



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF CONTRACT MANAGEMENT

Report Number:

2025-A-11

Report Date:

7/17/2025

Council Members and County Executive Cassilly:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Harford County's Contract Management processes for the period of 7/1/2022 through 2/28/2025. This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2025.

The objective of this audit was to determine if contracts for commodities and general services are being appropriately monitored to ensure compliance with County policies and contract terms and if payments to vendors were in accordance with contract terms. The scope was limited to vendors that had an active contract with Harford County during the audit period. 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,

A handwritten signature of Chrystal Brooks, CPA.

Chrystal Brooks
County Auditor

CONCLUSIONS

Our opinion, based on the evidence obtained, is that while the processes in place are generally effective at ensuring invoices are properly reviewed and paid per contract terms, procedures could be improved to ensure contract spending limits are not overspent. This assessment is based on the strengths and weaknesses identified for the operational objectives below.

| Business Process Objective | Assessment ⁱ |
|---|-------------------------|
| Vendors are paid in accordance with contract terms. | Generally Effective |
| Vendor spending is monitored to determine need for contracts. | Effective |

ISSUES AND CORRECTIVE ACTIONS

2025-A-11.01 Payments in Excess of Contract Amount

When the County enters into a formal contract with a vendor, the contract typically states the maximum or not-to-exceed (NTE) amount that may be paid under the contract. In the event that unexpected costs or circumstances result in additional funds being required, a change order should be prepared and approved to account for the increased spending and higher NTE amount.

The County's financial system, Workday, has the ability to track total spending by vendor and contract number. However, it is still possible to fund transactions in excess of the contractual spending limits. We reviewed 46 contracts and found one (1) instance where a vendor was paid in excess of the contractually agreed upon NTE, resulting in an overpayment of approximately \$14,300.

Workday is capable of automatically running spending reports by vendor and contract; we recommend Procurement utilize these reports to prevent and detect overspending as well as institute formal purchasing procedures to ensure sufficient monitoring of contract terms and spending.

Management Response: Management would like to thank the Auditor and staff for its review of Contract Management. Procurement has reviewed the audit report and agrees with the auditor findings associated with vendor payments in accordance with contract terms. This particular contract is in place to provide meals for the Harford County Detention Center and may fluctuate based on inmate population. Workday is programmed to alert Procurement of contract spending and has hard stops on contracts when there is limited funding available. The Department of Procurement and Office of Information & Communication Technology will be investigating to determine how this was processed and repair the alerts and system prevention measures to ensure this does not happen in the future.

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. County Code also requires approval by the Board of Estimates for all purchases, contracts and agreements of \$50,000 or more. Once Procurement has awarded a contract, departments may use the contracted vendor for the items specified in the contract terms. User departments are responsible for reviewing invoices from vendors and confirming the billed rates are correct and items or services provided are included in the terms of the contract.

In the audit period, the County paid more than \$25,000 to 499 contractors. The total spending with those vendors was \$623.7 million. As part of our testing, we reviewed 46 vendors with active contracts and total spending of approximately \$20.5 million. Of the 1,873 invoices associated with those 46 vendors, we tested 265. Those invoices totaled approximately \$14.0 million, or 68.4% of the total spent with the sampled vendors.

The audit approach focused on testing the key controls that address management's objectives. Our audit procedures included interviewing personnel, observation and testing as described in the table below.

| Process / Control Objective | Scope of Review |
|---|--|
| Invoice Review | |
| Vendors are paid in accordance with their contract terms. | <p>For a sample of vendors, confirm the following:</p> <ul style="list-style-type: none">• Contract was properly executed and active for all payments made under it• A sample of payments were made in accordance with contract terms• Spending did not exceed contracted amount• If the departments involved confirmed invoicing was correct for the service/goods received prior to payment• Any change orders did not cause total purchase price to exceed contracted amounts• Any added services were not part of the original contract |

| Process / Control Objective | Scope of Review |
|--|---|
| | <ul style="list-style-type: none">Any change orders increasing the total spending amount were approved by the Board of Estimates, as needed |
| Contract Spending Review Vendor spending is monitored to determine when contracts may be needed. | <ul style="list-style-type: none">Perform data analysis to determine total vendor spending during the audit period and confirm whether those with the largest amount of County spending have associated contracts |

Areas for improvement are described in the Issues and Corrective Actions section of this report. We have reviewed the three findings reported in a prior audit, Audit Report 2020-A-13. The issues involved invoices paid for services not under contract, payments not made in accordance with contract terms and timeliness of monthly procurement reporting. All findings were previously closed after confirming the issues had been adequately addressed by management.

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.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate 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:

Ms. Karen Myers, Director of Procurement
Mr. Robert McCord, Director of Administration

Audit Team:

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

Sarah Self, CIA, CGAP
Senior Auditor

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.