



MANAGING AI RISKS IN CONTRACT MANAGEMENT

As artificial intelligence (AI) becomes more prevalent in contract management, counties must recognize and address the risks accompanying its use. While AI can streamline processes, enhance efficiency, and reduce human error, it also introduces potential vulnerabilities that could affect legal and operational aspects. For counties that rely on technology to manage contracts, implementing AI with careful oversight is essential to avoid unintended consequences.

UNDERSTANDING AI CAPABILITIES AND LIMITATIONS

To mitigate risks, it's essential to understand AI's capabilities and limitations. While AI excels at processing data and automating tasks like contract generation and compliance monitoring, it struggles with nuanced decision-making and legal complexities. Risk management teams shouldn't rely solely on AI for critical contract decisions. Instead, AI should support human judgment, with clear guidelines on when to involve legal experts or contract managers to avoid missing key clauses or obligations.

DATA ACCURACY AND INTEGRITY

AI's effectiveness relies on the quality and accuracy of the data it processes. In contract management, errors or inconsistencies can result in significant risks, like incorrect terms or missed deadlines. Ensuring accurate, complete, and up-to-date data is crucial for minimizing mistakes. Counties using AI should regularly audit input data, implement verification protocols, and enforce strict data entry standards to maintain the integrity of AI-driven processes. Additionally, it's essential to back up contract data regularly and ensure secure storage to prevent unauthorized access or loss.

ENSURING LEGAL AND REGULATORY COMPLIANCE

AI tools used in contract management must comply with legal and regulatory standards, especially when dealing with government contracts. Requirements should be met to avoid fines, disputes, or breaches. AI systems should be programmed with the latest legal and regulatory information to ensure compliance. Counties should work closely with legal teams to monitor changes in contract law and industry regulations, updating AI tools as needed. In addition, building a regular compliance review process with human oversight is essential to verify that AI-generated contracts are aligned with all legal obligations.

TRANSPARENCY AND ACCOUNTABILITY

A significant risk with using AI is the potential for opaque decision-making processes, commonly called the "black box" problem, where users are unaware of how AI arrives at certain conclusions. This lack of transparency can be problematic, especially if there is a need to explain or justify contract decisions. Counties should choose AI systems that provide transparency in their decision-making algorithms to address this. Additionally, establishing accountability is vital. Assigning clear roles and responsibilities for AI oversight ensures that when issues arise, there is a clear point of contact who can address the problem and take corrective action.

TRAINING AND HUMAN OVERSIGHT

Human oversight remains critical in AI-driven contract management processes. Employees must be trained to use AI tools, recognize the system's limitations, and know when to intervene. Training should emphasize how to interpret AI-generated results and the importance of critical thinking in decision-making. Establishing a framework for regular review and spot-checking AI-generated contracts can help catch potential errors or discrepancies early before they escalate into more significant issues. Human oversight ensures that AI is a support tool rather than an unchecked decision-maker.



WHAT THIS MEANS FOR COUNTIES

AI offers substantial benefits in contract management, but it has risks. Counties can effectively mitigate these risks by understanding its capabilities and limitations, ensuring data integrity, staying compliant with legal standards, prioritizing cybersecurity, fostering transparency, and maintaining human oversight. For counties using AI, implementing these strategies is essential for safeguarding the integrity of their contract management processes while benefiting from the efficiencies AI can provide. For more information, contact CTSI at (303) 861-0507.