



HARFORD COUNTY, MARYLAND

Office of the County Auditor

March 14, 2013

County Executive David Craig and
Honorable Members of the County Council
Harford County, Maryland
212 S. Bond St., 2nd Floor
Bel Air, MD 21014

Dear Mr. Craig and Council Members:

On March 5, 2013, you received Audit Report Number 2012-A-02 *Audit of Procurement Practices*. The report included 7 findings and recommendations for improvement. When the audit report was issued, management had not provided responses to the report or its recommendations; however, responses were provided today.

Attached, please find a supplement to the audit report that includes the recommendations and management's responses. The detailed audit discussion and analysis are in the previously issued report. Both this document and the audit report, as issued, will be available on the County Auditor's website (www.harfordcountymd.gov/auditor).

I have reviewed management's responses and plan to perform follow-up audit procedures in the future to confirm that the findings have been remediated. You will note that some of the management responses indicate that additional documentation is available for review. We reviewed the additional documentation, which was provided prior to the report's issuance, and the report issued to you on 3/5/2013 reflected our review of those documents.

I am available to respond to any questions you have regarding the attached report supplement.

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 REPORT SUPPLEMENT

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

Report Number: 2012-A-02

Date Issued:
03/14/2013

Audit Team:

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

Laura Tucholski, CPA, CFE
Auditor

MANANGMENT RESPONSE

Management recognizes the complex methods required to access all relevant information necessary to accurately assess the processes utilized by the Department. Procurement is currently working with ICT to create a database that will capture and integrate bid information. While management concurs with some of the recommendations provided, review of additional documentation was performed by management. These findings are discussed in each section.

FINDINGS AND RECOMMENDATIONS

Auditor's Note: Text in italics below was not part of management's response. Rather, it comes from the audit report and has been added by the County Auditor to clarify management's response.

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.

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.

Management Response: Management recognizes these findings and with reports provided by Treasury will more closely monitor purchasing activities.

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.

Recognizing the complex method required in order to access all necessary information, management examined additional files and found the necessary documentation for 16 out of the 26 findings. These files are available for the auditors review.

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.

Additional files were accessed and required documents were found for 14 of 31 findings. These files are available for the auditors review. Some of the files audited originated prior to the audit period. Prior to July 2010 the Harford County Code did not require certain items to go before the Board of Estimates, including many examples cited in the audit report.

For 11 contracts (of 96 tested), documentation did not show that the purchasing (user) department provided input into the vendor selection.

Management concurs. In some instances, such as Independent Contractor Agreements, Procurement is not required to provide input into vendor selection.

For 20 contracts (of 23 sampled), there was no evidence that an Awardee or Award Amount was recommended by the Negotiation Committee.

Management acknowledges these findings and is developing a new process to address this issue. Currently recommendations from a Negotiating Committee only occur if a request for an award goes to the Board of Estimates.

18 contracts (of 72 tested) were not approved by the Legal Department or Treasury Department.

Management acknowledges these findings and has created a uniform process to address these deficiencies.

6 contracts (of 23 tested), did not have documentation showing all bids were received.

5 of the 6 contracts required a negotiating process which does not require a low bid award.

37 non-competitive purchases (of 55 tested) did not have documented justification for the procurement method used.

While management acknowledges these findings, further investigation by Management provided appropriate documentation for almost every contract tested.

Expected Completion Date: Ongoing

Finding Number: 2012-A-02.02 Availability of Information

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

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.

Management Response: Management acknowledges Auditor's comments and has met with ICT to develop a database that will combine all information and integrate into one database.

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.

Purchase orders were used in place of contracts in 20 instances, further, 1 was a developer agreement and 2 were grants; these 3 agreements are outside the Procurement scope of authority.

Expected Completion Date: 09/30/2013

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

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

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.

Management Response: Management acknowledges these findings.

We identified a large purchase that did not go through the bid/proposal process.

This procurement did go through the proper bid process at the time of purchase. 3 price quotes were obtained which is what the law requires.

Expected Completion Date: Ongoing

Finding Number: 2012-A-02.04 Written Quotes

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

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

Management Response: Management acknowledges these findings and shall implement periodic reviews. 2 of the 5 had quotes attached to the purchase order in ADPICS, 1 was a Sole Source for software maintenance and 1 was a Sole Source for replacement floor tiles.

Expected Completion Date: 12/31/2013

Finding Number: 2012-A-02.05 Public Advertising

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

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.

Management Response: Management concurs with these recommendations.

Expected Completion Date: 12/31/2013

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

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

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.

Management Response: Management acknowledges these findings. Procurement will meet with ADPICS administrators to review approval paths. In addition a plan to conduct training sessions in partnership with Treasury to review procedures will help to alleviate certain concerns.

Expected Completion Date: 12/31/2013

Finding Number: 2012-A-02.07 Ethics Disclosures

Ethics policies should cover additional employees.

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

Management Response: Management disagrees with this recommendation. As described by the Harford County Code, the Director is responsible to perform the duties as directed by the County Executive or by legislative act of the Council, and consequently is bonded to protect the County.

Expected Completion Date: N/A