

State of Nevada  
Governor's Finance Office  
Division of Internal Audits

**Audit Report**

**Department of Administration  
Purchasing Division**

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**Contract Monitoring**

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**Improved monitoring will enhance post-award contract management, ensure agencies follow procurement guidelines, and increase transparency of state agency contracts.**

DIA Report No. 22-04  
February 22, 2022



**EXECUTIVE SUMMARY**  
**Department of Administration**  
**Purchasing Division**  
**Contract Monitoring**

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**Objective: Improve the contract monitoring process.**

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**Expand Post-Award Contract Management Training** ..... page 2

Expanding post-award contract management training will benefit the state by reducing the amount of staff time spent extending contracts, increasing competition in the procurement process through timely solicitations, and ensuring contracts for essential services are finalized prior to services being performed. Agency contract management staff are not adequately trained to ensure contracts are effectively managed once awarded to a vendor. Lack of post-award contract management training resulted in agency staff failing to re-solicit 14% of contracts prior to expiration in fiscal year 2021.

Failure by agency contract management staff to timely re-solicit contracts resulted in unnecessary contract extensions. In fiscal year 2021, the duplication of effort by Purchasing and GFO staff to review and approve these unnecessary contract extensions cost the state 371 hours in staff time. Additionally, failure to timely re-solicit contracts resulted in and agency providing essential food services for two months under an expired contract before the contract was retroactively extended. Failure by agencies to timely re-solicit contracts forces Purchasing and GFO to choose between approving a contract extension or risk denying services essential to agency operations and Nevadans.

**Establish Oversight of Purchasing-led Agency Contracts** ..... page 8

Expanding post-award contract management training will benefit the state by saving over nine working weeks of staff time spent annually extending and amending contracts, increasing competition in the procurement process through timely and competitive solicitations, and ensuring contracts for essential services are finalized prior to services being performed. Purchasing-led agency contracts are not effectively monitored by agency staff after the contract is awarded. DIA's review of Purchasing-led agency contracts revealed 36% had either post-award compliance issues or were not re-solicited within the original contract term.

Purchasing does not provide oversight of agency managed contracts after the contract is awarded and agencies have discretion to determine when contracts due to expire are re-solicited. There is no mechanism in place to ensure agencies re-solicit contracts prior to expiration. This shortfall has forced Purchasing and GFO to expeditiously approve contract extensions to avoid gaps in agency services. In fiscal year 2021, nine working weeks of staff time were spent extending and amending Purchasing-led agency contracts.

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## INTRODUCTION

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At the direction of the Executive Branch Audit Committee, the Division of Internal Audits (DIA) conducted an audit of the Department of Administration, Purchasing Division. The audit focused on increasing transparency of state agency contracts, enhancing post-award contract management, and ensuring agencies follow procurement guidelines. The audit's scope and methodology, background, and acknowledgements are included in Appendix A.

DIA's audit objective was to develop recommendations to:

- ✓ Improve the contract monitoring process.

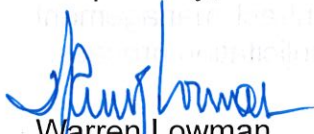
### **Purchasing Division's Response and Implementation Plan**

DIA provided draft copies of this report to the Purchasing Division (Purchasing) for review and comment. DIA considered Purchasing's comments in the preparation of this report; Purchasing's initial response is included in Appendix B. In its response, Purchasing accepted the recommendations. Appendix C includes a timetable to implement the recommendations.

NRS 353A.090 requires within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps Purchasing has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The administrator shall report the six-month follow-up results to the committee and Purchasing.

The following report (DIA Report No. 22-04) contains DIA's *findings, conclusions, and recommendations*.

Respectfully,



Warren Lowman  
Administrator

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## **Improve the Contract Monitoring Process**

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The Department of Administration, Purchasing Division (Purchasing) can improve the contract monitoring process by:

- Expanding post-award contract management training; and
- Establishing oversight of Purchasing-led agency contracts.

Improving the contract monitoring process will enhance post-award contract management, ensure agencies follow procurement guidelines, and increase transparency of state agency contracts.

### ***Expand Post-Award Contract Management Training***

The Purchasing Division (Purchasing) should expand post-award contract management training offered to Certified Contract Managers (CCMs) and agency staff responsible for managing contracts. Expanding post-award contract management training will benefit the state by reducing the amount of staff time spent extending contracts, increasing competition in the procurement process through timely solicitations, and ensuring contracts for essential services are finalized prior to services being performed.

### **Contract Managers Are Not Trained for Post-Award Contract Management**

Purchasing administers the CCM program for state employees whose responsibilities include soliciting quotes and proposals from vendors. CCM candidates must attend a two-day training class and pass a final examination before conducting solicitations. The CCM program does not focus on post-award contract management, such as:

- Re-soliciting vendors timely to ensure no lapse in goods and services provided;
- Monitoring vendor performance and contract authority spend-down; and
- Verifying ongoing compliance with insurance and licensing requirements.

Certification is not required for agency staff that perform contract management activities after a contract is awarded through the competitive solicitation process.

### **Non-Certified Staff Often Responsible For Contract Management**

Non-certified staff are often responsible for post-award contract management and compliance. Agencies with few contracts have one CCM that solicits quotes and proposals and performs post-award contract management. The CCM program

emphasizes pre-award procurement activities, including creating a Request for Proposal and evaluating vendor proposals. The CCM program does not include post-award contract management training.

#### Lack of Training Resulted in Noncompliance and Expired Contracts Before Vendors Were Re-solicited

The lack of post-award contract management training resulted in agency staff allowing contracts to expire before re-soliciting vendors. Two of the 14 contracts reviewed (14.3%) failed to be re-solicited by the agencies prior to contract expiration. New contracts had to be extended retroactively since services had been performed under an expired contract.<sup>1</sup>

When a contract is due to expire and vendors have not been solicited, an agency limits its options to maintain services that were provided under the contract. Agencies may extend the contract term to maintain operations temporarily; however, the vendor must agree to the extension and approval is required by the Purchasing Administrator, the Governor's Finance Office (GFO), and the Board of Examiners (BOE).<sup>2</sup>

#### Untrained Staff Lack Knowledge and Expertise To Manage Contracts Post-award

Untrained agency contract management staff lack the knowledge and expertise required to effectively manage contracts post-award. For example, review of 14 of 275 contracts (5%) active in fiscal year 2021 solicited by Purchasing and managed by a state agency post-award showed the following examples of noncompliance:

- Insurance requirements lapsed during the term of the contract and went unnoticed by agency staff;
- A contract was extended twice for nearly three times the original contract authority without the agency re-soliciting bids; and
- An agency failed to re-solicit a minimum of three vendors for a janitorial contract when several vendors were available. The agency solicited two vendors and awarded the replacement contract to the existing vendor.

### **Post-award Contract Management is Inefficient and Limits Competition**

Extending the term of a contract that should be re-solicited wastes time and resources. The contract extension as well as the new contract must be approved, resulting in a duplication of effort. Extending contracts requires agencies to complete a Contract Extension Justification and Request Form and submit to

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<sup>1</sup> The State Administrative Manual Section 0322 requires contracts be ratified by appropriate official action of the governing body of each party to the contract as a condition precedent to its entry into force.

<sup>2</sup> The State Administrative Manual Section 0324 allows agencies to submit contracts for retroactive approval with sufficient justification.

Purchasing for approval by the Administrator. The agency submits the approved form to the GFO Budget Division along with a contract amendment for review and placement on a BOE agenda. The contract is subject to BOE review and approval prior to being finalized.

### Extending Contracts is Costly And Avoidable

The process and timeline for extending a contract is an avoidable administrative burden. Extending contracts require staff resources from the agency, Purchasing, and the GFO, in addition to review by the BOE. DIA estimates that processing a contract extension and the associated amendment takes approximately nine hours and 30 minutes of combined staff time; however, complex amendments take longer to process.<sup>3</sup> In fiscal year 2021, an estimated 371 hours of combined staff time was spent extending Purchasing-led agency contracts.<sup>4</sup> Reducing the frequency of unnecessary contract extensions will save the state approximately nine weeks of staff time annually and create a more efficient staff process.

Additionally, reducing the frequency of contract extensions by completing solicitations timely will improve competition by allowing other vendors to compete for state contracts. Extending a contract with the current vendor rather than performing a new competitive solicitation limits competition and may result in higher costs of goods and services to the state. The Board of Examiners' solicitation policy in the State Administrative Manual (SAM) section 0338 mandates a four-year contract re-solicitation period to encourage competition.

### **Post-Award Contract Mismanagement Impacts Services to Nevadans**

Review of 14 of the 275 contracts (5%) active in fiscal year 2021 revealed one contract (7.1%) failed to be re-solicited by the agency prior to contract expiration but was extended retroactively to cover over two months of essential food services. Services were provided under an expired contract until a new contract was finalized; however, the agency still exposed the state to unnecessary risk by receiving services not governed by an active contract.

Failure by agencies to timely re-solicit contracts forces Purchasing and the GFO to choose between approving a contract extension or risk denying services essential to agency operations and Nevadans. Agencies have discretion to determine when contracts are re-solicited, but statute requires Purchasing conduct certain solicitations on behalf of agencies, including procurements over \$100,000.

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<sup>3</sup> DIA estimates the combined staff time to process a contract extension and amendment to be 9 hours 30 minutes. (Agency Management Analyst – 3 hours 30 minutes, Purchasing Program Officer – 2 hours 30 minutes, Purchasing Administrator – 30 minutes, Budget Officer – 1 hour 30 minutes, Budget Division Administrator – 30 minutes, GFO Director – 30 minutes, and BOE review time of 10 minutes per member (30 minutes total)).

<sup>4</sup> 39 contract amendments times 9.5 hours per amendment = 370.5 hours.



Failure to timely re-solicit vendors by the agency or to timely notify Purchasing to re-solicit vendors, results in delays to the contract approval process and impacts agency operations and services offered to Nevadans.

Agency contract managers are accountable for monitoring contracts due to expire and planning an adequate amount of time to re-solicit vendors and obtain approval of the new contract. Post-award contract management training is necessary for agency staff to understand the process and timeframes required to re-solicit contracts and to avoid operations being negatively impacted.

### Post-Award Contract Management Training Guidelines are Insufficient

Purchasing's post-award contract management training guidelines are insufficient. Guidelines are limited to basic contract compliance included in the online training *Essentials to State Purchasing*, process flow charts, and checklists available on Purchasing's website. The training resources and guidelines available are decentralized and therefore are not conveniently accessible to agency staff seeking post-award contract management guidance.

Purchasing offers extensive pre-award contract management and solicitations training in-person and online through the CCM program. The program is designed to cover more complex aspects of state contracting, with an emphasis on the service solicitation and contracting process under the State Purchasing Act (NRS 333); post-award contract management is not emphasized.

Purchasing can use the pre-award contract management training in place as a model to provide agency staff with post-award contract management training. The CCM program model includes in-person and online training. Additionally, Purchasing's website has a web page dedicated to CCM-related guidance and agencies can conveniently find all checklists, forms, templates, and related resources in a central location.

### **Post-award Contract Management is an Essential Best Practice**

Post-award contract management is an essential element of the National Association of State Procurement Officials' (NASPO) Best Practices. More than two-thirds of state central procurement offices provide contract management training to agencies.<sup>5</sup>

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<sup>5</sup> NASPO Contract Administration Best Practices Guide.

NASPO identifies the following best practices for post-award contract management:

- Assessing contract risks and monitoring after the contract has been awarded;
- Using tracking tools to monitor spending patterns and whether a contract is working as intended; and
- Collecting data from agencies regarding contract performance and needs for existing contracts, which is critical when drafting specifications to include in the next contract for similar products or services.

Expanding post-award contract management training to include NASPO Best Practices is necessary to bridge the knowledge gap between pre-award management and final contract closeout. Post-award contract management training that focuses on monitoring existing contracts and includes guidelines and timeframes for re-soliciting contracts will reduce the likelihood of contracts expiring prior to re-soliciting vendors, improve contract compliance, and enhance transparency during the procurement and contract approval process.

#### Digital Infrastructure to Expand Online Contract Management Training In Place

The digital infrastructure to expand online contract management training is already in place. Purchasing's website can be used as a repository to host additional contract management guidance. The state's existing Learning Module in SuccessFactors can be used to host training content accessible by all state employees. The existing digital infrastructure of SuccessFactors and Purchasing's website can be leveraged to expand post-award contract management training. The training should include:

- Consolidated guidelines for post-award contract compliance to include ongoing monitoring for insurance, licensure, and contract authority spend-down;
- Timelines for agency staff to begin the solicitation process for contracts due to expire and planning mechanisms to ensure no lapse in service before being re-solicited; and
- Criteria for justifying a contract extension past the four-year BOE required re-solicitation period.

## ***Conclusion***

CCMs and non-certified agency contract management staff are not adequately trained to ensure contracts are effectively managed once awarded to a vendor. As a result, two of 14 contracts reviewed failed to be re-solicited by agencies prior to contract expiration. Lack of post-award contract management training resulted in an agency receiving two months of essential food services without a contract in place. Failure by agency contract management staff to timely re-solicit contracts resulted in unnecessary contract extensions. In fiscal year 2021, the duplication of effort by Purchasing and GFO staff to review and approve these unnecessary contract extensions cost the state 371 hours in staff time.

Expanding post-award contract management training will benefit the state by saving over nine working weeks of staff time spent annually extending and amending contracts, increasing competition in the procurement process through timely and competitive solicitations, and ensuring contracts for essential services are finalized prior to services being performed.

## ***Recommendation***

1. Expand post-award contract management training.

## ***Establish Oversight of Purchasing-led Agency Contracts***

Purchasing should establish oversight of agency contracts it solicits. Establishing oversight will improve agency compliance with state contracting guidelines, reduce staff time spent on unnecessary contract amendments, and ensure contracts for essential services are re-solicited and finalized prior to services being performed.

### **Purchasing-led Agency Contracts Are Not Effectively Monitored Post-award**

Purchasing-led agency contracts are not effectively monitored by agency staff after the contract is awarded. DIA's review of Purchasing-led agency contracts revealed five of 14 contracts (36%) had either post-award compliance issues or were not re-solicited within the original contract term.

Purchasing does not provide oversight of agency managed contracts after the contract is awarded. Purchasing ensures solicitations and contracts meet state guidelines initially but agencies are responsible for monitoring contracts once finalized. Additionally, agencies have discretion to determine when contracts due to expire are re-solicited. Agencies that fail to monitor active contracts due to expire risk not having a contract in place for essential services.

### **Oversight Needed to Reduce Delays and Avoid Contract Extensions**

Oversight of Purchasing-led agency contracts is needed to reduce contract approval delays and avoid contract extensions. In fiscal year 2021, two of 14 contracts reviewed (14%) failed to be re-solicited prior to contract expiration. The delay in solicitation of vendors resulted in delays approving the new contract.

When a new contract is delayed, a gap in services may exist between the end of the original contract term and execution of a new contract if an alternative contract to provide those services is not in place. Agencies choose to extend contracts to maintain services that were provided under the contract, but doing so creates more work for the agency, Purchasing, and GFO to approve the contract extension.

There is no mechanism in place to ensure agencies re-solicit contracts prior to expiration. This shortfall has forced Purchasing to expeditiously approve contract extension requests and GFO to expeditiously review and approve new contracts or contract extensions to avoid gaps in agency services when contract staff fail to re-solicit and finalize contracts timely. Agencies requesting expeditious review of contracts create an administrative burden and undermine GFO's oversight role in the contracting process. The oversight role is undermined when GFO must expeditiously approve agency requests for essential services because it is too late in the process to pursue contract alternatives.

## Compliance and Savings Achieved Through Effective Oversight

Effective post-award contract oversight ensures compliance with state contracting guidelines and ensures re-solicited contracts are reviewed, approved, and in place before a gap in services occurs, reducing the likelihood of unnecessary contract extensions.

Effective oversight of Purchasing-led agency contracts will reduce the frequency of contract extensions by ensuring agencies timely re-solicit contracts due to expire. Reducing the frequency of amendments will lead to staff time savings by reducing the administrative burden of contract reviews and approval. DIA estimates 371 hours of staff time was spent in fiscal year 2021 extending Purchasing-led agency contracts.

Effective oversight of Purchasing-led agency contracts will also ensure agencies re-solicit contracts timely. Two of 14 contracts reviewed (14%) failed to be re-solicited by the agencies prior to contract expiration. These contracts had to be extended retroactively since services had been performed under an expired contract. Contracts not re-solicited within the BOE recommended four-year period limit competition and may result in higher costs to the state. Additionally, when contracts are not re-solicited timely an agency risks not having a new contract in place to provide services when the existing contract expires.

## Existing Guidance Insufficient

Statutes, regulations, procurement rules, and published guidelines alone have been insufficient to ensure compliance. Without a framework for continued monitoring, there is no oversight of Purchasing-led agency contracts once the original solicitation is completed and a contract is in place.

## **NASPO Recommends Oversight**

The National Association of State Procurement Officials (NASPO) recommends oversight of agency contracts by state central procurement offices. NASPO Best Practices recommend central procurement offices:

- Monitor and track contract performance;
- Provide training to procurement staff involved in contract management, including contract administration and monitoring activities; and
- Be diligent in managing contracts and hold contractors accountable to the contract terms and conditions.

Independent oversight of agency contracts can be achieved by Purchasing through periodic monitoring of contracts for compliance with contracting guidelines and by establishing an oversight mechanism to ensure Purchasing-led agency contracts

due to expire are re-solicited timely. Purchasing can measure oversight success using NASPO's Indicators of Successful Contract Management, which include:

- Very limited or no changes to the contract;
- No increased costs that result in inefficient use of taxpayers' dollars; and
- A contract file that contains the essential record of contract award and performance.

Purchasing should establish oversight of agency contracts to improve agency compliance with state contracting guidelines, reduce staff time spent on unnecessary contract amendments, and ensure contracts for essential services are re-solicited and in place prior to services being performed.

## ***Conclusion***

Purchasing-led agency contracts were not effectively managed by agencies after the contract was awarded. Ineffective post-award contract management resulted in compliance issues and untimely contract re-solicitations. Purchasing does not provide oversight of Purchasing-led agency contracts after the contract is awarded to ensure compliance with state contracting guidelines. Additionally, there is no effective oversight in place to ensure agencies re-solicit contracts prior to expiration. In fiscal year 2021, untimely re-soliciting contracts cost the state 371 hours in staff time and required expeditious approval of contract extension requests and amendments to avoid gaps in agency services. Requiring expeditious approval of contracts undermines GFO's oversight role in the contracting process. The oversight role is undermined when GFO must expeditiously approve agency requests for essential services because it is too late in the process to pursue contract alternatives.

The National Association of State Procurement Officials recommends oversight of agency contracts by state central procurement offices. Oversight of agency contracts can be achieved by Purchasing through periodic monitoring of contracts for compliance with contracting guidelines and by establishing an oversight mechanism to ensure Purchasing-led agency contracts due to expire are re-solicited timely. Establishing oversight of Purchasing-led agency contracts will improve agency compliance with state contracting guidelines, reduce staff time spent on unnecessary contract amendments, and ensure contracts for essential services are finalized prior to services being performed.

## ***Recommendation***

2. Establish oversight of Purchasing-led agency contracts.

**Exhibit I**

**Summary of Audit Benefits**

| <b>Recommendation</b>                                      | <b>Total Estimated Benefit</b>          |
|--|---|
| 1. Expand post-award contract management training.         | 371 hours of staff time saved annually. |
| 2. Establish oversight of Purchasing-led agency contracts. |   |

## Appendix A

### Scope and Methodology, Background, Acknowledgements

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#### Scope and Methodology

We began the audit in September 2021. In the course of our work, we interviewed management and staff and discussed processes inherent to the Purchasing Division. We reviewed state contracts active in fiscal year 2021, contract management logs, and vendor records. We also researched applicable Nevada Revised Statutes, Nevada Administrative Code, the State Administrative Manual, and other state guidelines. We concluded fieldwork in December 2021.

We conducted our audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

#### Background

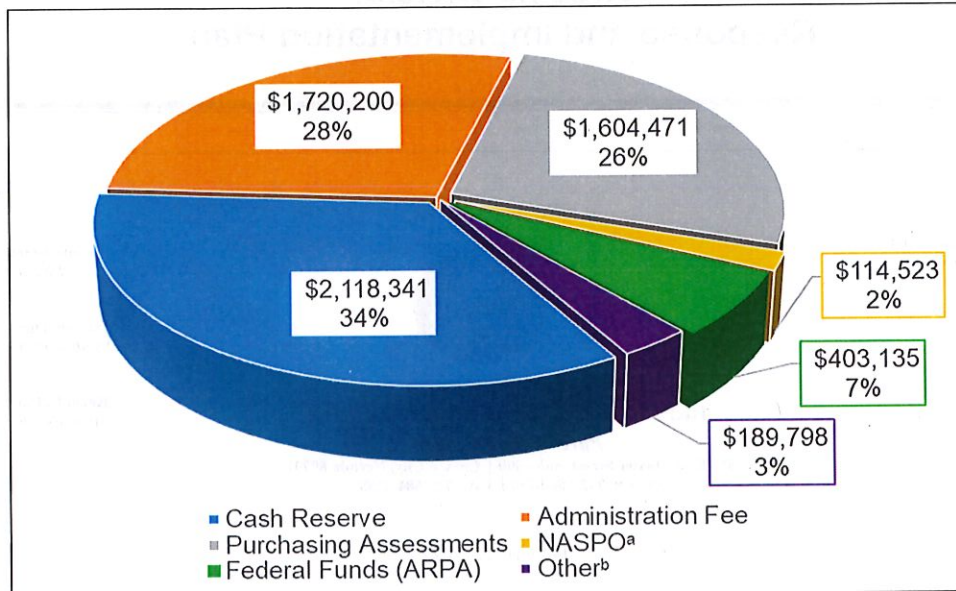
The Purchasing Division (Purchasing) is one of 11 divisions organized under the Department of Administration that give internal support to state agencies and employees, provide business opportunities for vendors and contractors, and offer services to citizens. Purchasing is charged to perform all functions related to service procurement and the purchasing, renting, or leasing of supplies, materials, and equipment needed by state agencies. Purchasing maintains warehouses in Reno and Las Vegas, handles the reallocation and disposal of excess state property, maintains an inventory of state fixed assets, administers the Federal Surplus Property Program, and operates the Preferred Purchase Program.

Purchasing's fiscal year 2022 legislatively authorized budget is approximately \$6.1 million, with 25 authorized full-time equivalent positions. See Exhibit II for the fiscal year 2022 legislatively authorized budget.



**Exhibit II**

**Purchasing Division's Budget by Funding Source  
Fiscal Year 2022**



Source: Derived from state accounting records.

Notes: <sup>a</sup> National Association of State Procurement Officials Revenue.

<sup>b</sup> Other includes the following funding sources: Service and Handling charges; Preferred Purchase Program administration fees; prior year revenues; and credit card rebate revenues.

**Acknowledgments**

We express appreciation to the Purchasing Division's management and staff for their cooperation and assistance throughout the audit.

Contributors to this report included:

Warren Lowman  
Administrator

Craig Stevenson  
Executive Branch Audit Manager

# Appendix B

## Purchasing Division's Response and Implementation Plan

Steve Sisolak  
Governor



Laura Freed  
Director

Matthew Tuma  
Deputy Director

STATE OF NEVADA  
DEPARTMENT OF ADMINISTRATION  
*Purchasing Division*  
515 East Musser Street, Suite 300 | Carson City, Nevada 89701  
Phone: 775-684-0170 | Fax: 775-684-0188

Kevin D. Doty  
Administrator

January 31, 2022

Warren Lowman  
Administrator, Internal Audit  
209 E. Musser Street, Room 302  
Carson City, Nevada 89701

Re: State Purchasing's Response and Implementation Plan for DIA Audit No. 22-04

Dear Mr. Lowman,

As requested, I am providing State Purchasing's response and implementation plan for DIA Audit No. 22-04.

**Response to Recommendation #1:** Purchasing agrees that agencies need to do a better job of managing contracts post-award. Purchasing will revise its training for the Certified Contract Manager program. Instead of a program that is largely focused on procurement rules and how to run a solicitation, Purchasing will break the training into three parts: (1) Procurement Overview; (2) Solicitations; and (3) Contract Management.

The Contract Management module will include specific information on best practices for monitoring contracts for insurance, licensure, and contract authority spenddown. Realistic timelines for planning the re-solicitation of contracts will also be included. This training will also specify when a contract extension is appropriate and when it is not. The revised training on contract management will include tips on how to make the most of our existing technology, like using the notifications in NevadaEPro to alert agencies to begin the re-solicitation process. If the State adopts contract management software in the future, this training will include the information necessary to maximize the use of that software.

Purchasing will begin the new contract management training within the next six months.


**Response to Recommendation #2:** Purchasing agrees that agencies often fail to prepare for the expiration of an existing contract by beginning the re-solicitation process in a timely manner. This leads to contract extension requests that I am forced to approve for programs that simply cannot be without services. Agencies often use the "too-big-to-fail" status of important programs as justification for failing to re-solicit contracts in a timely manner.

Purchasing will provide greater oversight of agency contracts post-award by selecting three agency contracts for in-depth review every quarter. Contracts will not be randomly selected. Instead, contracts will be selected for review based on two criteria: (1) dollar amount; and (2) an agency's history of mismanaging contracts. This will allow Purchasing to focus its limited resources on the higher dollar contracts that are being managed by agencies that have failed to effectively manage contracts in the past.

Within the next six months, Purchasing will begin monitoring agency contracts.

Please let me know if you have any questions.

Sincerely,

  
Kevin D. Doty

## Appendix C

### Timetable for Implementing Audit Recommendations

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In consultation with the Purchasing Division (Purchasing), the Division of Internal Audits categorized the recommendations contained within this report into two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). Purchasing should begin taking steps to implement all recommendations as soon as possible. The target completion dates are incorporated from Appendix B.

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#### **Category 1: Recommendations with an anticipated implementation period less than six months.**

| <u>Recommendations</u>  | <u>Time Frame</u> |
|---|-------------------|
| 1. Expand post-award contract management training. (page 2)         | Jul 2022          |
| 2. Establish oversight of Purchasing-led agency contracts. (page 8) | Jul 2022          |

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The Division of Internal Audits shall evaluate the action taken by Purchasing concerning the report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the Executive Branch Audit Committee and Purchasing.