

**Montgomery County, Maryland
Offices of the County Executive
Office of Internal Audit**



**Contract and Grant Monitoring by
The Montgomery County Department of Economic Development**

March 5, 2014

Highlights

Why MCIA Did this Audit?

As part of the County Wide risk assessment completed by MCIA, contract and grant monitoring by departments was identified as a high risk area. In FY13, the County's total value of purchase orders issued under contracts totaled approximately \$871 million. This audit of the Department of Environmental Development (DED) is part of a continuing review of contract and grant monitoring; DED is the seventh department we are reporting on. DED FY13 contractual purchase orders totaled approximately \$3.4 million or 0.4% of the total \$871 million.

What MCIA Recommends

MCIA is making three recommendations to DED—two to improve the performance and enhance the existing internal controls pertaining to contract and grant monitoring and one to formalize invoice review and approval procedures. DED concurred with the recommendations.

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Contract and Grant Monitoring by the Montgomery County Department of Economic Development (DED)

What MCIA Found

The Montgomery County Department of Economic Development (DED) has adequately designed and implemented procedures and internal controls for contract monitoring and invoice review and approval. However there is opportunity for improvement regarding monitoring. Our testing of five DED contracts identified six instances where insufficient of contract monitoring occurred. We found no problems regarding the invoices we tested; but there is a need for DED to develop formal written guidelines for its staff detailing DED's required invoice review and approval procedures.

We found internal controls over contract monitoring could be improved to ensure that documentation of department observations of vendor performance is maintained and available to others and that vendors are held accountable for providing proof of staff certification requirements as stipulated in the contract.

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Objectives

This report summarizes the work performed by Cherry Bekaert LLP on behalf of Montgomery County Office of Internal Audit (MCIA) in an internal audit of the Montgomery County contract and grant monitoring process. The scope of this engagement included reviewing the contract and grant monitoring policies and procedures of the Montgomery County Department of Economic Development (DED). The objective of the audit was to:

Review and test the effectiveness of contract and grant monitoring policies and procedures followed by the Department of Economic Development. The audit will seek to determine whether contractor performance is contractually compliant and being effectively tracked, that contract changes and extensions are being properly managed, and that applicable invoices are properly reviewed, maintained and are accurate. This audit will include reviewing monitoring by departments by both program performance and financial accountability.

This internal audit report was performed in accordance with consulting standards established by the American Institute of Certified Public Accountants (AICPA) and generally accepted government auditing standards (GAGAS) established by the Government Accountability Office (GAO), as appropriate. Our proposed procedures, developed to meet the objectives stated above, were reviewed and approved in advance by MCIA. Interviews, documentation review, and field work were conducted from November 2013 to December 2013.

Background

Contracting Activity in Fiscal Year 2013

In FY13, DED was the twelfth highest department in purchase order spending under contracts, with approximately 0.4% (\$3.4 million) of the total FY13 purchase orders issued. DED had 19 contracts in effect during FY13, with purchase orders ranging in value from \$760 to \$1,753,120, which tended to consist of the payment for services relating to lobbying, real estate, career counseling, and other services to better the position and growth of the County.

Contract Monitoring

Contract administrators have the responsibility of monitoring their respective contracts to ensure that vendors are performing to contract specifications. As most contracts in DED are service related, the majority of monitoring is done through observation and discussion. Administrators accomplish this by visiting the vendor on site to observe, scheduling meetings or conference calls, and reviewing monthly status reports.

Invoice Review and Approval

Contract administrators receive invoices directly from vendors and review the invoice for compliance with contract terms and accuracy of fees charged. Informal department guidance requires contract administrators either sign or initial the invoice or the invoice cover sheet to evidence their approval of the invoice. Once approved, the invoice is forwarded to the DED Financial Specialist for processing in the County's financial system. The Department Manager is the financial approver of department invoices in

Oracle and is ultimately responsible for the approval of all invoices; however, they may assign a designee to perform and review the actual approval. Invoice supporting documentation is filed by the Administrative Specialist. Per County policy, any invoice over \$10,000 must also be submitted for approval to Accounts Payable personnel in the Department of Finance.

Scope and Methodology

We reviewed contract and grant monitoring in two phases. Phase 1, conducted In FY 12, consisted of interviewing responsible individuals from Department of General Services (DGS) and eight other County departments to gain an understanding of the policies and procedures followed in monitoring vendor performance under contracts and grants. In addition, Phase 1 included detailed testing of contract and grants monitoring procedures of one contract from each of the eight County departments with the highest purchase order spending for calendar year 2011. Results of the procedures performed in Phase 1 were used as a basis for developing the approach to Phase 2 testing.

In FY 13, five departments were audited as part of Phase 2, the results of those audits are detailed in reports posted on the MCIA web site¹. That part of Phase 2 involves detailed testing of the monitoring and invoice review and approval procedures for County departments over contracts and grants in effect for FY12, while the continuation of Phase 2 utilized fiscal year 2013 contracts and grants. Using the Office of Procurement's 2013 purchase order data, we initially selected 8 contracts for discussion with department staff using the following criteria:

- Dollar amount of purchase orders issued under the contract
- Description of services or goods procured on purchase orders issued
- Length of time contract was in place during FY13

We met with DED staff to gain an understanding of the goods or services procured under each contract, the length and tenure of the contract or contractor, and how much activity the department had with the contractor in FY13. Based upon information shared by department staff we selected 5 contracts, totaling \$3.0 million or approximately 89% of the total purchase orders issued for the department, for review as follows:

Table 1 – Contract Sample Selection for Phase 2

Vendor	Contract #	Description of Goods or Services	PO Amounts for FY13
Workforce Solutions Group	7788000019-AA	Career Counseling	\$1,753,120.00
Latin American Youth Center Inc.	0781000134AA	Counseling/Education	\$560,588.92
Montgomery Business Development Corp.	1021728	Government Relations	\$450,000.00
Transcen Inc.	07810000141AA	Career Counseling	\$200,000.00

¹ Departments previously audited during Phase 2 include the Department of Environmental Protection, the Police Department, the Department of Transportation, the Department of General Services, and Fire and Rescue Services.

Vendor	Contract #	Description of Goods or Services	PO Amounts for FY13
Ballard Spahr LLC ²	0642020037AA	Government Relations	\$75,000.00
Total			\$3,038,708.92

Our testing for Phase 2 focused on the following:

- Reviewing procedures performed by department staff to ensure contractor performance was in accordance with contract terms.
- Reviewing procedures performed by department staff to ensure payments made to contractors were for services or goods provided in accordance with contract terms.

The attributes tested were as follows:

Table 2 – Attributes Tested for Contract Administration/Monitoring

Attribute	Description
A	Monitoring of contractor performance milestones delivery, submission of status reports, and/or submission of invoices and other data related to payment
B	Reviewing of contractor status and performance reports
C	Pre approving, receiving, inspecting, and/or accepting of contractor work
D	Certifying costs incurred for payment under time and material or labor hour contracts
E	Performing and documenting site visits or visual observations of contractor work performance, if applicable
F	Monitoring procedures performed in accordance with contract terms continually and on a timely basis
G	Identification and reporting of contract problems and violations to appropriate managers on a timely basis

Table 3 – Attributes Tested for Invoice Review and Approval

Attribute	Description
A	Invoice calculations are reasonable and accurate (foot and cross-foot)
B	Supporting documentation required by the contract was submitted with the invoice and retained
C	Unallowable costs do not appear to be included in invoice submission
D	Invoice approved by Contract Administrator/Monitor
E	Invoice approved by appropriate Department Supervisor
F	Voucher approved by A/P
G	Amount per invoice agrees to amount paid

² We performed invoice testing on this contract during a separate audit we are performing on Non-Competitive Procurements made by the County.

Results

Overall, the results of our testing found that contract and grant monitoring and invoice review and approval were generally performed in accordance with applicable County policies and procedures, department practices and contract or grant terms and conditions. For all contacts tested, opportunities for improvement in contract monitoring were noted as evidenced by the six exceptions related to two of the attributes tested for contract monitoring, yielding a 17.1% error rate³. With regard to the attributes tested for invoice review and approval, we noted no exceptions.

Table 4 below provides a summary of the exceptions noted during our testing.

Table 4 – Summary of Exceptions from Phase 2 Contract Administration/Monitoring Testing

Attribute Tested	Total Exceptions Per Attribute	Sample Tested Per Attribute	% Exceptions Per Attribute
A. Monitoring of contractor performance milestones, delivery, etc.	-	5	0%
B. Reviewing of contractor status and performance reports	-	5	0%
C. Receiving, inspecting, and/or accepting of contractor work	-	5	0%
D. Certifying costs incurred for payment	-	5	0%
E. Visual observations of contractor work performed and/or documented	5	5	100%
F. Monitoring procedures performed in accordance with contract terms	1	5	20%
G. Identification and reporting of contract problems timely	-	5	0%
Total Exceptions	6		
Total Samples	5		
Samples with Exceptions	5		

Below is a summary of our findings on specific contracts reviewed:

Contract #7788000019 Workforce Solutions Group; #0781000134 Latin American Youth Center; #1021728 Montgomery Business Development Corporation; #0781000141 Transcen; #0642020037AA Ballard Spahr

1) Contract Administration/Monitoring (Attribute E)

The three contract administrators with oversight for the five contracts tested did not retain any support of their visual observations of contractor providing services; therefore, no evidence exists documenting their determination of the vendors' performance per contract terms. Because all five contracts involve

³ Contract Monitoring Error rate : Total number of exceptions noted (6)/Total number of attributes tested (35)=17.1%

services rather than a physical delivery of goods, contract administrators monitoring procedures are mission critical in determining the level of vendor performance and compliance with contract terms. In interviews with the contract administrators, they indicated they perform site visits, meetings, and phone conferences to keep the vendors accountable and to verify performance under the contract terms. However, the contract administrators' actions of observation and discussions are not documented. Contract administrators should retain within contract files summaries of any meetings or telephone conversations with vendors. Retaining such documentation in the contract file helps provide a trail of actions taken in case of any vendor issues or County staff turnover.

Contract #7788000019 Workforce Solutions Group

1) Contract Administration/Monitoring (Attribute F)

There has been no consistent verification of vendor staff qualifications by contract administrators to determine if the contractually required certifications are held and maintained by those employed by the contractor. Per the contract, detailed in section 2 "General Program Requirements," item B, part 2, bullet point h:

- *"All intensive Services Staff who have direct customer contact must achieve Global Career Development Facilitator (GCDF) certification within twelve months of hire date or the contract's inception, whichever is later."*

In discussion with the contract administrator, the contract administrator stated that minimal verification has been made to identify whether the certification has been maintained by the vendor staff since the contract initially went into effect in September of 2007. In addition, the contractor administrator, when requested did not provide any evidence that a verification of credentials had been performed. The County has spoken with the vendor and is aware that some employees are certified; however, no supporting documentation has been requested from the vendor. Without proof of this certification, the County cannot determine if the vendor is truly performing per the contract. As with all contracts selected for testing, this contract requires interpersonal activities and it is the County's responsibility to ensure that all vendors are employing qualified individuals with the appropriate training and certifications necessary to properly perform their duties and serve customers.

Other Matters

In discussions and in response to request for written department procedures DED staff , stated that there were no formal written guidelines within the department detailing required invoice review and approval procedures. As with any department, but particularly DED which is relatively small, there is a risk that an employee could leave and a replacement would not have any guidance regarding department procedures. This could lead to improper review and approval as well as procedures being missed altogether.

Recommendations

We are making three recommendations to improve internal controls over the DED contract monitoring process. We recommend the Director of the Department of Economic Development:

1. Develop and implement procedures for contract administrators, or their designee that perform vendor observations or site visits or conduct meetings with vendors, to document the performance and results of such contract monitoring procedures. Some best practices for documenting such actions include but are not limited to:
 - Making notations on routine/standard daily or weekly activity reports
 - Using meeting agendas and taking minutes of meetings
 - Developing a standard form to document monitoring.
2. Reinforce with contract administrators the responsibility of consistently ensuring vendors comply with all contract requirements as well as documenting the compliance or noncompliance of the vendor. In regard to the Workforce Solutions Group contract, require the contract administrator to obtain vendor proof that their staff members providing services have the valid required certification.
3. Formalize and document existing invoice review and approval procedures within the department as a reference to current and future department members.

Comments and MCIA Evaluation

We provided DED with a draft of this report for formal review and comment on February 24, 2013 and DED responded on February 25, 2013. DED said it concurred with the report's recommendations. (See Appendix A for DED response.)

Appendix A



DEPARTMENT OF ECONOMIC DEVELOPMENT

Isiah Leggett
County Executive

Steven A. Silverman
Director

MEMORANDUM

February 25, 2014

TO: Larry Dyckman, Manager
Office of Internal Audit

Deirdre Bland, CPA
Cherry Bekaert

FROM: Steven A. Silverman, Director
Department of Economic Development

A handwritten signature of Steven A. Silverman in black ink.

SUBJECT: Final Review of the MCIA Audit on DED's FY13 Contracts

I am in receipt of MCIS's final report on Contract and Grant Monitoring by the Department of Economic Development, and appreciate this opportunity to review and provide formal comment before MCIA finalizes the report.

I am encouraged that your audit resulted in no formal findings or deficiencies with material consequence in how my department monitors its contracts and grants. The draft report, however, points out three areas of internal control improvement, and I concur with all three recommendations.

I will start developing and implementing processes and procedures to enhance DED's contract and grant administration on those three recommended areas. We will also seek assistance from the Office of the County Attorney and the Office of Procurement to ensure that DED's new processes and procedures will not have a legal ramification, if DED's contract folders are accessed by the Maryland Public Information Act.

I would like to thank you and auditors from Cherry Bekaert for the collective effort in thorough review of DED's contract files and existing procedures, and providing the recommendations to enhance DED's operations and its accountability.

Should you have additional questions, please contact Peter Bang of my staff at (240)777-2008.