



## Office of the Internal Auditor



Confidentiality  
Integrity  
Ethics  
Objectivity  
Competency

# AUDIT REPORT

## Vendor Management Office Audit

June 5, 2018

## Table of Contents:

	<b>Page</b>
<b>Executive Summary</b>	
Background	1
Audit Objectives and Scope	1
Management’s Assessment and Reporting on Controls	1
Audit Opinion	2
<b>Appendix</b>	
Definitions	3
Distribution	4
Audit Performed By	4

## **Background**

The Vendor Management Office (VMO) in partnership with the Purchasing and Legal departments support Citizens' vendor selection process. The collaboration of these departments provides oversight of the contract life cycle and ensures compliance with Florida Statutes governing the procurement process to ensure fair and equitable selection of vendors. After the vendor contract has been awarded, the VMO works with the certified Contract Managers to provide guidance and tools to manage vendor performance and ensure expected benefits are realized. The VMO enables Citizens to better control costs, drive service excellence, and mitigate risks throughout the contract life cycle which includes engagement, selection, and management.

As of February 2018, Citizens had approximately 416 active contracts resulting from procurements with an estimated maximum value of \$1.475 billion, excluding weather related emergency procurements.

## **Audit Objectives and Scope**

The objective of this audit was to evaluate the adequacy and effectiveness of controls related to the vendor management processes. The scope of the audit included an assessment of controls and compliance with regulatory requirements for the following areas:

- Monitoring of vendor contract compliance and performance
- Termination of vendor contracts
- Compliance with regulatory requirements

The scope of this audit did not include a review of the vendor engagement process or vendor selection responsibilities performed by the Purchasing department.

## **Management's Assessment and Reporting on Controls**

OIA provided management an opportunity to share known control weaknesses and their plans to remediate them. This process is intended to foster an environment whereby management and staff conduct periodic proactive reviews of controls and are aware of the risks to the business. It also enables OIA to focus its audit efforts on areas where it can add value to the organization. At the start of this audit, management shared the following remediation plans with OIA:

- The VMO has recently revised their Contract Non-Compliance process without updating their documentation. The VMO plan to update the process documentation to reflect current business practices and operations by June 30<sup>th</sup> 2018.
- The VMO identified the need to improve business continuity with regards to the Contract Non-Compliance process. The VMO has a remediation plan to strengthen the process continuity through department cross-training to ensure more than one resource can oversee contract managers and the contract non-compliance process.

## Audit Opinion

The overall effectiveness of the controls evaluated during the audit of the VMO contract compliance and monitoring process is rated as **Satisfactory**.

The VMO efforts to strengthen internal controls and compliance with State Statutes were noted during the audit. The OIA noted that the primary purpose of the Contract Non-Compliance process is to correct and rehabilitate the vendor contract and relationship when possible. Additionally, process and operational strengths include documentation of business unit and vendor correspondence, performance of due diligence to support contract non-compliance decisions, training and educational materials developed for Contract Managers and the strategic coordination of departments involved with the process.

In discussion with some of Citizens Contract Managers, they confirmed that there is a strong collaborative relationship between them and VMO staff, and a good escalation process used for requesting support when vendors are not meeting contract terms.

Results from our audit work indicate that the VMO contract compliance and monitoring processes are well managed with effective internal controls and adherence to regulatory requirements. In addition, the following process improvement opportunities were discussed:

- Improve process guidance to clarify when a vendor should be escalated to the VMO for non-compliance with contract terms. The contract non-compliance process relies upon Contract Managers to use their judgment and experience to recognize when it is appropriate to escalate vendors for non-compliant performance or delivery. Providing guidance will promote consistency and assist the Contract Managers in determining when non-compliance concerns should be escalated to VMO.
- VMO should coordinate with Corporate Communications when a contract is terminated by Citizens for cause to ensure awareness.
- In the case of termination for cause by Citizens, implement a post termination review of the original procurement to identify future improvements, such as to the solicitation and responsible vendor review processes. The VMO informally obtains internal feedback when vendor contracts are terminated for cause by Citizens; however, formally incorporating termination feedback into the solicitation and reliable vendor review processes will strengthen the overall contract management process and ensure a post termination analysis is performed.

We would like to thank management and staff for their cooperation and professional courtesy throughout the course of this audit.

# Appendix 1

---

## Definitions

### Audit Ratings

#### Satisfactory:

The control environment is considered appropriate and maintaining risks within acceptable parameters. There may be no or very few minor issues, but their number and severity relative to the size and scope of the operation, entity, or process audited indicate minimal concern.

#### Needs Minor Improvement:

The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some minor areas of weakness in the control environment that need to be addressed. Once the identified weaknesses are addressed, the control environment will be considered satisfactory.

#### Needs Improvement:

The audit raises questions regarding the appropriateness of the control environment and its ability to maintain risks within acceptable parameters. The control environment will require meaningful enhancement before it can be considered as fully satisfactory. The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some noteworthy areas of weakness.

#### Unsatisfactory:

The control environment is not considered appropriate, or the management of risks reviewed falls outside acceptable parameters, or both. The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate pervasive, systemic, or individually serious weaknesses.

## Appendix 2

---

### Distribution

Addressee(s) Stephen Guth, VP Vendor Management

Copies **Business Leaders:**  
Barry Gilway, President/CEO/Executive Director  
Kelly Booten, Chief Systems & Operations  
Dan Sumner, Chief Legal Officer & General Counsel  
Christine Turner Ashburn, Chief, Communications, Legislative & External Affairs  
Mark Kagy, Acting Inspector General  
Spencer Kraemer, Director Purchasing

**Audit Committee**  
Bette Brown, Citizens Audit Committee Chairperson  
James Holton, Citizens Audit Committee Member  
Senator John McKay, Citizens Audit Committee Member  
Marc Dunbar, Citizens Audit Committee Member

**Following Audit Committee Distribution**  
The Honorable Rick Scott, Governor  
The Honorable Jimmy Patronis, Chief Financial Officer  
The Honorable Pam Bondi, Attorney General  
The Honorable Adam Putnam, Commissioner of Agriculture  
The Honorable Joe Negron, President of the Senate  
The Honorable Richard Corcoran, Speaker of the House of Representatives

The External Auditor

### Audit Performed By

---

Auditor in Charge Anthony Huebner

---

Audit Manager Deena Harrison

---

Audit Director John Fox

---

*Under the Direction of Joe Martins  
Chief of Internal Audit*

---