



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF PROCUREMENT PRACTICES

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 FY2017.

What We Found

We noted that prior issues remain open or were re-opened. There are processes that can be improved to ensure that the Procurement Code is not violated.

Report Number: 2017-A-11

Date Issued: 11/06/2017

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 Procurement Practices. 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 the following issues, all of which have been documented in prior audit findings: Certain purchases were made without formal, competitive bidding, non-competitive bids were not always justified and contracts were not adequately supported; Information related to procurements and purchases is not readily accessible for reference or analysis; Written quotes for purchases greater than \$2,500 were not always obtained or maintained; Public Notice of procurement opportunities is not published in a local newspaper; and Ethics policies should cover additional employees. In some cases, these issues remained open because requested documentation was not provided for our review.

In this, and prior audits, we have noted that Procurement lacks the staff necessary to handle the workload required of the department effectively and in a timely manner. The current staffing level impacts its ability to perform some oversight functions in addition to its routine workload. Further, without adequate coverage employees may be unable to fully disengage to take vacation or to deal with illness, leading to burnout. We strongly suggest an increase in the size of the Procurement Department's staff.

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

Sincerely,

A handwritten signature in cursive script that reads "Chrystal Brooks, CPA".

Chrystal Brooks
County Auditor

cc: Ms. Karen Myers, Director of Procurement
Mr. Robert Sandlass, Treasurer



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REVIEW RESULTS

We have audited Harford County's Procurement Practices for the period of 7/1/2014 through 12/31/2016 with the objective of confirming that all applicable guidelines were followed for County procurements.

Our opinion, based on the evidence obtained, is Procurement procedures can be improved, through consistent monitoring and enforcement of the current policies, to ensure that purchases are legally compliant, fair and provide increased transparency for the County's stakeholders. 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
Procurement activities are not conducted in accordance with the County Code and policies	Notice inviting bids is properly advertised and bid opening procedures are followed	Needs Improvement
	Purchases exceeding \$25,000 from one vendor in a calendar year require a contract	Unsatisfactory
	Written quotes are obtained and maintained for smaller purchases, greater than \$5,000	Needs Improvement
	Contracts are awarded to the lowest responsible bidder/ quoted vendor or are supported by justification for sole source or piggy-back agreements	Satisfactory
Purchases do not satisfy an actual need	Larger purchases are reviewed and approved by the Board of Estimates	Satisfactory
	Transactions require multiple, system-based approvals depending on the nature and size of the purchase	Satisfactory
Information is not available to facilitate adherence to applicable laws and procedures	Reports are available to confirm spending by vendor and/or contract	Needs Improvement
	Information systems can be cross-referenced to link purchases to approved contracts	Needs Improvement

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 each Findings and Corrective Action and the Status of Prior Audit Findings Section.

FINDINGS AND CORRECTIVE ACTIONS

Finding Number: 2017-A-11.01 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: In order to ascertain if Procurement procedures and the County Code are followed and internal controls for the procurement function operate correctly, we searched for the existence of a contract for vendors with high annual spending. In addition, we looked to confirm that specific attributes of the procurement process were satisfied, per the County Code, for a sample of contracts.

The Harford County Code Chapter 41 generally requires that competitive bids be obtained for purchases of \$25,000 or more, and that contracts or purchase orders 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. We determined a total of 462 vendors should have had contracts because they were paid more than \$25,000 for goods and/or services in FY2015, FY2016, or FY2017. We found 65 of those vendors did not have contracts in place. Of those:

- For twenty-nine (29) vendors, individual transactions were less than \$25,000 but, in total, exceeded that amount. County Code § 41-26(H) specifies “No contract or purchase shall be subdivided to avoid the [\$25,000 purchase contract] requirements of this chapter.” It does not appear purchases were intentionally subdivided; however, the Department of Procurement did not monitor total spending by vendor to determine if aggregate purchases exceeded the threshold for stricter procurement guidelines; and
- Twenty-five (25) vendors were related to sole-source or piggyback contracts. While Procurement reviews these purchases to confirm that these methods were appropriate and to determine whether a contract or purchase order should be issued, there is not a procedure in place to consistently document that confirmation. For a sample of 17 of these vendors, we found that 5 did not have notes confirming or acknowledging the non-competitive procurement method.

We sampled 60 contracts to determine if contracting requirements were met. For six (6) contracts selected, we did not receive the contract files for review. For four (4) of the remaining contract files reviewed, documentation of the public advertisement of the bid

process was not available to support compliance with County Code Section 41-26.B(1). This circumstance makes it more likely that the County will pay more than needed for goods and services, or be subject to a contracting dispute with a vendor.

Management Response: Management disagrees with the Auditor's opinion regarding purchases exceeding \$25,000 "from one vendor in a calendar year requiring a contract." The Code does not state that requirement. At the time these purchases are made, the "estimated cost" is not \$25,000 or more; these are generally made up of many small dollar purchases by different employees/agencies.

Management also disagrees with the Auditor's opinion that the County will likely pay more than needed for goods and services. The Procurement Department has and will continue to use due diligence to save the County money. The County advertises in a local newspaper once per year to notify the vendor community that opportunities exist and direct them to those sites. As well as being cost prohibitive to advertise in the paper, it is not the most efficient and effective way to notify the vendors. In this technical age, we advertise bidding opportunities on the internet via the County website, as well as eMaryland Marketplace.

Finding Number: 2017-A-11.02 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 reflects the guidelines in County Code § 41-27 – Open Market Procedure. 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. We sampled 52 purchases that required written quotes and noted 5 were missing supporting documentation. The Department of Procurement relies on the information entered in ADPICS to confirm that quotes were obtained; they review quotes for some transactions, but cannot review supporting documentation for every transaction. Departments could enter falsified quotes without being detected. This could result in vendors receiving preferential treatment or the County paying higher prices.

Management Response: Management disagrees with the opinion regarding written quotes for purchases greater than \$2,500. Procurement audits those purchases as they feel necessary, based off various factors to include the dollar amount, the vendor, the type of purchase, etc.

The Code states in 41-27,B., "All open market purchases shall, wherever possible , be based on at least three (3) competitive price quotations"; there are occasions when 3 quotes cannot be obtained in the needed timeframe. This is the exception, not the norm, and is evaluated on a case by case basis for small dollar purchases.

STATUS OF PRIOR AUDIT FINDINGS

We have reviewed the issues reported in a prior audit. Current conclusions for the findings included in Audit Report 2012-A-02 are noted below.

Previously we noted, "Certain purchases were made without formal, competitive bidding, non-competitive bids were not always justified and contracts were not adequately supported." This finding was closed in 2013 based upon a review of sampled contracts. However, in the current audit, we found the Department of Procurement did not always have contracts for vendors paid over \$25,000 per year nor did they have adequate documentation to support certain procurements. *This issue has been re-opened as Finding 2017-A-11.01.*

Previously we noted, "Information related to Procurements and Purchases is not readily accessible for reference or analysis." Procurement implemented a contract database in July 2015; however, the database did not include vendor numbers for reference. In the current audit, we confirmed that contract and vendor information cannot be cross-referenced between the purchasing system and the contract management system. This system limitation makes relevant information difficult to obtain and analyze, possibly resulting in the violation of Procurement procedures and/or the County Code. *This issue remains open.*

Previously we noted, "Change Orders may increase a purchase to an amount that would require bids." This finding was closed in 2014 based management's corrective actions. In the current audit, we found controls are in place to address the finding and testing did not uncover any exceptions related to this matter. *This issue remains closed.*

Previously we noted, "Written quotes for purchases greater than \$2,500 were not always obtained or maintained." This finding was closed in 2014 based upon a review of sampled purchases necessitating quotes. However, in the current audit, documentation supporting written quotes for certain purchases was not provided. *This issue has been re-opened as Finding 2017-A-11.02.*

Previously we noted, "Public Notice of Procurement Opportunities is not published in a local newspaper." and "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." In the current audit, we noted a single, annual newspaper advertisement. However, we disagree with the Law Department's conclusion that this frequency meets the requirements of County Code §41-26. Specifically, the requirements for the notice to "include a general description of the articles to be purchased or sold" and to state "the time and place for opening bids" are not met by an annual advertisement. *This issue remains open.*

Previously we noted, "Direct Vouchers do not require Procurement Approval below \$25,000." In the current audit, we confirmed that proper document types were used. *This issue has been closed.*

Previously we noted, "Ethics policies should cover additional employees." and "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." In the current audit, we confirmed that there have not been changes to the ethics requirements. The Director of Procurement indicated that they will continue to follow-up with the Law Department regarding best practices for confirming improper relationships; updates to the Procurement Code are currently being considered. *This issue remains open.*

MANAGEMENT RESPONSE

Regarding reports/data and information systems, our current systems prohibit proactive data gathering and data quick retrieval; the County is implementing a new ERP (Enterprise Resource Planning) system in the next 18 months to 2 years, along with Treasury. This new system will be a valuable tool in the future. In the meantime, it would be cost prohibitive to make major upgrades or changes to our current systems.

BACKGROUND INFORMATION

PROGRAM DESCRIPTION AND KEY STATISTICS

The Department of Procurement, established by Section 414 of the Harford County Charter, is administered by the Director of Procurement who is responsible for the purchasing or contracting for supplies and contractual services including capital projects and consultant services by all agencies of the county. Every using agency files with the Director detailed requisitions or estimates of its requirements for supplies and contractual services.

Excepting petty cash, emergency purchases, and goods/services under \$2,500, all County purchases are made by issuance of a purchase order or an executed contract.

The County's procurement methods can be generally classified in one of three ways: 1) Small Purchases – via Purchase Card for goods/services under \$2,500; 2) Medium Sized Purchases - between \$2,500 and \$25,000 after obtaining written quotes; and 3) Large Purchases - over \$25,000 with a formal, written contract.

Except for emergency purchases, the Board of Estimates has the responsibility for awarding all contracts that are in an amount of \$50,000 or more; awarding all consultant and other professional services contracts, except for certain legal and medical services, that are awarded under that are in an amount of \$25,000 or more; and approving all purchases, sales or leases of real property.

Many County-made payments are expenditures relating to payroll, tax, or non-procurement contract methods, such as Grants, Agricultural Preservation or Housing Department payments. During our review period, the Department of Procurement oversaw the award of more than 750 contracts. In addition, we identified approximately 144,000 payments, totaling nearly \$483 million, related to about 5,700 vendors during that time frame.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this review was to determine if all applicable guidelines were followed for County procurements. The audit focused on activity during the period of 7/1/2014 through 12/31/2016.

Several issues were identified in a prior audit, some of which remained open at the outset of this audit. In consideration of the prior audit findings and our audit objectives, our audit procedures included interviewing personnel, observation and testing. Specifically, we met with members of management to confirm our understanding of the Procurement processes and procedures. We identified vendors that received more than \$25,000 from Harford County in either fiscal year 2015, 2016, or 2017 to ensure that contracts were in place. For contracts that were active during our audit period, we reviewed records 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 and maintained in accordance with the County's Code and policies. Additional data analysis was performed to determine if purchases were split to circumvent the purchasing controls and if transactions were correctly coded for accounting purposes. Further, we evaluated purchasing system controls for proper role and user access as well as processing and approval of transactions; and we determined if employees involved in the purchasing process were afforded and participated in adequate training.

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:

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

Brad DeLauder, CPA
Senior Auditor