recently extended. In addition, we reviewed the decision to extend 209 DHPW service maintenance contracts.

We acknowledge that the sample selected is not statistically representative of all contracts. Detailed analysis of the whole portfolio of contracts was not possible, due to incomplete data. Despite the limitations, the audit findings indicate systemic issues in contract management.

2.2 Conclusions

The departments' ability to achieve value for money from their contracts was weakened by poor performance management of their suppliers and ineffective planning for contract expiry. They assessed demand for service and supply market conditions when establishing contracts, but did not review these before extending or renewing contracts. The decision to extend or renew contracts without reviewing the risk assessment, testing the supply market and confirming the business need, meant supply and demand could be misaligned.

The deferral of re-tendering reduces competition and, without confirming that this option offers the best value for money outcomes, departments forfeit the potential benefits of returning to the supply market. Incumbent suppliers benefit because they do not need to compete with other suppliers.

Government departments purchase 17 per cent of their general goods and services through whole of government procurement arrangements and enter into contracts independently for the remainder. The audited departments did not identify opportunities sufficiently to rationalise their contracts within their own departments. A reduction in the number of contracts could reduce administrative overheads, use resources more efficiently and improve the consistency of contract management activities.

2.3 Findings

2.3.1 Monitoring supplier performance

Monitoring supplier performance throughout a contract term ensures departments receive the goods and services they purchase, according to the required standard, within the required time frames and achieve value for money.

This requires departments to establish contracts with a performance management framework to enable regular monitoring of supplier performance. Such a framework should include:

- key performance indicators (KPIs) to measure supplier performance against contractual deliverables
- targets for KPIs to define what is considered satisfactory performance
- clear responsibility for collecting performance data, how the data will be collected and reported, the frequency of reporting and how unsatisfactory performance will be managed.

The supplier performance information gathered throughout the contract term also enables departments to make an informed decision on whether to extend or re-tender.

Performance management frameworks

The audited departments established performance management frameworks for their contracts on an exception basis, rather than as standard practice. While 43 (69 per cent) of the 62 contracts reviewed contained KPIs, only 13 contracts (21 per cent) had sufficiently detailed performance management frameworks to enable objective assessment of supplier performance.

Figure 2A shows the number of contracts reviewed that included all, some or none of the elements required for an effective performance management framework.

Figure 2A
Elements of performance management framework

Entity	Number of contracts examined	KPIs, targets, data sources, responsibilities	KPIs and targets	KPIs only	No elements
DCS	17	4	4	6	3
DTMR	15	2	7	6	0
DHPW	30	7	7	0	16
Total	62	13	18	12	19

Source: Queensland Audit Office

The lack of a performance management framework for 19 out of 62 contracts meant departments were unable to identify objectively any potential problems with contract deliverables. Not having reliable performance data available meant the departments did not have an accurate and consistent basis upon which to assess supplier performance.

At DHPW, there were significant differences between regional offices. One office had all the elements of an effective performance management framework in the contracts reviewed, while another office had none of these elements.

DTMR demonstrated a higher level of maturity in establishing performance management frameworks, as all contracts reviewed at DTMR had at least some elements to enable objective assessment of each supplier's performance. The following case study is an example of how DTMR established an effective performance management framework for one of the contracts reviewed.

Case Study: Supplier performance management framework

Department of Transport and Main Roads (RoadTek)		
<p>RoadTek, through DTMR's Chief Procurement Office, established a standing offer arrangement (SOA) for the 'provision of major and minor equipment hire (without an operator)' to help deliver civil construction and maintenance projects. The contract period was from 10 October 2011 to 14 October 2012 with two (one-year) extension options.</p> <p>The SOA has a contract management plan which lists six KPIs. Four of the six KPIs have a target and method of measurement. The contract manager, in collaboration with end users, monitors the supplier's performance to identify issues.</p> <p>The contract management plan details the communication process between RoadTek and the supplier, including frequency, responsibility and purpose; for example, a statewide performance review meeting is held every six months to discuss supplier performance results.</p> <p>This performance management framework ensures that RoadTek can rigorously monitor and evaluate supplier performance against contractually agreed standards. It also enables RoadTek to identify potential problems with contract deliverables in an objective manner.</p>		
KPI	Target	Measurement
Reporting	100% reporting delivery on time	<ul style="list-style-type: none"> Monthly reports ascertaining whether reports were submitted on time and to expected quality standard
Invoices	95% accuracy of invoicing	<ul style="list-style-type: none"> Report run by vendor number based on credit notes. Audit completed quarterly on accuracy of invoices
Environmental/ plant risk assessment	Zero environmental incidents and 100% compliance to plant risk assessment checklist	<ul style="list-style-type: none"> Use of plant risk assessment checklist Contract manager monitors in collaboration with end users to identify issues Audits by safety officers and procurement team confirm compliance to this requirement
External mobile plant checklist	100% compliance with external mobile plant checklist	<ul style="list-style-type: none"> Use of external mobile plant checklist Contract manager reviews and reports on compliance Audits by safety officers and procurement team confirm compliance to this requirement
User survey	User survey results and number of complaints around timeliness or delivery or supply	<ul style="list-style-type: none"> Complaint register Contract manager compiles user survey results and review with end users
New products	New products added during this arrangement in line with customer requirements	<ul style="list-style-type: none"> New products are identified through KPI meetings with suppliers

Source: Queensland Audit Office from Department of Transport and Main Roads contract documentation

Measuring and monitoring supplier performance

In the three audited departments, contract managers monitored supplier performance to some extent. However, for more than two thirds of the reviewed contracts, there was insufficient evidence that supplier performance was monitored consistently against objective and measurable criteria. Figure 2B shows that only 21 out of 62 contracts examined had effective supplier performance monitoring throughout the contract life cycle.

Figure 2B
KPIs monitored throughout contract term

Entity	Number of contracts examined	KPIs monitored throughout contract term	KPIs monitored irregularly or not documented during contract term	No monitoring
DCS	17	1	8	8
DTMR	15	8	4	3
DHPW	30	12	2	16
Total	62	21	14	27

Source: Queensland Audit Office

Overall, the audited departments did not maintain adequate records of meetings with suppliers to discuss their performance. DCS recorded evidence of regular performance review meetings with suppliers for one of the 17 contracts reviewed. At DTMR, contract managers met with suppliers to discuss progress and to provide feedback on their performance for all reviewed contracts; however, for half of the contracts, there were no records of meetings held with suppliers.

Documenting meetings with suppliers to discuss their performance provides useful information that can be used to assess supplier performance at the end of the contract term. The frequency and scope of meetings should be specified in the contract management plan and will depend on the risk of the contract.

Figure 2C shows the number of contracts where there was evidence of regular documented meetings with suppliers.

Figure 2C
Regular meetings with suppliers

Entity	Number of contracts reviewed	Regular documented meetings with suppliers
DCS	17	1
DTMR	15	7
DHPW	30	14
Total	62	22

Source: Queensland Audit Office

The departments were not capturing sufficient performance information to evaluate potential suppliers and inform their procurement decisions when these suppliers tender for new work. Documented supplier performance information can also be used if disputes arise between suppliers and departments.

2.3.2 Planning for contract expiry

Planning for contract expiry gives departments enough time to test whether extending or renewing existing contracts, or returning to the market for a new competitive tender process, will deliver the best value for money.

To demonstrate that a decision to extend or renew a contract will achieve value for money, departments need to evaluate:

- supplier performance before the contract expires to ensure the expected outcomes have been achieved
- continued business need for the service, including reviewing historical spend, predicting future spend and assessing alternative sourcing strategies to satisfy business need
- the effect of any changes in supply market conditions on the potential to achieve greater value for money before extending or renewing contracts.

Figure 2D shows the value for money assessments departments performed for the 58 contract extensions reviewed.

Figure 2D
Value for money assessments before contract extensions

Entity	Number of contracts reviewed	Supplier performance evaluation	Spend analysis	Demand analysis	Supply market analysis
DCS	15	1	0	0	0
DTMR	15	6	3	1	1
DHPW	28	8	18	0	0
Total	58	15	21	1	1

Source: Queensland Audit Office

Evaluating supplier performance

The audited departments evaluated supplier performance before approving contracts for extension or renewal on an ad hoc and irregular basis. Supplier performance was evaluated before the decision to extend for 15 of the 58 contracts reviewed in detail. The departments did not evaluate the remaining 43 contracts, 21 of them worth more than \$1 million each. Departments may, therefore, extend or renew goods and services contracts with existing suppliers, even though their performance may have been poor.

Business needs and demand analysis

The audited departments could not demonstrate consistently that their decisions to extend contracts were based on a business need for those goods and services. While departments typically analysed predicted demand for goods and services when they tendered or re-tendered contracts, we found minimal evidence they reviewed the predicted demand before extending or renewing contracts. Future demand can differ considerably from historical demand, either from changes in business operations or technologies or the implementation of demand management strategies. Departments may therefore miss opportunities to implement strategies that reduce demand for specific services or seek alternative cost effective methods to satisfy business demand.

Departments did not analyse their total spend on contracts consistently as part of contract evaluation before extending or renewing them. This is partly because they did not record payments in their financial systems with a direct reference to the relevant contracts.

Of the 62 contracts we reviewed in detail, 58 contracts had been extended recently. Figure 2D shows that departments performed spend and demand analysis before extending or renewing contracts as an exception rather than as standard practice.

We also reviewed the decision to extend 209 DHPW service maintenance contracts. While Building and Asset Services (BAS), a division within DHPW, documented actual spend on standard offer arrangements before approving extensions, it did not conduct any spend analysis when renewing the 209 service maintenance contracts for 2013–14.

Evaluating supply market conditions

The audited departments could not demonstrate that they consistently achieved value for money when they extended or renewed contracts because they did not test the supply market conditions. Only one of the 58 contracts reviewed assessed the supply market conditions before extension. In addition, BAS did not perform supply market testing on the 209 service maintenance contracts that it extended or renewed for 2013–14.

Supply market conditions can change considerably from the time a contract is established to when it is due to expire, including the number and quality of suppliers and goods and services available. Eleven DCS contracts reviewed were established three years or more before they were extended and one was established 10 years earlier. Six DHPW contracts reviewed were established several years before their extension in 2012–13 with establishment dates ranging from 2001 to 2010.

When contract managers submitted requests for contract extensions, they did not support their recommendation with an assessment of current supply market conditions. For two contracts we reviewed, the justification for extension was that the cost of re-tendering exceeded the cost of extending the contracts. In one case, a contract was extended using an extension option rather than put to open tender because it would save up to \$15 500. However, the department did not consider whether spending the extra \$15 500 to undertake a competitive tender process could produce significant savings on the contract's one-year extension value of \$5 million. Even a one per cent saving achieved through testing the supply market and renegotiating rates would have covered the cost of a competitive tender process three times.

When departments extend contracts rather than prepare for a competitive tender process because of the administrative costs and effort, they forfeit the potential value for money benefits of a competitive tender.

2.3.3 Contract extensions beyond original terms

Reasons for extending contracts beyond their original terms can vary, including:

- the department reviewed its original risk and value for money assessments and is satisfied that extending the contract would maximise the value for money outcomes
- systems' limitations mean the department does not have sufficient lead time to plan adequately for contract expiry and to prepare an open tender process
- strategic reviews of departments, such as the Police and Community Safety Review, which could impact on their future priorities and governance arrangements.

Of the 58 contracts examined, 42 were extended via an option and 16 were extended beyond their original terms. One contract reviewed had all extension options expire in 2006, but was extended on several occasions until 30 August 2013. Between 2006 and 2012, the department did not have sufficient resources to complete a new procurement process until a person was appointed in 2012. The department now expects to tender the contract in December 2013, over seven years since the original contract expired.

Extending beyond contract terms may delay departments in achieving greater value for money for their goods and services contracts. In the interim, departments may be paying more for goods and services than they would through timelier competitive tendering.

Figure 2E shows the value for money assessments the departments undertook to support their decisions to exercise an extension option.

Figure 2E
Value for money assessments on contracts extended through an extension option

Entity	Number of contracts reviewed	Supplier performance evaluation	Demand analysis	Supply market analysis
DCS	8	1	0	0
DTMR	13	6	1	1
DHPW	21	6	0	0
Total	42	13	1	1

Source: Queensland Audit Office

We expected to see more rigorous value for money assessments when contracts were extended beyond their terms, compared with an extension, because of the increased risk; however, departments did not perform value for money assessments for 14 of the 16 contracts extended beyond term. This indicates that the risk of the contract engagement was not a key factor when departments decided to extend contracts.

2.3.4 Strategic sourcing

Queensland government departments can achieve greater efficiency by identifying where they can reduce the number of contracts established with the same suppliers for similar goods or services. We found this was not being done well at a whole-of-government level or by departments. The audited departments did not coordinate their purchasing activities effectively nor did they identify opportunities sufficiently within their own departments to rationalise their contracts. The systems to support contract management were inadequate to provide visibility and transparency across all contract management activities.

Whole of government

A review into strategic sourcing in the public sector in 2013 identified that only 17 per cent of general goods and services spend in the public sector used a whole-of-government supply arrangement. This means that, for \$2 billion of spend on general goods and services, departments enter into contracts with suppliers independently and do not use the combined buying power of the public sector to negotiate better value for money outcomes.

The lack of transparency of how much departments spend on individual contracts compromises the ability of PTD to monitor how departments use whole-of-government supply arrangements. PTD does not have access to the necessary data to identify when departments procure goods and services outside negotiated arrangements. This affects PTD's ability to assess demand for goods and services properly before it tenders or extends goods and services contracts.

Departments

We analysed the departments' contract registers to determine if there were instances of duplicate contracts where multiple business areas in the same department obtained a similar service from the same supplier under a different contract arrangement.

All departments had a significant number of duplicate contracts. Based on the limited data available in DCS and DTMR's contract registers, we identified:

- DCS had 138 contracts with 42 suppliers who had multiple contracts with the department, including one supplier who had 15 contracts
- DTMR had 150 contracts worth about \$135 million with 66 suppliers who had multiple contracts with the department.

While duplication of contracts is sometimes unavoidable because of geographical dispersion and local needs, departments can achieve greater efficiency by identifying where it is possible to reduce the number of contracts.

Data analysis for 521 BAS service maintenance contracts identified that 228 of these contracts were for 56 services, for which there were multiple contracts across different regional offices. There were 12 services where at least six BAS offices acquired the same service under a different contract. BAS did not use its buying power effectively to negotiate statewide agreements, resulting in higher contract administration costs. Given that regional offices may also have local contracts not recorded in the service maintenance contract register, there was potentially greater duplication of contractual arrangements. Duplicate contracts could also result in inconsistent management of supplier performance by the different contract managers managing the same supplier for the same type of service.

2.3.5 Contract disclosure

The *Queensland Procurement Policy 2013* requires agencies to disclose details of awarded contracts of more than \$10 000 on the Queensland Government eTender website. The three audited departments did not comply fully with the disclosure requirements because of a lack of information for all contracts. The departments did, however, use their limited data to disclose partially the awarded contracts:

- DCS and PTD used transactional data from their financial systems to report payments made to suppliers of more than \$10 000 each month; however, they were not able to disclose the total value of the awarded contract and the value of variations made to contracts.
- BAS used purchase order data in its system to disclose all awarded contracts of more than \$10 000; however, as a contract may require several purchase orders, the value reported may not reflect the total contract value.
- DTMR used its contract register to disclose awarded or varied contracts of more than \$10 000, but the contract register was not complete nor captured the value of all contract variations to enable full disclosure.

Departments use the Queensland Government e-Tender website to publish open tenders. Departments could strengthen competition in the supply market by publishing future tender opportunities systematically.

3 Skills, governance and systems

In brief

Background

To ensure departments achieve value for money from their contracts, they need sound contract management capability, including the necessary skills to test value for money. They also need appropriate governance structures and systems to support the entire contract management life cycle.

Conclusions

The audited departments did not have the necessary skills, governance arrangements and systems to manage all their contracts consistently to the same high standards to maximise value for money outcomes. These issues will become more critical as departments move to the role of 'enablers' under the government's contestability framework.

The supporting systems did not enable departments to oversee contract management activities effectively over their life cycle and thus hindered strategic, risk-based contract management.

Key findings

- Departments had significant gaps in capability and capacity to plan adequately for contract expiry and to demonstrate consistently value for money in their decisions to extend or renew contracts.
- Departments did not systematically ensure that their business units applied the established policies and procedures, using a risk-based approach.
- Departments did not use contract management plans adequately to manage contract risks, with only 13 out of 62 contracts reviewed having a contract management plan.
- Department did not have complete contract registers or centralised records of activities for their contracts.

Recommendations summary

It is recommended that all departments:

- 1. develop and implement a contract management capability framework**
- 2. develop and apply a risk/value matrix to define expectations for effective contract management and appropriate resource allocation to contracts**
- 3. validate the value for money proposition of a contract before extending or renewing it, through assessment of contract risk, demand, supply market and supplier performance**
- 4. implement a contract management life cycle system.**

3.1 Background

Departments manage large numbers of valuable contracts to procure goods and services. It is important departments allocate sufficient resources with the necessary skills to manage contracts effectively throughout their life cycle and maximise value for money. Departments should assess the risk of each contract to determine the necessary skill capability and governance requirements for the contract life cycle.

The three audited departments have adopted a devolved approach to contract management. Under this model, departments need a strong governance and control framework to ensure accountability and transparency in contract management activities. Capabilities and governance arrangement should be supported by an appropriate contract management life cycle system that enables the departments to plan, monitor and report contract management activities.

This chapter reviews the departments' contract management capabilities, governance arrangements and systems to manage contracts effectively.

3.2 Conclusions

Gaps in contract management skills, governance arrangements and systems prevented the audited departments from achieving value for money consistently from their contracts. These issues will become more critical as departments move to the role of 'enablers' under the government's contestability framework. The Procurement Transformation Division's (PTD) of the Department of Housing and Public Works (DHPW) procurement skills capability assessment confirmed that, overall, departments did not have the necessary skills to support the government's contestability framework.

Deficiencies in governance arrangements and systems to support the entire contract life cycle affected the departments' abilities to manage their contracts strategically and effectively, based on the contracts' risk. As a result, the departments could not demonstrate that they achieved value for money consistently during the contract terms and through any subsequent extensions. While the departments' governance processes focused on how contracts were established, value leakage could occur thereafter because of inadequate contract management practices.

PTD has limited ability to access whole-of-government procurement and contract information because of the negligible take up of the contract life cycle management system available to all government agencies. The skills capability gaps, combined with inadequate contract management systems, are likely to make it more challenging for PTD to achieve its objective of obtaining maximum value from government spending.

3.3 Findings

3.3.1 Contract management skills

Departments need the capability to manage contracts effectively and to have contract managers with the skills to achieve value for money when administering contracts and planning for their expiry. We identified that, before the decision to extend the 58 reviewed contracts, demand and supply market analysis was performed for one contract only.

The central procurement divisions in the Department of Community Safety (DCS) and the Department of Transport and Main Roads (DTMR) provided support and advice to contract managers in their respective departments. Designated client representatives from business areas managed contracts on a day to day basis. DTMR's Chief Procurement Office (CPO) provided awareness sessions, tools and templates to contract managers outside the CPO.

DCS had not assessed its procurement capability and could not demonstrate that its contract managers had the appropriate skills to manage contracts. The department had not developed a plan to improve the skills of staff in business areas responsible for managing contracts. Of the 17 contracts reviewed, 13 were managed on a day to day basis by untrained contract managers.

In 2011, DTMR and Building and Asset Services (BAS) in DPHW completed a procurement capability assessment in conjunction with the former Queensland Government Chief Procurement Office.

DTMR assessed the development needs of staff in its central procurement office and developed a 12-month learning and development plan for 2013–14. The plan, which DTMR is implementing currently, includes an assessment of the required skills for staff within the department's CPO and identifies whether training needs would be delivered by on the job training, coaching, mentoring or internal/external training courses.

While BAS performed a procurement capability assessment in 2011, subsequent and significant staff changes have affected BAS procurement capability and capacity. In April 2013, the general manager of the then QBuild division approved 209 service maintenance contracts, worth \$28.7 million, to be either extended or renewed for an interim period of 12 months because of insufficient procurement resources to prepare for an open tender process in time for contract expiry. Of those 209 service maintenance contracts, only 95 service maintenance contracts were signed as at 26 August 2013. Documentation was still unsigned two months after contract expiry for 114 contracts for 2013–14.

BAS's planning for the expiry of service maintenance contracts is challenging, as all contracts have an expiry date of 30 June. This creates a significant bottleneck of activity where BAS needed to decide whether to extend or re-tender a large volume of contracts at the same time. BAS does not have a plan to ensure that it would have sufficient procurement resources to prepare for an open tender process in time for contracts expiring 30 June 2014.

PTD is currently leading a procurement skills capability assessment across the public sector to assess the current state of procurement capability at each agency. A key finding of this review is:

...Whilst there are pockets of expertise throughout the sector, there is a significant gap between current capability and that required to realise the benefits of the new operating model...

Specifically, the review identified significant skill set gaps in:

- category management
- contract management
- spend analysis
- demand management
- supply market analysis.

PTD's capability assessments confirmed that, overall, departments did not have the necessary skills to support the government's contestability framework.

Contract management governance

Departments should have policies and procedures for contract management that establish the expectations for effective contract management. This should include how awarded contracts are managed based on their risk and what analysis needs to be performed to support a decision to renew or extend the contract. Governance processes should monitor and control the implementation of these policies and procedures across all of a department's business units.

Effective governance of contract management should cover all aspects of the contract life cycle including establishing contracts, delivering contracts to ensure objectives are realised and extending, renewing or re-tendering contracts.

In this audit, we reviewed whether departments had plans to enable effective delivery of contracts and whether they had effective processes for governing the extension and renewal of contracts.

Contract management plans

A contract management plan identifies how performance data will be collected, and who is responsible for its collection, commensurate with the risk of the contract. The Australian National Audit Office (ANAO) better practice guide on contract management states that:

...to support the contract start-up and effective contract management, most of the work required for developing a contract management plan can and should be done before the contract is signed...

While the audited departments had either policies or templates to develop contract management plans, they did not enforce this systematically. Only 13 of the 62 contracts reviewed had a contract management plan. The remaining contracts did not have a plan to enable effective contract administration during contract terms or to set out the necessary processes before the contract expired.

While contract risk should determine the level of effort and detail for a contract management plan and its execution, departments did not implement a risk framework consistently for their contracts. While 12 out of the 13 contracts that did have a contract management plan were worth more than \$1 million each, another 25 contracts worth more than \$1 million each had no contract management plan.

Case study: Contract management plans

ANAO key elements of an effective contract management plan

The ANAO *Better Practice Guide on Developing and Managing Contracts* (2012) states that 'a contract management plan is a useful tool for managing risks to the success of contracts, and for ensuring that what is negotiated as value for money is actually delivered. Even for relatively simple, low-risk contracts, a contract management plan (or simple checklist) will help make sure that important obligations are not overlooked and the intent of the contract is achieved, although the level of planning should be commensurate with the value and risk of the contract'.

The guide outlines the following key elements to be included in contract management plans for large or more complex procurements:

- contract structure
- roles and responsibilities
- conditions of the contract
- financial considerations
- performance measurement
- contract administration
- risk assessment and management strategy
- contract review.

There should be KPIs for measuring the performance of the contract, a list of non-financial performance incentives or disincentives and a description of the data collection and analysis methods for monitoring and assessing performance.

The contract review section should outline the process for assessing whether to renew or extend a contract and the steps to be followed as the contract nears expiry.

Source: Australian National Audit Office

Approval process and policies for contract expiry

Policies and procedures for contract management should require contract managers to plan for contract expiry. This includes sound analysis to determine how best to achieve value for money before making the decision to extend, renew or re-tender contracts.

The audited departments did not have effective governance structures to identify and correct systematically where contract managers requested contract extensions or renewals without demonstrating how value for money would be achieved. The departments' policies and procedures focused mostly on how contracts should be established and not on how contract managers should prepare for contract expiry.

DCS and PTD did not have any policies and procedures on contract expiry. While DTMR and BAS had procedures on contract expiry, these procedures were not sufficiently detailed in describing how value for money should be tested. Further, these procedures were not applied when extending or renewing contracts and the governance processes were ineffective in identifying and correcting when this occurred. Comprehensive value for money testing to support the decision to extend was performed for only one of the 58 contracts reviewed.

DTMR provided general guidance to its contract managers on contract extensions and delegated the authority to approve contract extensions on the basis of financial and procurement delegations. However, at an entity level, it could not be assured that officers exercised these delegations appropriately. DTMR has taken steps to improve the approval process by introducing a new policy in July 2013 as part of a new category management approach. The policy states that, if a contract needs to be extended for more than 12 months, approval must be sought from the department's CPO. This would enable the CPO to assess the contract in relation to its category to determine if value for money could be maximised through alternative sourcing options.

PTD and DCS did not have any policies and procedures for contract extensions and renewals to ensure their governance structures worked effectively. BAS did not monitor whether contract managers comply with its procedure for managing a standard offer arrangement.

All audited departments approved submissions for contract extension, despite those submissions including minimal analysis to support the extension and not detailing why an extension presented the best value for money option.

As part of the procurement transformation process that started in May 2013, PTD developed a draft, outlining how it expects its contract managers to review a supply arrangement both during the contract term and before approving extensions.

3.3.2 Contract management systems

Departments should have a record of all contracts and should capture key information to support contract management activities and reporting. When the contract management systems integrate with the departments' financial systems, it enables departments to analyse spend and trends.

None of the audited departments had a complete contract register because of unreliable systems. The departments' systems for managing contracts did not:

- provide for central management of contracts
- integrate with their respective department's financial systems
- provide automated alerts to enable early planning for contract expiry
- support and record details about the entire contract life cycle, including the initial procurement, contract formation and management, plus planning for contract expiry.

This reduced the departments' ability to govern contract management practices effectively and also meant that contract data to inform whole-of-government strategic procurement activities were lacking. The departments depended on their regional offices and individual contract managers for effective contract management, with limited ability to correct deficient contract management practices and to report at an entity level.

The ANAO better practice guide on contract management states that:

...A contract management life cycle system builds on the essential foundation of a contract register, to provide a solution for managing contracts over their entire life cycle, from procurement to contract management, to contract extensions and renewals...

Case study: Contract management life cycle system

Key elements of an effective contract management life cycle system

The ANAO *Better Practice Guide on Developing and Managing Contracts* (2012) outlines the characteristics of better practice contract registers, including:

- the register contains all relevant contract details
- responsibility for maintaining the register is clearly assigned to an individual or work area
- formal procedures are promulgated for maintaining the accuracy and completeness of the register
- the automation of the input of data that limits or eliminates the multiple input of data into different systems to improve consistency and reduce the incidence of human error
- the provision of links to individual contracts
- system access controls to ensure unauthorised staff do not have access
- periodic review of the contract register.

A contract management life cycle system can assist with effective planning for contract expiry by:

- automating early triggers for contract expiry
- recording the history of supplier performance which can be used to inform the procurement strategy when contracts expire
- integrating with financial systems to enable contract managers to monitor spend and assess business demand for goods and services before extending or renewing contracts.

Source: Australian National Audit Office and Queensland Audit Office

Department of Community Safety

DCS recorded contract information manually in spreadsheets but these contract registers were incomplete and contained limited information on each contract. In addition, because the spreadsheets were maintained by staff in the central procurement division, contract managers in business areas did not have a tool to update contract information. The registers recorded only contracts worth more than \$100 000 that business areas had disclosed to the central procurement area. The value of the contracts was not recorded in these registers.

We analysed all supplier payments totalling more than \$100 000 per supplier in 2012–13. The contract registers did not include contracts for 198 suppliers, to whom the department had made payments of \$242 million in 2012–13. DCS identified that \$190 million of the \$242 million payments were made to 43 suppliers providing goods and services under arrangements: whole-of-government supply arrangements, other agencies' supply arrangements, volunteer organisations, private prison management and non-contestable energy sites – which the department does not include in its contract registers.

Department of Transport and Main Roads

DTMR had a contract register, but it was incomplete because it relied on each of its (more than 650) contract managers to enter the relevant data. The department therefore could not monitor how contracts were managed across the department, identify contracts that were coming up for expiry or monitor spend on contracts because the relevant information was not captured. DTMR's contract register could not be used to monitor spend on contracts, as payment transactions recorded in the department's financial system did not reference the contract to which the payment related.

We analysed all supplier payments totalling at least \$100 000 per supplier in 2012–13. The contract register had missing records for 794 suppliers paid a total of \$3.91 billion in 2012–13.

In July 2013, DTMR completed a strategy and roadmap for improving its systems capability to support procurement and contract management. The business case to implement this strategy and roadmap was endorsed in November 2013 and, upon funding approval, DTMR will go to market to identify a software solution that best meets its requirements for a contract management life cycle system.

Department of Housing and Public Works

Each of the 12 BAS offices spread throughout Queensland recorded contract information manually in spreadsheets using a common template. The template did not include a field to record contract values and the BAS offices did not keep the spreadsheets up to date. For example, we identified that the contract spreadsheet at one BAS office was not updated for 122 days, despite two of the three contracts we reviewed for that office being renewed within this time frame.

There was no consolidated contract register with limited contract information recorded in separate registers. BAS was therefore unable to monitor how each office managed its contracts or to ensure that contract managers complied with policies and procedures for contract management.

BAS could not monitor spend on individual contracts effectively because the contract data it maintained in spreadsheets did not integrate with its financial system.

Whole-of-government contract management life cycle system

In 2007, a Service Delivery and Performance Commission (SDPC) report on Procurement and Logistics identified the need for agencies to have the system capability to support effective contract management in budget sector agencies. It noted that the implementation of SAP finance systems for agencies at the time did not include strategic sourcing and contract management capability.

SDPC recommended the development of a business case for this system capability as core functionality in the SAP standard offerings to ensure that all agencies had financial systems that supported procurement and contract management, with no option for agencies to opt out. Nonetheless, the functionality to support contract management in SAP was not implemented at any agency, as the former Department of Public Works did not consider this a priority.

The former Queensland Government Chief Procurement Office proposed an alternative solution in its 2011 procurement process reform initiative business case, which included implementation of a contract life cycle management system—Q-Contracts.

PTD has spent \$1.1 million to date to deploy Q-Contracts for use by all budget sector agencies. While implementation of Q-Contracts is not mandatory for all agencies, the business case forecasted all agencies adopting the solution by June 2012 to deliver the expected \$7.25 million in benefits per year. At June 2013, only the host department was using the software in five out of its 30 business units.

The standard product offering for the Q-Contracts system does not integrate with SAP. The lack of this functionality reduces the system's effectiveness and its attractiveness to departments as an appropriate option to support contract management. In addition, during user acceptance testing, the project did not test whether Q-Contracts could integrate with current versions of SAP, so that agencies wanting this functionality could be confident of its operability.

3.4 Recommendations

It is recommended that all departments:

- 1. develop and implement a contract management capability framework to ensure the department has sufficient, appropriately skilled resources to manage contracts effectively**
- 2. develop and apply a risk/value matrix approach to:**
 - define expectations for effective contract management and establish supplier performance monitoring regimes to ensure value for money is realised with contracts**

- allocate resources commensurate to the risk of contracts for efficient contract administration
- 3. validate the value for money proposition of a contract before extending or renewing it, by reviewing:
 - the original assessment of risk, demand and the supply market
 - the supplier's performance
- 4. implement a contract management life cycle system to enable:
 - consistent monitoring of supplier performance
 - spend analysis
 - early trigger to prepare for contract expiry.

Appendices

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Appendix A—Comments

Auditor-General Act 2009 (Section 64)—Comments received

Introduction

In accordance with section 64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Department of Community Safety, the Department of Housing and Public Works and the Department of Transport and Main Roads with a request for comment.

Responsibility for the accuracy, fairness and balance of the comments rests with the head of these agencies.

Comments received

Response provided by the Director-General, Department of Transport and Main Roads on 22 November 2013.



Responses to recommendations

Response to recommendations provided by the Director-General, Department of Transport and Main Roads on 22 November 2013.

Attachment 1

Responses to recommendations

Response to recommendations provided by the Director-General, Department of Transport and Main Roads.

Recommendation	Agree / Disagree	Timeframe for Implementation (mth/year or qtr/year)	Additional Comments
1. develop and implement a contract management capability framework to ensure the department has sufficient, appropriately skilled resources to manage contracts effectively	Agree	September 2014	<p>Build a Contract Management Framework addressing 3 key pillars</p> <ul style="list-style-type: none"> o capability (September) o systems (refer to #4 below) o governance/process (June) <p>This will further support the category management approach TMR commenced in July 2013.</p> <p>Building capability will need to align to the Procurement Transformation Division's strategy (to be developed).</p>
<p>2. develop and apply a risk/value matrix approach to:</p> <ul style="list-style-type: none"> • define expectations for effective contract management and establish supplier performance monitoring regimes to ensure value for money is realised with contracts • allocate resources commensurate to the risk of contracts for efficient contract administration 	Agree	<p>June 2014 (goods & services)</p> <p>December 2014 (infrastructure)</p>	<p>TMR has developed and is currently testing a streamlined procurement process that identifies how to purchase a good/service based on the characteristics of the purchase (so, what you buy determines how you buy it). This will be implemented fully for goods/services procurement by June 2014. A similar approach will be adopted for infrastructure procurement to align and simplify the process. This will ramp up post June 2014.</p> <p>This includes the contract management of the good/service (what you contract for determines how you manage it).</p> <p>The characteristics are based on the value/risk.</p> <p>(Note – infrastructure contracts were not in scope for both the data mining activity in late 2012 and the performance audit as they are not rolled over or extended. However improving the capability of contract management across all TMR contracts is in scope under procurement reform).</p>

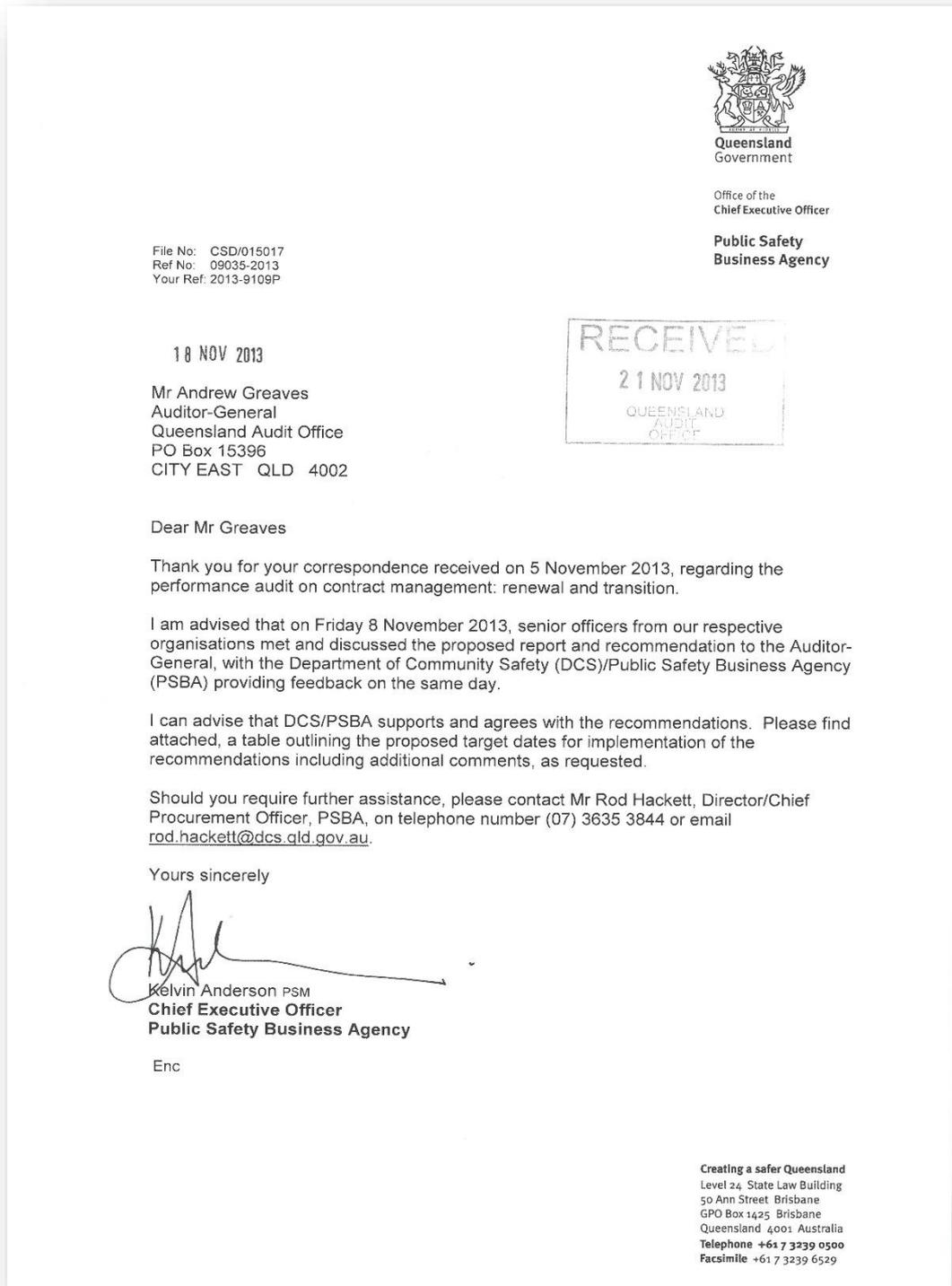
Responses to recommendations

Response to recommendations provided by the Director-General, Department of Transport and Main Roads on 22 November 2013.

Recommendation	Agree / Disagree	Timeframe for Implementation (mth/year or qtr/year)	Additional Comments
<p>3. validate the value for money proposition of a contract before extending or renewing it, by reviewing:</p> <ul style="list-style-type: none"> the original assessment of risk, demand and the supply market the supplier's performance 	Agree	June 2014	These standards will be incorporated into the current procurement process development (as outlined in 2 above). The new process will be fully implemented across TMR by June 2014.
<p>4. implement a contract management life cycle system to enable:</p> <ul style="list-style-type: none"> consistent monitoring of supplier performance spend analysis an early trigger to prepare for contract expiry. 	Agree	June 2015 with additions to functionality complete by 2016	<p>TMR has a detailed and costed business case to deliver a full (end 2 end) procurement system which is being progressed through governance channels. The business case will enable the delivery of the agreed 'roadmap' that will provide fully CLM functionality as well as:</p> <ul style="list-style-type: none"> downstream P2P functionality network capability (connectivity to suppliers) analytics and business warehouse

Comments received

Response provided by the Chief Executive Officer, Public Safety Business Agency on 18 November 2013.



Responses to recommendations

Response to recommendations provided by the Chief Executive Officer, Public Safety Business Agency on 18 November 2013.

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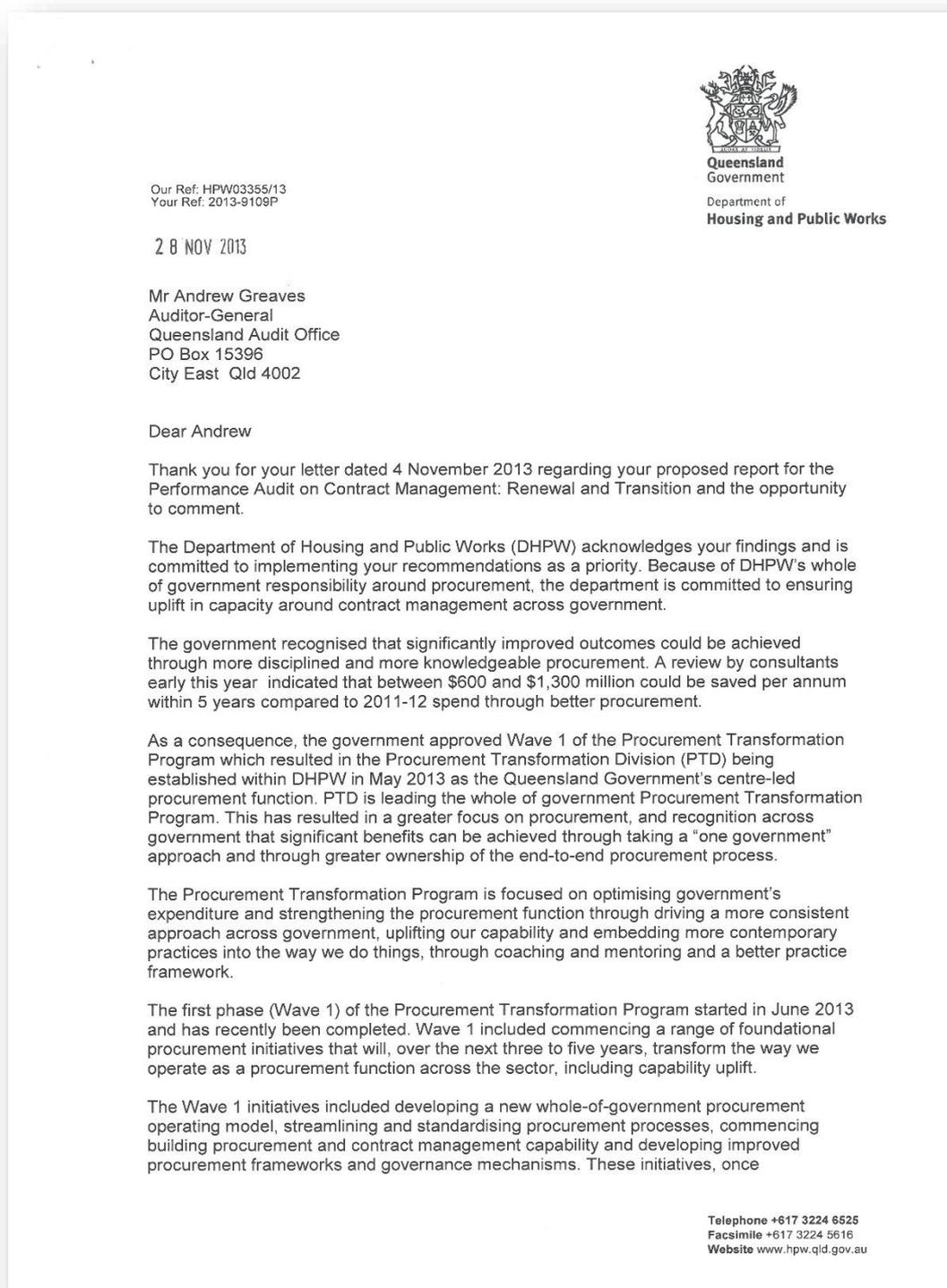
Responses to recommendations

Response to recommendations provided by the Director-General, Department of Community Safety.

Recommendation	Agree / Disagree	Timeframe for Implementation (mth/year or qtr/year)	Additional Comments
1. develop and implement a contract management capability framework to ensure the department has sufficient, appropriately skilled resources to manage contracts effectively	Agree	Target Date 30/06/15	The implementation of this recommendation is subject to the finalisation of the PSBA service delivery model including resources, funding availability and WoG Procurement Transformation program.
2. develop and apply a risk/value matrix approach to: <ul style="list-style-type: none"> define expectations for effective contract management and establish supplier performance monitoring regimes to ensure value for money is realised with contracts allocate resources commensurate to the risk of contracts for efficient contract administration 	Agree	Target Date 30/06/15	The implementation of this recommendation is subject to the finalisation of the PSBA service delivery model including resources, funding availability and WoG Procurement Transformation program.
3. validate the value for money proposition of a contract before extending or renewing it, by reviewing: <ul style="list-style-type: none"> the original assessment of risk, demand and the supply market the supplier's performance 	Agree	Target Date 30/06/15	The implementation of this recommendation is subject to the finalisation of the PSBA service delivery model including resources, funding availability and WoG Procurement Transformation program.
4. implement a contract management life cycle system to enable: <ul style="list-style-type: none"> consistent monitoring of supplier performance spend analysis an early trigger to prepare for contract expiry. 	Agree	Target Date 30/06/15	The implementation of this recommendation is subject to the finalisation of the PSBA service delivery model including resources, funding availability and WoG Procurement Transformation program.

Comments received

Response provided by the Director-General, Department of Public Works and Housing on 28 November 2013.



Comments received

Response provided by the Director-General, Department of Public Works and Housing on 28 November 2013.

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implemented, will allow the department to address many of the findings and recommendations within your report, for this department and across the whole of government.

During Wave 1, twelve strategic sourcing initiatives were completed with \$82-130 million in cashable savings enabled in 92 working days.

If Wave 2 is approved by CBRC in December 2013, it will commence early in the New Year and be completed by June 2014 with an expectation that a further \$150 to \$250 million in procurement savings will be enabled. Further objectives of Wave 2 are to better embed the operating model and uplift procurement capability including contract management capability.

Some specific examples where the audit recommendations are already being addressed through the Procurement Transformation Program are outlined below:

- **Contract Management capability framework:**

672 procurement staff across the sector were invited to participate in a Procurement Capability Audit – with over an 80 per cent response rate. The findings from this capability audit will be used to develop a Procurement Workforce Strategy and Plan and targeted training programs to address the identified whole-of-government skills gaps, including the key gap - contract and performance management.

- **Validate value for money prior to contract expiry or extension**

- Five formal contract reviews have commenced on whole-of-government contracts managed within PTD, with an additional five to commence in December 2013.
- PTD has worked with the Department of Science, Information Technology, Innovation and the Arts to extend the whole-of-government Business Machines Arrangement for two months rather than 12 months, to allow a formal contract review to be undertaken to determine the best procurement strategy and value-for-money option for the next 12 months.
- PTD has worked with Queensland Health and suppliers to review the Employee Assistance Program (EAP) contracts across government to ensure value for money, stakeholder satisfaction and supplier performance. This has resulted in the consolidation of two existing contracts into one whole-of-government contract, with cashable and non-cashable savings of \$450,000.
- A broader performance review framework will be tested, validated and implementation commenced across whole-of-government as part of Wave 2 by 30 June 2014.

- **Value/Risk Matrix approach to contract management and resource allocation**

A value/risk matrix approach was developed during Wave 1 and is intended to be refined, embedded and rolled out over the next 18 months.

On 1 July 2013 the former Project Services and QBuild amalgamated to form Building and Asset Services (BAS). The objectives of BAS are to be the preferred procurer and contract manager of building and construction maintenance and services on behalf of government agencies. To achieve these objectives, BAS recognises that it must:

Comments received

Response provided by the Director-General, Department of Public Works and Housing on 28 November 2013.

- 3 -

- uplift its skills with respect to market and supplier knowledge across the regions and districts of Queensland
- take a risk based approach to procurement
- improve its skills in contract negotiation including in pricing
- improve value for money outcomes
- improve its skills and institutionalise processes around contract management including performance monitoring and performance monitoring.

With respect to the rollover of service maintenance contracts, BAS has in place a project plan to go to market for these contracts in early 2014. While there are currently 209 service contracts in place, analysis indicates that better value will be obtained and the contracts will be more manageable, if these are reduced to between 30 and 40. In addition contracts will have staggered maturity dates to better manage workflow.

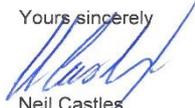
With respect to its general procurement activities, BAS has made good progress and is achieving around 17% savings on 2011-12 costs under the Department of Education, Training and Employment's Advancing Our Schools Maintenance program. Also good savings are being made through price negotiation with tenderers.

BAS is also committed to implementing a contract management system by 30 June 2014 to assist in managing contracts more efficiently and effectively. The implementation of this system will also be required in other areas of DHPW where contracts are being managed including in Housing Services and QFleet.

Please find attached a table with responses to your recommendations (refer to Attachment A).

Should you require any further information, your officers may wish to contact Ms Robyn Turbit, Assistant Director-General, Corporate Services on telephone 07 3224 6307 (or, after 29 November 2013, Stephen Long, A/Assistant Director-General, Corporate Services).

Yours sincerely



Neil Castles
Director-General
Encl.

Responses to recommendations

Response to recommendations provided by the Director-General, Department of Public Works and Housing on 28 November 2013.

Responses to recommendations

Attachment A

Recommendation	Agree / Disagree	Timeframe for Implementation (mth/year or qtr/year)	Additional Comments
1. develop and implement a contract management capability framework to ensure the department has sufficient, appropriately skilled resources to manage contracts effectively	Agree	30 June 2014 (Develop and commence implementation across government)	Wave 2 Deliverable as part of whole of government procurement transformation. . BAS is in the process of developing its own procurement capability framework.
2. develop and apply a risk/value matrix approach to: <ul style="list-style-type: none"> define expectations for effective contract management and establish supplier performance monitoring regimes to ensure value for money is realised with contracts allocate resources commensurate to the risk of contracts for efficient contract administration 	Agree	30 June 2014 (Develop and commence implementation across government)	Wave 2 Deliverable as part of whole of government procurement transformation. BAS and other procurement areas of DHPW will utilise this Matrix once developed.
3. validate the value for money proposition of a contract before extending or renewing it, by reviewing: <ul style="list-style-type: none"> the original assessment of risk, demand and the supplier market the supplier's performance 	Agree	30 June 2014 (HPW and commence implementation across government)	Draft Performance Review Framework implemented for all PTD contracts. This will be tested, validated and implementation of a formal framework commenced across government as part of Wave 2 by 30 June 2014. BAS and other procurement areas of DHPW will undertake value for money assessments before renewing or extending contracts.
4. implement a contract management life cycle system to enable: <ul style="list-style-type: none"> consistent monitoring of supplier performance spend analysis an early trigger to prepare for contract expiry 	Agree	Pending Funding – end June 2014 for HPW and implementation commenced across government	A whole-of-government supply arrangement is in place for a Contract Life-cycle Management (CLM) solution and is currently being rolled-out in DHPW and Department of Health (HSSA). This provides the necessary solution to address this risk. PTD will be working with agencies to address the issues highlighted by the QAO using a value/risk approach to prioritisation. If this solution is not used then agencies will need to assure the Director-General Council that there is other mechanisms/processes/capability in place to address these issues. DHPW will implement the contract lifecycle management system to assist in the management of contracts.

Appendix B—Audit details

Audit objective

The objective of the audit was to examine whether agencies were demonstrably achieving value for money from their goods and services contracts, and in their decisions to extend, renew or re-tender their contracts. Specifically, the audit examined whether departments:

- rigorously monitored and evaluated current supplier performance against contractually agreed standards
- adequately planned and prepared for contract termination/succession.

Reason for the audit

We surveyed departments as part of the 2011–12 financial audit in the general government sector on the extent of the ‘rollover’ of contracts of more than \$50 000 for the delivery of materials and services.

The results of this survey were published in the Auditor-General's Report to Parliament No. 5 for 2012–13 Results of audit: State public sector entities for 2011–12, page 8:

...Fourteen departments provided data ranging from one to five years commencing in 2007-08 which indicates that more than \$4 billion worth of contracts have been extended or rolled over in that period. Departments advised that they had extended or rolled over more than \$1.2 billion worth of contracts in 2011-12 alone. Of most concern, according to the departments, 40 per cent of the contracts rolled over (worth \$423 million) had no provision for extension. Due to limitations in departmental contract registers, some departments could not confirm whether the contracts they rolled over had a provision for extension or not.

This preliminary data indicates that a significant value of current contracts may be being rolled over without adequate market testing.

Four departments indicated that due to deficiencies in their contract registers, this information was not readily tracked and monitored. This is also of concern as it weakens the ability of the department to centrally monitor and manage contracted expenditure...

Performance audit approach

The audit was conducted between April 2013 to October 2013 and examined performance in three departments:

- Department of Community Safety
- Department of Housing and Public Works
- Department of Transport and Main Roads.

The audit consisted of:

- interviews with staff of the three audited departments
- examination of key documents and data related to contracts
- analysis of documents, including strategies, plans, policies, guidelines and reports.

Appendix C—Glossary of terms

Term	Definition
Category management	Strategic management of an aggregation of goods and services within an agency or across government
Contract life cycle	Process which begins when an entity has identified a procurement requirement, then continues through to contract award, delivery and payment of goods and services, ongoing management of the contract and finally to review and closure
Contract management	Administration of contracts, including negotiating the terms and conditions, ensuring compliance with these terms and documenting any changes which may arise over the contract term
Contract value leakage	Loss of value over time due to ineffective contract management
Demand analysis	Identification of the current and predicted need by a department for the goods and services
Extension option	Option to extend the agreed terms for a further period
Procurement	The process for acquiring goods or services
Spend analysis	Identification of the total current spend and forecast spend on the good or service
Standard Offer Arrangement (SOA) or supply arrangement	An offer by one or more suppliers to provide goods and/or services on pre-agreed terms and conditions
Supply market analysis	Identification of supply market characteristics for specific goods and services, such as its competitiveness, future direction and key suppliers
Tender	An offer to supply goods and/or services
Value for money	The value for money assessment must include consideration of: <ul style="list-style-type: none"> • contribution to the advancement of government priorities • non-cost factors, such as fitness for purpose, quality, service and support, and sustainability considerations • cost-related factors, including whole of life costs and transaction costs associated with acquisition, use, holding, maintenance and disposal

Auditor-General Reports to Parliament

Tabled in 2013–14

Report number	Title of report	Date tabled in Legislative Assembly
1	Right of private practice in Queensland public hospitals	July 2013
2	Supply of specialist subject teachers in secondary schools	October 2013
3	Follow up—Acquisition and public access to the Museum, Art Gallery and Library collections	October 2013
4	Follow up—Management of offenders subject to supervision in the community	October 2013
5	Traffic management systems	November 2013
6	Results of audit: Internal control systems	November 2013
7	Results of audit: Water sector entities 2012–13	November 2013
8	Results of audit: Hospital and Health Services entities 2012–13	November 2013
9	Results of audit: Energy sector entities 2012–13	December 2013
10	Contract management: Renewal and transition	December 2013

Reports to Parliament are available at www.qao.qld.gov.au.