HARFORD COUNTY, MARYLAND
Office of the County Auditor

AUDIT OF PROCUREMENT PRACTICES

Report Number:
2022-A-09

Report Date:
01/11/2022

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Procurement Practices for the period of 07/01/2019 through 06/30/2021. This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2022.

The objective of this review was to determine if all applicable guidelines were followed for County procurements. The scope of this review was limited to the controls impacting the procurement process, from the identification of purchasing need through contract execution. The results of the audit, our findings and recommendations for improvement are detailed in this report.

We would like to thank the members of management for their cooperation during the audit; they have been provided an opportunity to respond to this report; the response(s) provided follows the Issues and Corrective Actions.

Sincerely,

Chrystal Brooks
County Auditor

CONCLUSIONS

Our opinion, based on the evidence obtained, is Procurement controls are generally effective, but can be improved. This assessment is based on the strengths and weaknesses identified for the operational objectives below.

Business Process Objective	Assessment[i]
Comply with County Procurement Code requirements.	Effective
Ensure purchases are made fairly, from the lowest-price responsible vendor.	Effective
Monitor purchases to identify spending patterns, opportunities for cost savings and adherence to spending limits.	Generally Effective

ISSUES AND CORRECTIVE ACTIONS

2022-A-09.01 Monitoring of Total Spending

Per the Harford County Code, Section 41-26, "All supplies and contractual services, except as otherwise provided herein, when the estimated cost thereof shall exceed $25,000, shall be purchased by formal, written contract from the lowest responsible bidder after due notice inviting bids." The Procurement Department uses the accounting system, Workday, to track, monitor and approve purchases made by the County. When the purchase is linked to an existing contract, there are safeguards in place to ensure it does not exceed the approved amount without additional review and approval. However, when the spending is not linked to an approved contract or is made by purchase card, we noted the Department did not adequately monitor total spending by vendor to determine if purchases exceeded the threshold for stricter procurement guidelines. In a prior audit, we reported a similar issue related to the availability of information for monitoring. That issue was closed with the implementation of Workday. However, as found during this audit, the system is not being fully utilized for monitoring purposes.

Procurement requisitions in Workday are coded as either Contract or Non-Contract. However, during our review, we found that a majority of the Non-Contract requisitions were actually related to active contracts. This makes it difficult to easily link purchases to contracts and, consequently, difficult to confirm that contracts are not overspent.   In addition, purchase card spending totals are only reviewed annually and, after ongoing attempts, management has not been able to integrate the purchase card system with the accounting system, Workday.

We performed data analysis of vendor spending and found 192 vendors who received more than $25,000 a year from non-contract related purchases during the audit period. The transactions considered were individually less than $25,000 but, in total, exceeded that amount. We tested a sample of 15 of those vendors and noted that 1 already had open contracts for goods and services but the transactions we reviewed were not allocated to any of those contracts. In addition, 7 of the vendors were paid exclusively with purchase cards, so there is currently no way to track those spending totals in Workday. For example, one vendor had an approved contract in an amount not to exceed $40,000. Our review found that all of the purchases made from this vendor were via purchase card and total spending exceeded the approved contract amount.

Contracts are initiated based on the particular product or service needed. Since not all purchases from the same vendor are related to the same project or made by only one department, some vendors paid more than $25,000 may be explained. Individual purchases

between $5,000 and $25,000 are required to obtain three written quotes or sole source letter to ensure the lowest responsible bidder is selected.

Based on our discussions with management, there has been an effort to balance overall monitoring of small purchases while focusing on identifying larger savings opportunities from larger contracts and projects. This is a reasonable approach; however, without adequate monitoring of total spending, the County may lose the opportunity to obtain frequently used goods and services at lower prices and may inadvertently violate the County's Procurement Code requirements.

We recommend directing additional resources towards the Procurement Department so that staff have more time to strategically monitor spending (and cumulative purchases), in addition to meeting the County's ongoing contracting needs.

Management Response:

We have changed business practices to utilize the functionality of WorkDay and provided the auditors responses to help understand why some purchases are labeled "non-contract."

The Code requires contracts $25,000 and over to be competitively bid when we know what the estimated value will be for a good or service. The Code does not require vendors to be put under contract when an aggregate annual spend is $25,000 and over. We are proactive when analyzing spend with vendors and ensure we are following the Code. When the estimated spend for a good or service is under $25,000, the user departments are getting three quotes as required.

The premise for purchase cards is to allow users/cardholders to make small dollar purchases where the spend represents approximately 20% of total dollars spent, but account for approximately 80% of the transactions. Procurement staff focuses on the 80% of total dollars spent where we can add more value for the County. That is the best practice established for purchasing card programs in the private and public sectors.

While Bank of America has not been able to send us a clean file to integrate pcard data to WorkDay, we are still utilizing the Bank of America system to obtain pcard transactional information. We are currently working on analyzing purchase card spending to determine when it makes fiscal sense to enter into contracts with some vendors.

We welcome the review of the details of the 192 vendors stated in the response above. Again, the Code does not require vendors with aggregate spend of $25,000 and over to be contracted with, but when the opportunity exists for goods or services $25,000 and over

from a good business perspective to be placed under contract, that is when we take appropriate measures to complete that process.

Expected Completion Date: N/A

BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

The Department of Procurement is responsible for conducting the procurement process for the goods and services needed by the County. The County's procurement methods fall into three general categories: 1) purchases up to $4,999.99, made by purchase card when possible; 2) purchases from $5,000 to $24,999.99, which require 3 written quotes obtained by the requesting department, to be reviewed and awarded by Procurement; and 3) purchases of $25,000 and over which must have an advertised bid, with the bids evaluated by a procurement agent and department representative before being awarded to the lowest responsible and responsive bidder. Recommendations for the award of contracts valued at $50,000 and above, as well as professional services contracts of $25,000 and above, must be approved by the County's Board of Estimates.

Procurement uses ECMS (Enterprise Contract Management System) to track all projects from start to finish and retain all related documents. ECMS has built in approval paths dictated by the type of requisition being made which determine the documents and approvals necessary to issue fully executed contracts. During the audit period, the County managed 839 active contracts with total expanded spending of approximately $262.8 million.

The audit approach focused on testing the key controls that address management's objectives. We have reviewed the issues reported in prior audits and considered their impact on this audit; each of the issues previously identified were closed before we began this project. Our audit procedures included interviewing personnel, observation and testing as described in the table below.

Process / Control Objective	Scope of Review
Contracting	
Purchases over certain dollar amounts require different levels of documentation and management approval before the item(s) can be procured.	- We tested a sample of transactions between $5,000 and $25,000 to verify the required three written quotes or sole source letters existed. - For a sample of active contracts, we confirmed all required procurement steps were completed, including: - Public advertisement - Review of bid and proposal evaluations - Board of Estimates approval

Process / Control Objective	Scope of Review
Requisitions are reviewed and contracts awarded based on the amount of funding requested and the type of services and or goods being purchased.	• For a sample of contracts, we confirmed there was a documented business need.
Spend Monitoring	
Management ensures contracts are in place when the County has spent or will spend more than $25,000 annually with a vendor	• We reviewed total vendor spending during the audit period to confirm contracts were in place as necessary for those with more than $25,000 in spending per fiscal year.

Areas for improvement are described in the Issues and Corrective Actions section of this report.

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.

Report Distribution: *(Responsible Management and Impacted Parties)*	**Audit Team:**
Ms. Karen Myers, Director of Procurement	Chrystal Brooks
	CPA, CIA, CGAP, CISA, CGFM, CRMA
	County Auditor
	Sarah Self, CIA, CGAP
	Senior Auditor

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[i] Definitions

Effective: The design and effectiveness of the internal control environment address key risks. The business unit complies with external laws and regulations, and internal policies, procedures and guidelines. Business processes are managed effectively resulting in achievement of expected outcomes.

Generally Effective: The design and/or effectiveness of the internal control environment generally address key risks; however, the number and severity of findings relative to the size and scope of the business unit being audited indicate that some minor areas of weakness in the control environment need to be addressed. Isolated instances of non-compliance with external laws and regulations, and internal policies, procedures and guidelines may exist. Business processes may not be managed effectively in all areas resulting in reduced achievement of expected outcomes.

Not Effective: The design and/or effectiveness of the internal control environment does not address key risks. Non-compliance or historical patterns of non-compliance with key regulatory requirements and internal policies, procedures and guidelines exist which expose the audited entity to financial, reputational, and operational risks. Business processes are not managed effectively and expected outcomes are not achieved.