



HARFORD COUNTY, MARYLAND

Office of the County Auditor

March 5, 2013

County Executive David Craig and
Honorable Members of the County Council
Harford County, Maryland
212 South Bond Street, Second Floor
Bel Air, MD 21014

Dear Mr. Craig and Council Members:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Harford County's Procurement Practices. The results of the audit, our findings and recommendations for improvement follow in this report.

Harford County's guidelines for Procurement are detailed in the County Code and in policy and procedure documents. As the size of a purchase escalates, the requirements for selecting a vendor become more stringent. The largest purchases require public advertisements, competitive bids, and Board of Estimates approval. The Director of Procurement has been charged with implementing the County Code requirements.

The audit found that Procurement procedures can be improved to ensure that purchases are legally compliant, fair and provide increased transparency for the County's stakeholders. In some cases, these objectives can be accomplished with consistent monitoring and enforcement of the current policies. Recommendations for improvement include:

- More monitoring of decentralized activities,
- Formal documentation standards, and
- Simplified access to Procurement records.

The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

Chrystal Brooks, CPA, CGFM, CIA, CISA, CGAP
County Auditor

cc: Ms. Deborah Henderson, Director of Procurement
Ms. Kathryn Hewitt, Treasurer

~ Preserving Harford's past; promoting Harford's future ~

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HARFORD COUNTY, MARYLAND Office of the County Auditor

AUDIT OF PROCUREMENT PRACTICES

Period Covered:
07/01/2010 through 06/30/2012

Report Number: 2012-A-02

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Audit Team:

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Table of Contents

BACKGROUND INFORMATION	1
INTRODUCTION	1
KEY STATISTICS	2
REVIEW OBJECTIVE, SCOPE AND METHODOLOGY	2
REVIEW RESULTS	3
FINDINGS AND RECOMMENDATIONS	5
Certain purchases were made without formal, competitive bidding, non-competitive bids were not always justified and contracts were not adequately supported.....	5
Information related to Procurements and Purchases is not readily accessible for reference or analysis.....	6
Change Orders may increase a purchase to an amount that would require bids.....	7
Written quotes for purchases greater than \$2,500 were not always obtained or maintained.....	8
Public Notice of Procurement Opportunities is not published in a local newspaper.....	9
Direct Vouchers do not require Procurement Approval below \$25,000.....	9
Ethics policies should cover additional employees	10

BACKGROUND INFORMATION

INTRODUCTION

Harford County's Department of Procurement is responsible for "providing for the purchasing or contracting for supplies and contractual services including capital projects and consultant services needed by all agencies of Harford County, Maryland, or any other public or quasi-public agency that elects to utilize the services of the Department, in accordance with and in the manner prescribed by the Council by law".

Chapter 41 of the County Code prescribes the requirements for purchases made by the County and is supplemented by Policies and Procedures implemented by the Director of Procurement. The amount of a purchase determines the level of approval required, which allows the Director of Procurement to delegate some purchasing authority to other departments. Generally, small purchases (less than \$2,500) are made using purchase cards or by requesting a check from the Treasurer's Office. Purchases between \$2,500 and

\$25,000 require written quotes prior to approval by the Procurement Department. Purchases greater than \$25,000 must be publicly advertised for proposals and/or bids. Very large purchases (over \$50,000) additionally require the approval of the Board of Estimates.

KEY STATISTICS

During our review period, we identified approximately 39,400 non-payroll, non-tax payments totaling nearly \$940 million. These purchases were related to 5,193 vendors; 678 of which received payments that would require a contract with the County. Many of those payments were for expenditures that have non-procurement contract methods, such as Grants, Agricultural Preservation or Housing Department payments.

Based only on payments related to a purchase order document, 388 vendors received total payments that would require formal Procurement contracting procedures. Additionally, 495 payments to other vendors, totaling \$2,882,000, were between \$2,500 and \$25,000, requiring written quotes.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this review was to determine if all applicable guidelines were followed for County procurements. The scope was limited to the Procurement process steps from identification of a purchasing need through execution of the related contract. This audit did not include a complete evaluation of internal control, but instead, relied on substantive testing to support conclusions. The audit focused on activity during the period of 07/01/2010 through 06/30/2012.

In a prior audit, procurement irregularities were identified related to information technology purchases. At that time, special audit procedures were performed and matters identified in the audit were addressed by management. Additionally, controls related to purchase card purchases have been reviewed in a separate audit. Consequently, purchase card controls and information technology purchases have been excluded from this audit. Due to the narrow scope of this review, our evaluation of internal control was limited to the processes identified above. This lack of a complete review of internal control did not affect completion of the audit objectives.

Our audit procedures included interviewing personnel, observation and testing in consideration of the prior audit findings. Specifically, we identified vendors that received more than \$25,000 from Harford County in either fiscal year 2011 or 2012 to ensure that contracts were in place. For contracts executed during our audit period, we sought to determine if the procurement guidelines were followed. We also identified purchases that

were between \$2,500 and \$25,000 to confirm that written quotes were obtained in accordance with the County's Code and policies. Additional procedures were performed to determine if purchases were split to circumvent the purchasing controls.

The audit was performed in accordance with, Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions on the stated audit objectives.

REVIEW RESULTS

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

Ideally, each contracting file should be able to independently support the propriety of the purchase, without reference to other documents or files. Our procedures disclosed that Procurement documentation did not always indicate that required procedures were followed.

In particular, written quotes were not always obtained or maintained when required. This is information that should be maintained by the departments and reviewed by Procurement periodically to ensure that departments are compliant with the County Code. This monitoring is not performed by the Department of Procurement, which may allow departments to abuse the trust of the Procurement Department and reduce the County's ability to rely on its approval process.

Our analysis and testing of transactions did not indicate misuse of the purchasing system. We specifically reviewed the use of various types of purchasing documents and searched for large purchases that had been split into smaller ones. Neither of those tests indicated misuse. However, continuous monitoring for split purchases may identify and/or deter misuse in the future.

For large purchases, above \$25,000, we found that the controls in place can be easily circumvented by requesting Procurement Department approval after a purchase has been made or by using less restrictive document types within the Procurement system or by having vendors submit quotes that are below the competitive procurement threshold.

We found that, in some cases, procedures may have been followed, but the contracting documents did not provide adequate support. For example, when purchases were made using a non-competitive procurement method (i.e., Independent Contractors, Sole Source, Piggyback, Cooperative Purchase), the files did not usually indicate why the selected procurement method was preferable and appropriate. We also noted instances of vendors without contracts and/or without Board of Estimates approval.

Our review of the Procurement process identified that ethics disclosures and public advertisement guidelines can be improved to add to the transparency of the process. We also found that information is not readily available for review or analysis. Systems in use by the Department of Procurement cannot be easily cross referenced, so identifying contract numbers, active contracts, and total vendor payments is difficult. We observed the impact of this limitation in the length of time required for management to respond to our documentation requests. Many items requested required research by the Director of Procurement and the research couldn't be performed by other officials. The operational impact of this matter is that a Procurement Agent may not have sufficient information available when approving purchases.

We reviewed the controls related to the ADPICS system and found that they can be improved. However, the systematic controls are insignificant in the absence of effective manual controls. While ADPICS limits the approval of payments, it cannot prevent unauthorized purchases from being made.

In our opinion, based on the evidence obtained, the controls are not sufficient to ensure that procurement guidelines are followed and appropriately monitored. Areas for improvement are described in the Findings and Recommendations section of this report.

Management has been provided an opportunity to respond to the audit and recommendations. However, responses were not provided.

FINDINGS AND RECOMMENDATIONS

Finding Number: 2012-A-02.01 Competitive Procurement Processes

Certain purchases were made without formal, competitive bidding, non-competitive bids were not always justified and contracts were not adequately supported.

Analysis: The Harford County Code generally requires that competitive bids be obtained for purchases of \$25,000 or more, and that contracts be executed for goods or services exceeding \$25,000. The County Code also requires Board of Estimates approval for all purchases, contracts, and agreements exceeding \$50,000.

Per the Code, "When the county requires supplies, equipment or services, including consultant or other professional services, which are proprietary with one (1) producer or available from only one (1) source of supply, the Director of Procurement shall appoint a Negotiation Committee as provided for in § 41-28, which shall negotiate with that single source and recommend a contract to the awarding authority." The County's policies also require a sole source justification form be prepared which clearly indicates that there is only one source for the required goods, service, or construction.

During the audit period, Harford County made purchases of goods and services exceeding \$25,000 from vendors without following the formal competitive bid process or the sole source process. We noted several matters related to inadequate documentation and non-compliance with the County's Code and policies. Specifically:

- The Department of Procurement did not monitor total spending by vendor to determine if purchases exceeded the threshold for stricter procurement guidelines.
- 21 vendors (of 103 tested) were paid without undergoing a formal competitive bidding process. The transactions considered were individually less than \$25,000 but, in total, far exceeded that amount.
- 23 vendors paid over \$50,000 (of 53 sampled), were not approved by the Board of Estimates. In one case, a vendor was paid \$470,942 in FY2011 and \$345,198 in FY2012, but only about \$114,000 was approved by the Board of Estimates.
- For 11 contracts (of 96 tested), documentation did not show that the purchasing (user) department provided input into the vendor selection.
- For 20 contracts (of 23 sampled), there was no evidence that an Awardee or Award Amount was recommended by the Negotiation Committee.
- 18 contracts (of 72 tested) were not approved by the Legal Department or Treasury Department.
- 6 contracts (of 23 tested), did not have documentation showing all bids were received.

- 37 non-competitive purchases (of 55 tested) did not have documented justification for the procurement method used. Although the County did document which method of procurement was used (i.e., sole source or piggyback), there was no documentation explaining why the method used was necessary or preferable to a competitive bidding process.

Additionally, we were informed that the Sheriff's Office occasionally purchases items prior to obtaining approval from the Department of Procurement. For example, the Sheriff's Office purchased traffic patrol equipment for approximately \$66,000 as a sole source procurement even though, according to the Department of Procurement, it was available from other sources. The procurement system (ADPICS) notes indicated the Director of Procurement advised that the purchase must be competitively bid; however, the purchase was later approved as a sole source purchase because the equipment had already been ordered.

Recommendation: We recommend that Procurement documentation standards be established to help Procurement Agents confirm that purchases of goods and services are made in accordance with the Harford County Code. Specifically, we recommend that the Department of Procurement and purchasing departments:

- consolidate purchases and competitively procure frequently used goods and services;
- obtain required approvals prior to making purchases or executing contracts;
- maintain documentation supporting the vendor selection process, clearly documenting deviations from the standard process; and
- maintain clear documentation of the justification for non-competitive procurements.

Finding Number: 2012-A-02.02 Availability of Information

Information related to Procurements and Purchases is not readily accessible for reference or analysis.

Analysis: We noted that the Department of Procurement uses both ADPICS and an internally developed database to manage its workflow. However, these tools are not integrated and lack key points of reference to allow a user to access or analyze the information. As a result, there is no straightforward way to ensure that contracts are in place before purchases are approved and to ensure that cumulative purchases are not above the procurement guidelines.

As an example, purchases in ADPICS are approved by procurement agents, but there are no fields that allow a user or procurement agent to confirm that a contract exists, the contract number, what the contract limits are, the total purchases from the vendor or the method of procurement. Without this information, a department could routinely initiate purchases under

\$25,000 that, in aggregate, would require a formal bid process and/or Board of Estimates approval. Also, the Procurement Database includes details about contracts, but does not include some key details about the purchases, such as the awarded vendor's ADPICS number or the related ADPICS purchase order numbers.

As noted in Finding 2012-A-02.01, the Department of Procurement did not monitor total spending by vendor to determine if purchases exceeded the threshold for stricter procurement guidelines. The Harford County Code requires all supplies and contractual services when the estimated cost is expected to exceed \$25,000, to be purchased by a formal, written contract. We selected 147 vendors with purchases exceeding \$25,000 and found that 20 vendors did not have contracts that could be provided by the Department of Procurement.

Recommendation: We recommend the County improve its databases to facilitate the cross-referencing of information. For example, the Procurement Database should include vendor numbers for contract awardees and purchases in ADPICS should reference a contract number. We additionally recommend that management develop procedures to search for and identify purchases that circumvent the procurement process.

Finding Number: 2012-A-02.03 Purchases Near \$25,000

Change Orders may increase a purchase to an amount that would require bids.

Analysis: When products or services are needed that are expected to cost more than \$2,500 departments must obtain quotes from 3 vendors prior to selecting a vendor. If there is an expectation that the purchase will be greater than \$25,000, bids or proposals must be solicited. In our testing of vendors receiving more than \$25,000 from the County, we identified a large purchase that did not go through the bid/proposal process. The circumstances of the purchase were as follows:

- A department obtained four quotes for the needed services, which ranged from \$24,452.50 to 29,875.00.
- The vendor with the lowest quote was selected to perform the work.
- Subsequently, a change order was requested for \$4,900, bringing the total purchase to \$29,352.50.

Consequently, the total of the work performed was very close to the higher two quotes that were received. If the total amount was included in the preliminary quote, the average quote would have been approximately \$28,250 and the lowest quote would have been only slightly below \$25,000. These circumstances could lead an outsider to believe that the selected vendor, independently or at the request of management, submitted an artificially low bid to avoid the

more rigorous bid/proposal process.

We were unable to confirm any wrong-doing in this case, but the circumstances indicate an area for management to improve its procedures to avoid the appearance of impropriety.

Recommendation: The County should consider implementing additional review procedures for purchases when the quoted prices average more than \$25,000 and encourage departments to err on the side of caution with purchases nearing this threshold.

Finding Number: 2012-A-02.04 Written Quotes

Written quotes for purchases greater than \$2,500 were not always obtained or maintained.

Analysis: For purchases over \$2,500, the County's policy requires: "Three (3) written/faxed quotes must be obtained by the requiring agency before an award can be made. Note: Actual Written quotes shall be retained in the files of the requiring agency and will be periodically reviewed by Procurement. Back up documentation must be retained for three (3) years." The policy also notes "an attempt to contact a vendor without success will NOT be considered valid as one of the quotes."

When departments enter a purchase request in the ADPICS system, they are supposed to enter the vendor names and amounts of the three written quotes that were obtained and keep the written quotes as supporting documentation. The Department of Procurement relies on the information entered in ADPICS to confirm that quotes were obtained, but does not review the supporting documentation. Since policy compliance is not monitored, departments can enter falsified quotes without being detected. This could result in vendors receiving preferential treatment or the County paying higher prices.

In our sample of 108 payments over \$2,500, we identified 21 transactions that required written quotes from vendors prior to purchase. Of those 21 transactions, 5 were missing documentation to support that 3 written quotes were obtained. We also noted that, in some cases, quotes were obtained, but not entered into the appropriate ADPICS screen or were not documented in ADPICS at all.

Recommendation: We recommend the Department of Procurement develop procedures to periodically review the written quotes that are obtained by the user departments.

Finding Number: 2012-A-02.05 Public Advertising

Public Notice of Procurement Opportunities is not published in a local newspaper.

Analysis: When bid and proposal opportunities are identified for publication, they are posted on the County's website and eMarylandMarketplace.com. However, the County's Code Section 41-26.B (1) states, "Notice inviting bids shall be published at least once in at least one (1) newspaper in the county and at least ten (10) days preceding the last day set for the receipt of bids."

Advertisements are no longer posted in the local newspaper. The County posts the entire bid or proposal request on the internet instead of publishing an advertisement in the newspaper. This practice appears to be a practical cost savings measure. However, the effect of this non-compliance is an increased potential for award protests based on the lack of advertisement.

We also noted that potential bidders must identify themselves before accessing bid or proposal advertisements on the Harford County website. Additionally, Board of Estimates agendas and minutes must be requested from the Department of Procurement. Both of these requirements create additional hurdles for potential vendors or interested parties and require the resources of Procurement staff for appropriate follow-up. Making these documents publicly available on the County's website would help add to the transparency of the procurement process.

Recommendation: We recommend County officials consider legislation to better align the Procurement Code with the current procurement advertisement trends. We additionally recommend that the Procurement Department consider posting Board of Estimates agendas and minutes on its website to improve transparency. We further recommend that the Department of Procurement consider making bid documents available to anonymous parties on the County's website and/or direct information seekers to eMarylandMarketplace.

Finding Number: 2012-A-02.06 Improper Use of Direct Vouchers

Direct Vouchers do not require Procurement Approval below \$25,000.

Analysis: The County's procurement system, ADPICS, uses document types and transaction amounts to determine whose approval is required for each transaction. The three key document types are as follows:

- DP – Direct Purchase Orders are used to enter planned purchases and document the required approvals.
- DV – Direct Vouchers are used to pay invoices such as utilities, subscriptions or other

- bills that were not be entered as a DP.
- DR – Direct Vouchers (reimbursement) are generally used for reimbursement of employee expenses or vehicle mileage.

For each of these document types, we reviewed the approval paths within ADPICS to determine that transactions are systematically routed correctly for approval. We noted:

- Approval paths are missing for DPs for 12 departments;
- DVs do not require Procurement approvals below \$25,000; and
- DRs are not configured to require procurement approval.

For the DPs without approval paths, transactions may be processed without appropriate approvals. The configurations for DVs and DRs are expected based on the intended use of these documents; however, inappropriate use of these document types would allow users to circumvent the required approval process. In our testing of 108 transactions over \$2,500, we identified 21 DVs and 32 DRs; none were used inappropriately.

Recommendation: We recommend management create and/or review the approval paths for each document type and initiating department to ensure that they are complete and relevant.

Finding Number: 2012-A-02.07 Ethics Disclosures

Ethics policies should cover additional employees.

Analysis: Currently, employees in specific pay grades are required to submit an ethics disclosure form. These financial disclosure forms help identify potential conflicts of interest related to an employee's relationships, investments or outside employment. The disclosures are important to ensure each procurement process is fair in both fact and appearance.

We noted that there are 7 Procurement Department employees regularly involved in the procurement process who are not required to submit ethics disclosures. Those employees are responsible for drafting specifications, invitations for bids, and requests for proposals and play a role in the selection of contract awardees. Furthermore, there are 19 high ranking officials in the Sheriff's Office who are not currently required to submit ethics disclosure forms.

Recommendation: We recommend the County's officials consider legislation requiring annual financial disclosures for all personnel involved in the procurement process.