



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF CONTRACT MANAGEMENT

Report Highlights

Why We Did This Audit

This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2020.

What We Found

Payments have been issued for items that are not under contract or at rates other than approved in a contract.

Required monthly reporting of consultant and other professional services contracting was not done during the audit period.

Report Number: 2020-A-13

Date Issued: 12/22/2020

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Harford County's Contract Management processes. The results of that audit, our findings and recommendations for improvement are detailed in the attached report. We would like to thank the members of management for their cooperation during the audit.

The audit found that procedures in place to monitor contract compliance can be improved. The Department of Procurement is tasked with contracting for large or County-wide purchases and relies on user departments to oversee the use of those contracts. While user departments were generally aware of contract terms, in some cases, invoices were paid at rates different than agreed upon. We also noted some vendor invoices did not include enough information to substantiate the purchase. Further, required Procurement reports were not consistently distributed to the Council as required by the County Code.

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

Sincerely,

A handwritten signature in black ink that reads "Chrystal Brooks, CPA".

Chrystal Brooks
County Auditor

cc: Ms. Karen Myers, Director, Procurement
Mr. Benjamin Lloyd, Director, Administration
Ms. Kathy Burley, Director, Parks & Recreation
Mr. Joe Siemek, Director, Public Works
Mr. Nick Kuba, Director, Info. & Communications Technology
Mr. Len Parrish, Director, Econ. and Community Development
Ms. Amber Shrodes, Director of Community Services
Sheriff Jeffrey Gahler, Harford County Sheriff
Judge Angela Eaves, Administrative Judge, Circuit Court
Ms. Mylia Dixon, Administrator, County Council



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REVIEW RESULTS

We have audited Harford County's Contract Management Controls for the period of 07/01/2017 through 12/31/2019. Our conclusion, based on the evidence obtained, is that current procedures are not adequate to ensure that agreed upon rates are paid by departments and that contracts are not overspent. The audit approach focused on testing the key controls that address management's objectives for the process. Conclusions drawn are below.

Risk	Expected Control	Conclusion
Payments are made to vendors without a contract in place.	<ul style="list-style-type: none">Department of Procurement monitors total vendor spending by contract and by vendorPurchasing system tracks spending by vendor and contract, preventing spending in excess of mandatorily entered contract maximums	Needs Improvement Satisfactory
Invoices are unsupported or are not paid in accordance with the contract terms.	<ul style="list-style-type: none">User departments have knowledge of and access to contract termsUser departments ensure spending is within contract limitsUser departments review invoices for accuracy and support before authorizing payments.	Satisfactory Needs Improvement Needs Improvement
Contract terms are changed informally and without Procurement authorization.	<ul style="list-style-type: none">Change Orders are submitted and approved through the purchasing systemLarge Change Orders are approved by the Board of Estimates.	Satisfactory Satisfactory

We have reviewed the issues reported in a 2015 audit of this process. The four issues noted in that report (2015-A-04) were closed prior to this audit; however, one will be repeated, based on our current observations, as Finding 2020-A-13.02.

Areas for improvement are described in the Findings and Corrective Actions section of this report. Management has been provided an opportunity to respond to this report; the responses provided follows the Findings and Corrective Actions.

FINDINGS AND CORRECTIVE ACTIONS

Finding Number: 2020-A-13.01 Invoices were paid for services not under contract

Invoices were paid for goods and services not under contract.

Analysis: The Harford County Code generally requires that all supplies and contractual services with an estimated cost of \$25,000 or more be purchased by formal, written contract from the lowest responsible bidder. We found several instances where goods or services purchased were not listed in the contract terms. Specifically, for nine (9) of the 65 vendors tested, payments for items not specified in the contract totaled \$152,521; the majority of which came from three (3) vendors.

- For one contract, items purchased were similar to those in the contract, but not explicitly priced in the contract, totaling \$38,310.
- For another, payments totaling \$17,686 were made for non-contract services while a contract for similar services was active.
- For the last, \$76,630 in payments to one vendor exceeded Procurement guidelines, requiring a contract, prior to the execution of a formal contract.

The remaining exceptions were similar in nature to those previously mentioned, but in lesser dollar amounts. There appear to be multiple causes for these issues. Lack of awareness of contract terms, or the existence of a contract, could result in paying increased rates for items under contract or non-market rates for similar items not under contract. Failure to promptly process and document contract extensions can allow delays to go unmitigated and can result in loss of ability to collect damages from the vendor.

Recommendation: We recommend the Department of Procurement reemphasize to user departments the importance of reviewing contract terms and supporting documentation when reviewing and approving invoices for payment.

Management Response: The Department of Procurement holds annual training in March of every year and the training covers these topics. Unfortunately, due to COVID this past March, our focus was on the procurement of PPE, and training was not held. We talk to our users daily however about numerous issues and we do reinforce this topic as well.

Items sometimes are not explicitly priced individually in contracts; references may be made as to a percentage discount for items because it is just not practical to list hundreds of line items.

Expected Completion Date: 3/31/2021

Finding Number: 2020-A-13.02 Some Payments were not in Accordance with Contract Terms

Some payments made for goods and services differed from the contract terms.

Analysis: Procurement contracts establish prices for items and services purchased by the County during a specified time period. This allows the County to adequately project expected expenses at market rates. If the invoices provided by the vendors under contract do not agree with the specified terms, it could result in the County paying more than necessary.

Procurement maintains an enterprise contract management system (ECMS) for county-wide use that serves as a repository for all vendor contracts with Harford County and related contract information. Contract monitoring and initiating and approving payments are the responsibility of the user departments. They should compare invoices to contracts to ensure rates and quantities are correct and that work was performed and within the scope of the contract. We found payments are not always made in accordance with contract terms and documentation was not available to confirm compliance with, or proper monitoring of, vendor contracts.

We found some invoices were paid based on rates that differed from those in the contract. Some cases were larger, one-off errors and others were small rate discrepancies that in aggregate amounted to immaterial amounts. Specifically, we found, for 14 of 65 vendors tested, vendors billed incorrect rates or rates could not be determined to be correct based on the invoices and contracts available, resulting in overpayments of \$7,400 and underpayments of \$2,107. These amounts represent a 0.013% net error rate based on the total dollar amount of transactions tested. In some cases, departments approved and paid invoices despite vendors billing for items that were not included in the contract.

Additionally, for four (4) of the vendors noted above, related to six (6) construction contracts, retainage withheld was reduced from the original contractual amount without documentation of approval of the reduction. Retainage is a percentage of payments withheld on work completed and not paid until completion and inspection of the entire project; it provides insurance against contractor under-performance. Standard retainage in County construction contracts is 10% with allowances for reductions based on contract-specific project milestones. The lower retainage rates that we observed were either unsupported by management's files or due to calculation errors. For a particular invoice, this results in an overpayment, but over the contract term, the entire amount would be paid out eventually, so there is no net over or under payment.

Recommendation: We recommend the Department of Procurement provide contract monitoring (re)training, focusing on the payment process and overall vendor performance and emphasizing the importance of reviewing contract terms and maintaining supporting documentation.

Management Response: The Department of Procurement holds annual training in March of every year and the training covers these topics. Unfortunately, due to COVID this past March, our focus was on the procurement of PPE, and training was not held. We talk to our users daily however about numerous issues and we do reinforce this topic as well.

Expected Completion Date: 3/31/2021

Finding Number: 2020-A-13.03 Monthly Procurement Reporting

Monthly consultant and other professional services contract reports were not consistently distributed to the Council as required by the County Code.

Analysis: County Code §41-41C requires that "[t]he Director of Procurement shall submit through the County Executive to the County Council a monthly report of all contracts for consultant and other professional services awarded during the month. Such report shall include:

- (1) A description or nature of the work.
- (2) The contract price.
- (3) The name and address of the contractor.
- (4) The requiring agency."

We requested copies of the reports for our audit period (7/1/2017 to 12/31/2019) and we were advised that the reports were not compiled or distributed to the County Council because management was unaware of the reporting requirements. Management began compiling reports in September 2019; the County Council documents receiving them beginning in February 2020.

Recommendation: Management should continue the recently developed process to prepare the required monthly report and distribute it to the County Council.

Management Response: Management was unaware of this requirement in the Code, and to our knowledge this practice was never followed in the past. However, once brought to our attention, these reports have been submitted to the Council President monthly since September 2019.

Expected Completion Date: 09/30/2020

BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

The Harford County Code generally requires that all supplies and services with an estimated cost of \$25,000 or more be purchased by formal, written contract from the lowest responsible bidder. In addition, the County Code also requires Board of Estimates approval for all purchases, contracts, and agreements in excess of \$50,000. After Procurement advertises and awards a contract, departments may use the contracted vendor for the work detailed in the contract. User departments are responsible for reviewing invoices from vendors and ensuring that all work was performed completely and was within the scope of the contract. They are also responsible for confirming the billed rates are correct, which requires knowledge of and access to the contract documents.

When we audited Contract Management in 2015, the County's purchasing systems could not readily aggregate purchases by vendor or by contract. Since then, the County has introduced new contract management and enterprise resource management systems, allowing officials to more readily track expenditures by vendor, by fiscal year, and by contract. Our testing showed significant improvement since the last system was implemented in April 2019. However, given resource limitations in Procurement, user departments are responsible for tracking invoices applied to vendors for contract and non-contract work. As a part of the planning of this audit, we confirmed the contract universe from both the contract management and enterprise resource management systems were complete.

The objective of the audit was to determine if contracts for commodities and general services are being appropriately monitored to ensure compliance with County policies and contract terms. We additionally sought to confirm if payments were in accordance with contract terms. The Procurement process (obtaining and ratifying contracts) is audited separately from Contract Management and was not included in this audit. The scope was limited to vendors that have an active contract with Harford County during the audit period.

The audit focused on activity during the period of 07/01/2017 through 12/31/2019. Our audit procedures included interviewing personnel, observation and testing. Specifically, we met with the Departments of Procurement and Treasury and various Department Heads to discuss the current contract management process, and to gain an understanding of their controls and monitoring procedures. We looked to confirm an active contract exists for all payments, payments were made in accordance with the contract terms, total spending did not exceed contract limits, and user departments confirmed invoicing was correct for the service/goods received. Additionally, we looked to confirm change orders were properly

approved, total purchases did not exceed updated contract limits and the added service was reasonable.

We identified 743 active contracts, related to 517 vendors and purchases totaling approximately \$268 million during the audit period. The population did not include transactions related to contributions and employee benefit costs or appropriations to outside agencies. In order to ensure the efficiency of the audit, we selected a sample of 65 vendors, covering 116 contracts, for testing. We reviewed the contracts for each and, where appropriate, tested a sample of related transactions. This methodology provided audit coverage of 15.7% (116) of the relevant contracts; 12.6% (65) of relevant vendors; and 34.0% (\$91.5 million) of the relevant spending for the audit period. The contracts sample included at least one contract used by each County department.

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.

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 based on our audit objectives.

Audit Team:

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County Auditor

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