



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF CAPITAL PROJECT 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 FY2018.

What We Found

We noted that controls are adequate to ensure capital projects are supervised adequately and completed timely, but documentation of that oversight can be improved.

Report Number: 2018-A-02

Date Issued: 02/09/2018

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 Capital Project 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 in some cases documentation was not available to demonstrate management's ongoing oversight. Overall, controls are adequate to ensure proper supervision of projects.

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

Sincerely,

Chrystal Brooks, CPA

Chrystal Brooks
County Auditor

cc: Mr. Joseph Siemek, Director of Public Works



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REVIEW RESULTS

We have audited Harford County’s Management of Capital Projects for the period of 07/01/2015 through 06/30/2017. Our opinion, based on the evidence obtained, is management routinely provides oversight of projects and related contractors, however, processes can be improved to ensure that payments reflect documented work progress, authorized rates and appropriate penalties. 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
Projects are not completed timely	<ul style="list-style-type: none"> • Contracts include terms that address timeliness and delays • Project managers communicate deadlines at a project kick-off meeting • Liquidated Damages or Penalties are assessed when projects are not completed on time 	Needs Improvement Needs Improvement Satisfactory
Projects are not completed to the County’s needs and standards	<ul style="list-style-type: none"> • Project managers communicate expectations at a project kick-off meeting • Progress meetings are held (and documented) to confirm project progress and address necessary changes to the project 	Needs Improvement Needs Improvement
Vendors are paid more than agreed upon	<ul style="list-style-type: none"> • Vendor invoices should reflect the level of completion discussed at the last progress meeting • Project managers confirm that billed amounts are within contract limits 	Satisfactory Satisfactory

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 response provided follows the Findings and Corrective Actions.

FINDINGS AND CORRECTIVE ACTIONS

Finding Number: 2018-A-02.01 Documented Project Oversight

For some capital projects, documentation of kick-off or progress meetings was not available.

Analysis: Generally, for each capital project or task within a capital project, County officials will meet with contracted vendors at the start of the project. This meeting is important because it helps ensure all parties are aware of when work may begin and when it must be completed. The Notice to Proceed is often a key driver in calculating the expected completion date. The meeting is also important because work that takes place in public places may have scheduling considerations that need to be made clear. The County's assigned project manager will provide day-to-day informal oversight of the project, and will conduct formal status meetings throughout the project. The status meetings are usually documented for County and contractor files. Discussion at the meeting includes the work completed to date, any delays or concerns and, if necessary, any proposed changes to the scope of the work being done. The level of progress discussed at the meeting should be reflected in the vendor's next invoice.

We sampled 36 invoices paid during the audit period and noted that 30 had support for kick-off communications, progress meetings, timely project completion and accurate invoicing. For the remaining invoices, we noted:

- For 4 invoices, the project did not have a kick-off meeting with the contractor. Management noted that the task proposal from the vendor or verbal communications detailed the project expectations (in lieu of a kick-off meeting); for 1 of these, the contract specifies that a pre-construction meeting will be held.
- For 3 of the invoices tested, progress meetings were not held or other evidence of County oversight was not provided.

Management Response: Management disagrees with the Auditor's opinion regarding kick-off meetings. Not all projects require official kick-off meetings. Task proposals from vendors or verbal communications detailing the project expectations are sufficient. Scope of projects were defined and accepted by County as shown in furnished documentation to Auditor.

Management also disagrees with progress meetings. There were no formal design review meetings, but there is a record of email correspondence for guidance and feedback. Invoice is validated by the Project Manager in accordance with County practice.

BACKGROUND INFORMATION

PROGRAM DESCRIPTION AND KEY STATISTICS

Harford County develops a Capital Program each year that includes appropriations and expected timelines for projects that will be built by the government. Funding for projects may be approved over multiple years and project schedules may change from year to year. For projects that have been approved, some are managed by the Board of Education or the Community College; many are managed by the Harford County Department of Public Works and other departments. Those officials are responsible for ensuring that projects have been adequately designed, contractors have been selected and construction has been completed to specifications and within the time and budgetary constraints described in the Capital Program.

For fiscal years 2015 through 2018 new capital funding has averaged \$101.2 million. There are currently approximately 180 County-supervised, capital projects that have been approved and are active (eligible for spending). There have been 118 projects closed in the last 5 years.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit was to review the timeliness of the completion of capital projects. For projects that extend beyond their contracted deadlines, we confirmed that contractually allowed penalties were enforced. The scope of this review was limited to projects that are supervised by Harford County government. We excluded projects that are managed by other organizations such as HCPS, HCC and Libraries. Due to the narrow scope of this review, our evaluation of internal control was limited to the processes for reviewing and approving payments, as well as the overall impact of changes to project timelines. Criteria for the project included County Policies and Procedures, Contract Terms and County Approved Budgets.

The audit focused on activity during the period of 07/01/2015 through 06/30/2017. Our audit procedures included interviewing personnel, observation and testing. Specifically, for a sample of completed projects, we sought to confirm whether the budget-approved, project schedule had changed substantially over time, whether the project was completed within the budget timelines and whether there were contractor delays and if penalties were enforced, if appropriate. We also selected a sample of invoices related to active projects to confirm that management oversight was documented in kick-off and progress meetings and to confirm that the amounts paid were supported by those progress meeting notes. We also sought to confirm that the amounts invoiced and paid agreed to the rates in the contracts and any unauthorized contractor delays were appropriately penalized.

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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