

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



Contract Management Audit

May 31, 2024

Highlights

Why MCIA Did this Review

The Montgomery County Office of Internal Audit (MCIA) conducted an audit of Montgomery County Government's (County) contract management processes related to three contracts between the County and a Contractor (collectively, audit).

The Contractor has three active contracts with the County, each managed and administered by a contracting department:

1. Department of General Services, Division of Facilities Management
2. Montgomery County Department of Transportation, Division of Parking Management
3. Montgomery County Fire and Rescue Service, Support Services Division

Each contracting department is responsible for contract management duties including ensuring goods, services, or construction are received, and the contractor adheres to the specifications, terms, conditions, and price documented in the contract.

The contracts allow for other departments to use the contracts if their need is within the scope of those contracts.

The audit focused on the following within the contracting departments:

1. Processes and controls when managing these contracts.
2. Compliance with contract terms and County requirements.
3. Compliance with contract scopes of service.

The audit was conducted by the accounting firm SC&H Group, Inc., under contract with MCIA.

May 2024

Contract Management Audit

What MCIA Found

The contracting departments contract administration operations include processes and internal controls to mitigate risks, and procedures aimed to comply with contractual terms, scopes of service, and County requirements.

However, opportunities exist for the contracting departments to improve internal controls and compliance efforts.

We identified five areas of improvement to strengthen processes, controls, and compliance activities within the contracting departments.

1. Alignment with contractual scope of services.
2. Adherence to contract terms and administration requirements.
3. Adherence to County Accounts Payable policy requirements.
4. Enhanced work order and invoice documentation procedures.
5. Formalized contract management procedures.

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Objectives

This report summarizes the results of an audit of Montgomery County Government's (County) contract management processes related to three contracts between the County and a Contractor (collectively, audit). The audit was performed by SC&H Group, Inc. (SC&H), under contract with the Montgomery County Office of Internal Audit (MCIA).

The objective of the audit was to evaluate County departmental processes and controls performed for managing the Contractor's contracts. Specifically, it focused on how the contracting departments administer their contracts including their internal control procedures, compliance with contractual terms and scopes of service, and compliance with County requirements.

Background

Contracting Departments

The following County departments contracted with the Contractor:

1. Department of General Services (DGS), Division of Facilities Management (DFM)
2. Montgomery County Department of Transportation (MCDOT), Division of Parking Management (DPM)
3. Montgomery County Fire and Rescue Service (MCFRS), Support Services Division

Each County department has their own contract management procedures and controls for their respective contracts. Each department's contract management and invoice payment processes for their respective contracts is further explained below.

Montgomery County Department of General Services

Contract: Electrical Controls

DGS, DFM, administers this contract, Electrical Controls.

DFM delivers operational and mission critical services 24 hours a day seven days a week on behalf of County residents and Montgomery County Government. DFM manages over 400 County buildings, ensuring they are maintained at the highest level to provide a comfortable environment for employees and the public.¹

Per the subject contract, DGS contracted with the Contractor to provide electrical controls, fire alarms and electrical systems preventative maintenance, repair, and installation services at County (owned and leased) facilities under a combination "Firm Fixed Price" and "Time and Materials" contract.

Section D – Specifications/Scope of Work of the contract states the contract requirements include, but are not limited, to the following:

1. Section IV. Work Assignments, Scheduled Work (a) of the contract, page 21, states "...The Request for Job Order Proposals issued by the County will include detail of the work to be performed, completion time, due date for the Job Order proposal, and other information as may be necessary to enable the Contractor to submit a complete and

¹ <https://www.montgomerycountymd.gov/DGS-FAC/Home.html>

accurate Job Authorization Form (Attachment F). All proposals will be on a "not to exceed" format..."

2. Section V. Invoicing (b) of the contract, page 23, states "All invoices must include:
 - a. Invoice number and date
 - b. Job site address
 - c. The Contractor must submit Attachment H – Invoice Submission Checklist as a transmittal letter with every invoice sent for payment. The Contractor must initial each box under "Contractor Initials" to acknowledge that the invoice includes the required information as established in this solicitation. Form must be completed using blue ink. Upon receipt of the invoice the Contract Administrator or its designee will evaluate the invoice and initial under the County's column to confirm that the required information has been provided. Incomplete invoices will be returned to the Contractor for revision."
3. Section V. Invoicing (c) of the contract, page 23, states " All invoices for Scheduled and Emergency Services must also include:
 - a. A copy of the authorized Job Authorization Form
 - b. Materials used detail, establishing quantities and type
 - c. Labor detail, detailing hours, and personnel
 - d. Supporting documentation for time and material (e.g., time sheets, etc.)"

Contract Monitoring Procedures

Work Order Requests

The DFM Customer Service Center receives requests for electrical systems installation, maintenance, repair, and/or troubleshooting via phone or email. The Office Services Coordinator logs, tracks, and manages work order requests in the DFM Work Order Management System and sends the request to the Major Maintenance Project Manager (MMPM). The MMPM performs an initial review of the work order and then sends it to the Contractor.

If needed, the MMPM and/or the Contractor goes on site to verify details of the request and the work order. If the request is determined to be minor and can be completed by members of DGS staff, the MMPM denies the work order and performs the work.

If assigned to complete the request, the Contractor completes and submits a Job Authorization Form (JAF) and sends it to the MMPM for review. The JAF details the work to be performed, the estimated labor hours by position, other anticipated costs to perform the work, and total cost estimate. The MMPM reviews the JAF to ensure it is complete and sends it to the DFM Division Chief and Deputy Chief for approval and signature. Once approved, the MMPM sends the signed JAF back to the Contractor to begin work.

Once the installation, maintenance, repair, and/or troubleshooting is complete, the Contractor calls the Customer Service Center to close out the work order. They will also notify the MMPM once work is complete.

DGS Invoice Review and Approval

The invoice, work order, JAF, and Attachment H – Invoice Submission Checklist, are sent to the DFM Vendor Mailbox. The DFM Accounts Payable Clerk retrieves the invoice, writes the received date on the invoice, and enters the invoice information into the tracking log. The Accounts Payable Clerk provides the invoice to the MMPM, who is designated as the true approver.

The MMPM verifies the goods and/or services were received or completed. Once verified, the MMPM writes the purchase order or direct purchase order number on the invoice along with the work order number, signs, and dates. The MMPM then returns the invoice to the DFM Vendor Mailbox for processing. If there are discrepancies, the MMPM contacts the Contractor for corrections and requests an updated invoice be sent to the MMPM for approval and submitted to the DFM Vendor Mailbox for payment.

The DFM Finance Manager retrieves invoices approved by the MMPM from the DFM Vendor Mailbox and saves the invoices to the Administrative Specialist's folder inside the "Invoices for Approval to DFM Finance Manager" folder. The Administrative Specialist then retrieves invoices from their folder, encumbers the funds, signs, and dates the invoice, uploads the invoice to Oracle, and processes the invoice for payment.

Following, the DFM Finance Manager retrieves the invoice from the Oracle Worklist, verifies the invoice number, purchase order number, invoice amount, and two signatures approving payment are on the invoice. If the invoice meets all approval prerequisites and criteria, the DFM Finance Manager approves the invoice for payment. If the invoice does not meet all the MCG guidelines and approval prerequisites and criteria, the DFM Finance Manager rejects the invoices and sends them back to the Administrative Specialist for corrections.

The Administrative Specialist makes corrections as needed and sends them back to the DFM Finance Manager Worklist. The DFM Finance Manager reviews to ensure the corrections have been made and approves the invoice in Oracle. Approved invoices are electronically transmitted to County's Accounts Payable Section (County Accounts Payable) within the County's Finance Department (County Finance) for issuance of payment to the vendor.

Using Departments

If another County department needs to use the contract (using department), the using department's employee completes the JAF and sends to the DFM Division Chief and Deputy Chief for review, approval, and signature. Once approved, the using department coordinates with the Contractor to proceed with work, and is responsible for work order oversight, completion, and verification, along with invoice review and approval.

Montgomery County Department of Transportation

Contract: Time and Material Electrical Services at County Parking Facilities

MCDOT, DPM, administers the contract, Time and Material Electrical Services at County Parking Facilities.

MCDOT helps Montgomery County achieve its economic development and transportation management goals by creating and managing public parking in commercial areas.²

Per the contract, MCDOT contracted with the Contractor for the performance of time and material, and general electrical/maintenance/installation services at County owned/maintained facilities on an as-needed basis.

Section C – Special Terms and Conditions of the contract, include, but are not limited, the following:

² <https://www.montgomerycountymd.gov/DOT/WhoWeAre.html>

1. Subsection 49 “Estimates” of the contract, page 21, “The Contractor must prepare and submit a Job Authorization Form (JAF) when applicable (Attachment “J”) to the Contract Administrator for approval prior to performing work in accordance with contract prices, which will contain the following:
 - a. Brief description of the work to be performed.
 - b. Number of labor hours and types of labor.
 - c. Material cost estimate.
 - d. Estimated completion date.
 - e. Contract number.
 - f. Signature verifying date.”
2. Subsection 47 “Payments” of the contract, page 20, states “...Contractor must submit (2 copies) of each invoice supported by records of “Time and Material” along with the Contractor’s completed copy of the JAF when applicable...A copy of paid receipts for materials/ equipment used or installed for each job performed will be submitted with the invoice only when the material purchased for a specific job is of major cost and when such record is requested by the Contract Administrator.”

Contract Monitoring Procedures

Work Order Requests

The contract management process differs for Capital Improvement Projects (CIP) and Operations services.

1. Capital Improvement Project CIP

If DPM identifies a need for a CIP, the team either scopes the electrical services via drawings that are accessible to the Contractor on MCDOT Building Information Model (BIM) Platform or conducts a field assessment with the Chief of Engineering and CIP, Engineering Section Chief, and Contractor. The Contractor creates a proposal, and DPM generates change orders, as needed. Utilizing documentation provided, a purchase order is generated. The Contractor and DPM agree to labor and material costs during project approval, along with work phasing by levels.

2. Operations Services

Based on the contract terms, the Major Maintenance Manager, who is responsible for supervising the Contractor, assigns tasks to the Contractor around regular safety and operational maintenance checks on all electrical systems, as well as when incidents arise. These work order assignments are managed in the Jira platform. DPM provides electrical materials, which is managed by the Wasp platform. DPM utilizes a paper-based time ticket system for the Contractor. The Major Maintenance personnel within the division sign-off on the time tickets on a weekly basis. The Major Maintenance personnel compile the total monthly set of paper time tickets, scan, and email the time ticket package to the Contractor for compilation and inclusion in the monthly invoice submission package.

Invoice Review and Approval

On a monthly basis, the Contractor submits invoices through the Procore system, DPM’s construction project management, budget, and invoicing platform. Invoices received in Procore are uploaded into the Online Parking Invoice Order application for review and approval. Invoices are approved within the Invoice Order application in Oracle. Approved invoices are routed to DPM, Finance section for upload into Oracle, approval, and submission to County Accounts Payable.

1. Capital Improvement Project CIP
The Chief, Engineering and CIP, Section Chief and Capital Project Managers, within Engineering, review and approve via signature on the invoice, noting true receiver and true approver.
2. Operations Services
The Major Maintenance Manager and Project Managers assigned for oversight of the work, review and approve the monthly invoices via signature on the invoice, noting true receiver and true approver.

Montgomery County Fire and Rescue Service

Contract: Appliance Purchase and Repairs

MCFRS, Support Services Division, administers the contract, Appliance Purchase and Repairs.

MCFRS protects lives, property, and the environment with comprehensive risk reduction programs and safe and effective emergency responses.³ The contract includes over 47 Fire and Rescue facilities with up to 20 appliances per facility.

Per the contract, MCFRS contracted with the Contractor to provide repair services, purchase replacement parts, and purchase of new appliances on an as needed basis.

Section C – Special Terms and Conditions under the contract include, but are not limited, the following:

1. Subsection 19 “Estimates” of the contract, page 19, states “Prior to the commencement of work on any requirements, the Contract Administrator and the Contractor will prepare an “Estimate to Complete”⁴ containing the following:
 - a. Brief description of the work to be performed.
 - b. Number of labor hours and types of labor.
 - c. Material cost estimate.
 - d. Estimated completion date.”
2. Subsection 19 further states “All estimates must be signed and dated by the Contract Administrator and the Contractor, and reference the contract number.”
3. Subsection 34 “Payments” of the contract, page 20, states “...Invoices are to be supported by records of “Time and Material”, with the approval signature of the Contract Administrator (or designee). Material prices shall be subject to verification. A copy of paid receipts for material/equipment used or installed for each job performed shall be submitted with invoice only when material purchased for a specific job is of a major cost and when such record is requested by the Director, Office of Procurement.”

Contract Monitoring Procedures

Work Order Requests

When an appliance, such as a refrigerator, stove, or oven, within one of the fire and rescue stations, facilities, or office buildings needs repair or replacement, an MCFRS employee submits a work order request via the MCFRS Fire Station Defect Reporting System (System). The System tracks and manages work order requests from start to finish. Once submitted, the

³ <https://www.montgomerycountymd.gov/mcfrs/about/>

⁴ The “Estimate to Complete” document is the same as the JAF document, and will be referred to as a JAF in the report.

Contract Administrator reviews the submission, and determines if the work order should be handled in house or sent to the Contractor.

If the work order is sent to the Contractor, it is assigned in the System. The Contractor receives an email notification including the work order details. The Contractor then acknowledges the work order in the System and schedules the services.

Once the Contractor has completed the scheduled inspection to assess the work order request and the job has been agreed to, the Contract Administrator completes the top section of the JAF and requests the Contractor to complete the "Job Requirements" section. Once the details of the JAF are agreed upon, the Contractor signs and dates the JAF and returns it to the Contract Administrator, to countersign and date.

Invoice Review and Approval

There are two types of repairs: (1) normal routine and (2) non-normal routine. Depending on the type requested in the work order, the JAF and invoice process varies.

1. Normal Routine Repair

Once the unit is fixed and placed back in service, the Contractor updates the System with repair information and uploads the JAF and invoice to the System. The Contractor can also send an email to the Contract Administrator to upload. The Contract Administrator contacts the work order requestor to verify the job was completed by the Contractor. Once confirmed, the Contract Administrator reviews/compares the invoice to supporting documentation. The Contract Administrator adds the purchase order number, signs/stamps the invoice, sends the invoice to MCFRS Procurement, who enters the invoice into Oracle to send to County Accounts Payable for payment, and closes the work order in the System.

2. Non-Normal Routine Repair

The Contractor completes the JAF, and uploads to the System, for approval before work is performed. The Contract Administrator reviews, and if approved, signs the JAF. The Contractor provides an estimated time of delivery for parts and/or new units and expected date of completion. Once the work is completed, the Contractor uploads the invoice to the System for review and approval. The Contractor can also send an email to the Contract Administrator. The Contract Administrator contacts the work order requestor to verify the job was completed by the Contractor. Once confirmed, the Contract Administrator reviews/compares the invoice to supporting documentation. The Contract Administrator adds the purchase order number, signs/stamps the invoice, sends the invoice to MCFRS Procurement, who enters the invoice into Oracle to send to County Accounts Payable for payment, and closes the work order in the System.

If a work order is submitted for an addition and/or upgrade to a facility or fire station, the Contract Administrator reviews the request with the Division Chief, Support Services, during their weekly meeting for approval since it is not a routine/emergency repair, replacement, or inspection type request. Prior to meeting with the Division Chief, if additional information is needed to determine the scope of work, the Contract Administrator meets with the requestor. If approved, the process follows the non-normal routine repair process.

If an emergency repair, the unit is serviced immediately with the JAF following the triage.

Accounts Payable Processing

County Accounts Payable reviews approved invoices within Oracle that include true receiver, Oracle receiver, true approver, and Oracle approver. Invoice information within Oracle is

compared to supporting documentation uploaded as attachments. County Accounts Payable contacts the contracting department to obtain additional support/information, when applicable. Once reviewed, the invoice is approved, and payment is remitted to the Contractor via check or ACH.

Scope and Methodology

The audit was performed in accordance with the Statement on Standards for Consulting Services (SSCS) issued by the American Institute of Certified Public Accountants (AICPA). The scope focused on the following:

1. County departments and contracts:
 - a. DGS, DFM, administers the contract, Electrical Controls
 - b. MCDOT, DPM, administers the contract, Time and Material Electrical Services at County Parking Facilities
 - c. MCFRS, Support Services Division, administers the contract, Appliance Purchase and Repairs
2. Time periods:
 - a. Transactions: The audit tested transactions from April 1, 2021, through September 30, 2023.
 - b. Contract management process: The audit evaluated the current state of department contract management processes for the in-scope departments and contracts.
3. County policies:
 - a. Accounts Payable Policies – Financial Governing Principles and Standards

Process Understanding

SC&H performed the following procedures to understand the processes, risks, controls, and compliance efforts.

1. Conducted interviews/walkthroughs with DGS, MCDOT, and MCFRS to understand their current contract monitoring procedures and controls for their respective in-scope contracts.
2. Prepared process narratives, which included summaries of key activities along with risks, controls, and potential gaps.
3. Prepared a risk and control matrix (RCM) to provide a listing of processes, risks, controls, etc.

Fieldwork

Fieldwork consisted of testing the operational design and/or effectiveness of internal controls, and department compliance with the relevant controls, processes, and policies. SC&H prepared a document request listing information needed to perform the steps documented in the test plan, including populations required to select samples for which additional information was requested. The following includes additional details regarding sample selections and test procedures.

Sample Selection

Sampled transactions were selected from a population of transactions and included selections from DGS, MCDOT, MCFRS, and using departments. The samples were selected from a report of transactions dated from April 1, 2021, through September 30, 2023. SC&H utilized both judgmental and random selection methods for sampling.

Internal Control Testing

SC&H performed the following for each sample to test internal controls.

1. Work Order Requests: Obtained and reviewed documentation to determine whether the work order went through the appropriate approval process.
2. Invoice Review and Approval: Obtained supporting documentation to determine the accuracy and completeness of the invoice, and evidence of review and sign-off by appropriate personnel.
3. Monitoring, Training, Policies and Procedures, Overall: Reviewed documentation, where applicable, and documented improvement opportunities based on inquiry with DGS, MCDOT, and MCFRS.

Contract Term and County Requirement Testing

Contract term and County requirement testing consisted of reviewing the contractual terms within each contract and County AP policies, and procedures to identify if the work performed complied with the terms of the contract and County policy.

Contract Scope of Services Testing

Contract scope of services testing consisted of reviewing the scope of services between the contract, JAF, and invoice to identify if the work performed appeared to align to the contract terms and conditions. SC&H determined if there were scope of service discrepancies, including work performed by sub-contractors.

Validation

The preliminary test results were compiled and presented to Contract Administrators, and members of management for DGS, MCDOT, MCFRS, County Accounts Payable, and the IA Manager.

Findings and Recommendations

Results

We appreciate the assistance and cooperation from members of Procurement, DGS, MCDOT, MCFRS, and County Finance during this audit. The County personnel's effort, cooperation, and coordination throughout was crucial to obtain test documentation and address questions.

The audit yielded five findings specific to departmental operations with seven supporting recommendations. The seven recommendations complement each other. The objective is to help departments implement an organized and centralized mechanism to effectively facilitate contract management responsibilities. They are separately organized within each finding to focus on the specific finding's criteria.

The audit also identified potential opportunities related to how Procurement may structure future contracts and terms to mitigate risks related to this audit's findings. These have been communicated to Procurement and will be further evaluated during planned contract compliance and contract management audits.

Finding 1: Contract Scope of Services Exceptions**Applicable Departments: DGS, MCDOT, MCFRS****Background**

The scope of services performed by the Contractor is outlined within Section D – Specifications/Scope of Work of each contract and is summarized below, per the “Background” sections:

1. DGS Contract: The County is seeking a qualified entity for the provision of Electrical Controls, Fire Alarms and Electrical Systems preventative maintenance, repair, and installation services at County (owned and leased) facilities under a combination “Firm Fixed Price” and “Time and Materials” contract.
2. MCDOT Contract: A contract resulting from this IFB will provide for the performance of Time and Material, and General Electrical/Maintenance/Installation services at County owned/maintained facilities on an as-needed basis.
3. MCFRS Contract: The Contractor will be required to provide repair services, purchase replacement parts, and purchase of new appliances on an as needed basis.

Further, Section D of each contract includes specifications for each type of work, such as specific electrical control, fire alarm, and electrical systems work.

Additional requirements related to subcontractors are outlined within Section B - General Conditions of Contract Between County & Contractor, Subsection 4 - Assignments and Subcontracts for each respective contract. This section states, "Unless otherwise provided in the contract, the contractor may not contract with any other party for furnishing any of the materials or services herein contracted for without the written approval of the Director, Office of Procurement."

Further, under Section B – General Conditions of the Contract Between the County and Contractor, Section 54, as related to Sub-Contracting states (DGS and MDOT):

SUBCONTRACTING

For work related to the intent of this contract, Subcontractors may be utilized. No Subcontractors will be authorized without prior approval of the Contract Administrator. Should the Contractor require the use of Subcontractor(s) in the performance of work activities under this Contract, the Contractor will submit to the Contract Administrator the name of the Subcontractor and three (3) examples of projects of similar size and scope to which the Subcontractor has performed. The County reserves the right to reject any Subcontractor that does not provide qualified examples. No more than 50% of the aggregate estimated value of the Contract will be permitted to be Subcontracted. All work Subcontracted will be issued via a Job Authorization Form (JAF).

Furthermore, Chapter 11B of the County Code, Section 11B.00.01.13 “Claims Outside of a Contract”⁵ includes approval requirements for work performed outside the scope of an executed contract. Within these requirements, the Code states a using department must submit a statement detailing the work performed and justification for the work to the County Attorney’s Office for approval. The County Attorney and/or the CAO have the sole discretion to approve claims outside of a contract made by a using department.

⁵ https://codelibrary.amlegal.com/codes/montgomerycounty/latest/montgomeryco_md_comcor/0-0-0-5245#JD_11B.00.01.13

Finding 1: Contract Scope of Services Exceptions

Applicable Departments: DGS, MCDOT, MCFRS

Finding

SC&H reviewed 23 sample transactions to determine alignment between the scope of services outlined in the contract with the job description listed on the work order request via the JAF, and the work described on the Contractor's invoice.

SC&H identified the following exceptions related to work performed by the Contractor and/or subcontractor that appeared to be outside the scope of services of the contract:

1. For 3 of the 23 samples (MCDOT Contract), based on the supporting documentation provided for the invoice, it appeared that the Contractor invoiced the County to pay for an annual/semi-annual preventative maintenance contract with the subcontractor. This appears to be a violation of SECTION B - GENERAL CONDITIONS OF CONTRACT BETWEEN COUNTY & CONTRACTOR, Subsection 4 - ASSIGNMENTS AND SUBCONTRACTS. "Unless otherwise provided in the contract, the contractor may not contract with any other party for furnishing any of the materials or services herein contracted for without the written approval of the Director, Office of Procurement."
2. For 7 of the 23 sample transactions (across all contracts), the work performed by the Contractor and/or subcontractor (when applicable) appeared to be outside the scope of the contract based on the documentation provided. For example, work was performed related to the assessment of repairs on automatic/sliding doors, a marquee sign, and ground water ejection system. The departments did not appear to follow procedures for approval of work performed outside of the contract scope as outlined in Section 11.00.01.13 of the County Code.⁶
 - a. For one of the eight samples (DGS contract), it is unclear why the Contractor utilized subcontractor(s), when the requested work appeared to be within the scope of the contract.

Risks

1. Unapproved/unauthorized work could be performed by a Contractor and/or subcontractor and reimbursed by the County, resulting in breach of contract and/or misappropriation of County funds. This could further result in the termination of individual department and/or County contracts with a Contractor and result in the County being unable to obtain necessary goods/services to maintain uninterrupted service to the public.
2. Lack of sufficient evidence of approved exceptions to stated contract terms with a vendor could result in financial and/or legal ramifications to individual departments and/or the County due to work being performed outside of the stated terms of an individual contract.

Recommendation 1.1

Each department should develop and implement processes and controls to ensure that only within-scope work is authorized to be performed under the contract, including by using departments outside the department responsible for administering the contract.

⁶ DGS explained that each of these example systems is controlled by electrical systems. Therefore, when an "out of service call" is received, the problem is treated as "within scope" because it is not immediately known if the problem is the electrical portion of the system, the mechanical portion of the system, or even the programming portion of the system. Therefore, the practice would be to dispatch the electrical contractor for initial diagnosis, and then refer to one with more expertise, if required or necessary.

Finding 1: Contract Scope of Services Exceptions**Applicable Departments: DGS, MCDOT, MCFRS**

Departments may consider the following as guidance when establishing processes and controls.

1. Develop a consistent mechanism/document, network folder structure, etc. that can be used to evaluate and approve contracted/needed work 1) prior to requesting the work and 2) upon receipt of any Contractor response. This may include outlining information and requirements such as:
 - a. Contract and amendment requirements/criteria.
 - b. Subcontracting requirements, terms, etc.
 - c. Any required documentation (e.g., JAF, invoices, invoice support, etc.).
 - d. Any required County criteria (e.g., support for work and subsequent invoices).
2. When contracting with a Contractor, the department should ensure all requirements are met. Following, the appropriate contracting department personnel should sign/date all documentation requiring review/signoff to evidence review and approval.
3. If there is a need for services, goods, etc. that may be outside of or inconsistent with contracted the scope of work or any contractual requirements/the department should follow Chapter 11B of the County Code.

Finding 2: Incomplete Adherence to Contract Administration Requirements**Applicable Departments: DGS, MCDOT, MCFRS**Background

The general terms and conditions sections of each contract outline requirements related to work estimates and submitting invoices. The County Contract Administrator, who is responsible for managing the contract for the County/department, and the Contractor representative visit the job site to scope out the work, determine level of effort, and understand potential required materials. The estimate to complete the work is summarized in a JAF (or "Estimate to Complete"), that both the County Contract Administrator and Contractor complete. After the work is completed, the Contractor submits an invoice for the work completed, including supporting documentation, such as time sheets, materials purchase receipts, etc. These requirements, including an Attachment H, Invoice Submission Checklist, are outlined specifically within the respective contract, as follows:

Estimate Requirements

1. Section IV. Work Assignments, Scheduled Work (a) of the DGS contract, page 21, states, "...The Request for Job Order Proposals issued by the County will include detail of the work to be performed, completion time, due date for the Job Order proposal, and other information as may be necessary to enable the Contractor to submit a complete and accurate Job Authorization Form (Attachment F). All proposals will be on a "not to exceed" format..."

"If the Job Authorization Form is signed by the Contract Administrator, the Contractor will be notified of the date on which work can commence. The Contractor must not start any work without prior approval from the Contract Administrator."
2. Section C – Special Terms and Conditions, Subsection 19 "Estimates" of the MCFRS contract, page 19, states, "Prior to the commencement of work on any requirements, the Contract Administrator and the Contractor will prepare an "Estimate to Complete" containing the following:
 - a. Brief description of the work to be performed.
 - b. Number of labor hours and types of labor.
 - c. Material cost estimate.

Finding 2: Incomplete Adherence to Contract Administration Requirements
Applicable Departments: DGS, MCDOT, MCFRS

d. Estimated completion date.”

All estimates must be signed and dated by the Contract Administrator and Contractor, and reference the contract number.”

3. Section C - Special Terms and Conditions, Subsection 49 “Estimates” of the MCDOT contract, page 21, states, “The Contractor must prepare and submit a Job Authorization Form (JAF) when applicable⁷ (Attachment “J”) to the Contract Administrator for approval prior to performing work in accordance with contract prices, which will contain the following:
 - a. Brief description of the work to be performed.
 - b. Number of labor hours and types of labor.
 - c. Material cost estimate.
 - d. Estimated completion date.
 - e. Contract number.
 - f. Signature verifying date.”

Invoice Requirements

1. Section V. Invoicing (b) of the DGS contract, page 23, states "All invoices must include:
 - a. Invoice number and date
 - b. Job site address
 - c. The Contractor must submit Attachment H – Invoice Submission Checklist as a transmittal letter with every invoice sent for payment. The Contractor must initial each box under “Contractor Initials” to acknowledge that the invoice includes the required information as established in this solicitation. Form must be completed using blue ink. Upon receipt of the invoice the Contract Administrator or its designee will evaluate the invoice and initial under the County’s column to confirm that the required information has been provided. Incomplete invoices will be returned to the Contractor for revision."
2. Section V. Invoicing (c) of the DGS contract, page 23, states, " All invoices for Scheduled and Emergency Services must also include:
 - a. A copy of the authorized Job Authorization Form
 - b. Materials used detail, establishing quantities and type
 - c. Labor detail, detailing hours, and personnel
 - d. Supporting documentation for time and material (e.g., time sheets, etc.)"
3. Section C – Special Terms and Conditions, Subsection 34 “Payments” of the MCFRS contract, page 20, states, “...Invoices are to be supported by records of “Time and Material”, with the approval signature of the Contract Administrator (or designee). Material prices shall be subject to verification. A copy of paid receipts for material/equipment used or installed for each job performed shall be submitted with invoice only when material purchased for a specific job is of a major cost and when such record is requested by the Director, Office of Procurement.”
4. Section C – Special Terms and Conditions, Subsection 47 “Payments” of the MCDOT contract, page 20, states, “...Contractor must submit (2 copies) of each invoice supported by records of “Time and Material” along with the Contractor’s completed copy of the JAF when applicable...A copy of paid receipts for materials/ equipment used or installed for each job performed will be submitted with the invoice only when

⁷ Per their contract, MCDOT is required to use a JAF “when applicable”. During the audit, no samples included a JAF.

Finding 2: Incomplete Adherence to Contract Administration Requirements**Applicable Departments: DGS, MCDOT, MCFRS**

the material purchased for a specific job is of major cost and when such record is requested by the Contract Administrator.”

5. Additionally, Section 6. Invoice Requirements and Approvals of the County Finance Accounts Payable Policy (AP Policy) states, “The invoice must be attached in Oracle. Relevant appropriate supporting documentation must also be attached in Oracle for all invoices, regardless of dollar amount. Appropriate supporting documentation may include packing slips, bill of lading, or other deliverables that provide some support that evidence receipt of the goods and services.”
6. Section 34. Payments of the MCFRS contract states, “Invoices are to be supported by records of “Time and Material,” with the approval signature of the Contract Administrator (or designee).”

Finding

SC&H identified the following exceptions to the above contract requirements:

1. For Section IV (JAF requirements):
 - a. 5 of 17 samples did not include a JAF:
 - i. 1 of 5 samples included a request for proposal for specific services instead of a JAF.
 - ii. 2 of 5 samples were MCDOT samples that did not require a JAF, per “when applicable” language in the contract and MCDOT utilization of work order task program, JIRA platform.
 - iii. 2 of 5 samples were also MCDOT samples, however, these samples included a subcontractor proposal instead of a JAF, as documented in Finding #1 above (3 of 23 samples).
 - b. 9 of 12 JAF samples (DGS contract only) were incomplete (e.g., missing funding codes, account codes, cost centers, and not to exceed amounts).
 - c. 2 of 12 JAF samples (DGS and MCFRS contracts) had no support provided.
 - d. 5 of 12 JAF samples (DGS contract only) did not include a signature (4 of 5) and/or date (1 of 5) by the DGS Contract Administrator.
 - e. 1 of 12 JAF samples (DGS contract only) had an estimated labor rate that did not align with an approved contract labor rate.
 - f. 4 of 5 using department JAF samples (i.e., where a different department used the DGS contract only) did not include a signature by the DGS Contract Administrator.
2. For Section V.b (Attachment H – Invoice Submission Checklist), 13 of 13 samples (DGS contract) did not provide an Invoice Submission Checklist as required under the DGS contract.
3. For Section V.c (Invoicing) and Section 34 (Payments), SC&H identified multiple examples of exceptions to the invoice requirements, such as:
 - a. 8 of 17 invoices (across all three contracts) and underlying charges did not include all supporting documentation (e.g., labor hours support, receipt for materials purchased, subcontractor invoices, and miscellaneous charges support).
 - b. 6 of 17 invoices (across all three contracts) had a discrepancy between the invoice support submitted by the Contractor and the terms of the contract, therefore SC&H was unable to recalculate the invoice details to the supporting documentation to verify the underlying charges net to the individual charges on

Finding 2: Incomplete Adherence to Contract Administration Requirements**Applicable Departments: DGS, MCDOT, MCFRS**

the invoice and the total. Examples included a discrepancy in the cost of specific materials and sales tax and travel time passed through from a subcontractor.

- c. For one (DGS contract) of 12 invoices charges (e.g., materials and labor rates) did not comply to the JAF and/or contract. (e.g., the invoice only included "Labor" and did not specify labor rate).
- 4. For Section 6 of the AP Policy, Invoice Requirements: SC&H identified multiple examples of exceptions to invoice requirements, such as:
 - a. For 17 of 17 samples (across all three contracts), Oracle did not contain relevant appropriate supporting documentation to justify the invoice and its charges. Evidence to justify invoices (e.g., supporting time sheets and materials receipts) was requested directly from the associated departments.⁸
 - b. For 3 (MCDOT contract only) of 17 samples, MCDOT did not maintain sufficient invoice support within department records and had to subsequently request additional support from the vendor during the course of testing.

Risks

- 1. The following could occur if contracts are not adequately adhered to.
 - a. Contractor performs work prior to receiving authorization and approval when non-emergency.
 - b. Work order requests are not processed timely or are missed.
 - c. JAFs are incorrectly coded, resulting in inaccurate recording of costs to department budgets/funding.
 - d. Invoices received are not processed timely, resulting in inaccurate financial information and/or reputational damage with vendors.
 - e. Unauthorized or inaccurate disbursements are made, resulting in misappropriation of funds or overpayment to vendors.
 - f. Disbursements are made for materials/services not received, resulting in overpayments to vendors.
 - g. Invoices are not authorized and/or not in compliance with the approved JAF and/or established agreement/contract.
 - h. Using department does not comply with the terms and conditions of the owner department executed contract.
- 2. Unclear contractual language could increase the likelihood that contract requirements are bypassed and the risk of contract noncompliance.

Recommendation 2.1

Each department should develop processes and controls to ensure documentation such as requests, JAFs, invoices, invoice support, etc. are maintained as required by County policies.

⁸ Per County AP policy, "AP reviews the invoice, supporting documentation, and approvals to determine if the invoice complies with all County policies prior to payment." Per discussion with Finance, the supporting documentation County AP reviews includes the invoice detail and approvals, the PO in Oracle when applicable, and Oracle approvals. County AP is performing a two-way or three-way match between what was received and what is on the invoice/PO for the vendor. It is not County AP's responsibility to ensure all necessary documentation is included in the support, which may include more than what AP requires. The Contract Administrator has that knowledge, not County AP, of what needs to be included.

Finding 2: Incomplete Adherence to Contract Administration Requirements**Applicable Departments: DGS, MCDOT, MCFRS**

Departments may consider the following as guidance when establishing processes and controls.

1. Ensuring a completed JAF is included with the associated department work order for repairs to be completed via a standard and/or emergency work order. In the event other estimate documentation (e.g., request for proposal or subcontractor proposal) is provided, an accompanying JAF should be completed and included with other estimate support.
2. JAFs submitted for a repair include the correct funding codes, account codes, cost centers, not to exceed amounts, and labor rates as defined in the contract.
3. JAFs are properly reviewed and approved and include signature by the designated County Contract Administrator. This applies to both the contracting departments and any using departments utilizing the department contract to complete a repair.
4. All requisite support for individual invoices is provided/obtained prior to invoice approval for payment. Support should align with the required terms of the contract to include:
 - a. Attachment H – Invoice Submission Checklist
 - b. A copy of the authorized JAF
 - c. Materials used detail, establishing quantities and type
 - d. Labor detail, detailing hours, and personnel
 - e. Supporting documentation for time and material (e.g., time sheets, etc.)
 - f. Documentation to support any discrepancies/updates to invoice documentation following submittal by the Contractor and review by the approver/designee. Discrepancies could include, but are not limited to, difference in the cost of specific materials, the inclusion of sales tax, and travel time passed through from a subcontractor.
5. All requisite project and invoice support is and uploaded into Oracle according to AP Policy. The department may also choose to maintain documentation internally within the department.

Recommendation 2.2

Departments should ensure that contract language is clear and specific and either 1) avoid terminology like “when applicable” or 2) document what “when applicable” specifically refers to.

Finding 3: Incomplete Adherence to County Accounts Payable Policy Requirements**Applicable Departments: DGS, MCFRS****Background**

The AP Policy documents the requirements and activities relating to acquiring and paying for goods and services utilized by the County and County suppliers (“contractors”). The policy outlines related contract administration processes, including:

1. Procure/Acquire-to-Pay (P2P) Process and Controls
2. Shared Services
3. Using Approved Suppliers
4. Ordering Goods and Services
5. Receiving Goods and Services
6. Invoice Requirements and Approvals
7. Payment Methods
8. Reimbursements

Finding 3: Incomplete Adherence to County Accounts Payable Policy Requirements
Applicable Departments: DGS, MCFRS

9. Petty Cash

Further, Section 5. Receiving Goods and Services requires that, "At a minimum, segregation of duties requires that the following tasks be performed by different people:

1. Authorizer of purchase and/or approver of invoice
2. Receiver - Verifier of goods or services
3. Invoice processor - Enters invoice in Oracle."

Finding

SC&H identified the following exceptions to the above AP Policy requirements:

1. For 4 of 17 samples (DGS and MCFRS only), departments did not clearly identify the role an invoicing reviewer/approver and/or receiver was performing. This appears to indicate non-compliance with County AP policies.

Risks

Segregation of duties is a key control to minimize the risk of fraud and abuse that can otherwise be present when appropriate checks and balances are not established. Failure to follow required segregation of duties policies and requirements can increase the risk of:

1. Lack of sufficient evidence of review of Contractor invoices resulting in the County paying for goods/services not received and/or remitting payment to a Contractor prior to receiving a fully approved Contractor invoice. This could further lead to misappropriation of department funding/budget due to an inappropriate/unapproved invoice being processed for payment.
2. Payment may not be remitted to a Contractor timely, due to AP being unable to verify an invoice was appropriately reviewed and approved by department personnel, as outlined in the AP Policy. This could further result in financial penalties being incurred and paid by the department/County for failure to promptly pay for goods/services received.

Recommendation 3.1

Each department should develop processes and controls to ensure all invoices are reviewed and approved in accordance with the County AP policy. When implementing the controls, departments should consider:

1. Ensuring adequate segregation of duties exist and are effective.
2. Consulting with County Accounts Payable to understand suggested methods for adequate and consistent application.

Finding 4: Inconsistencies between Work Order and Invoice Documentation
Applicable Departments: DGS

Background

As outlined in Finding #2 above, the County Contract Administrator and the Contractor agree to potential work via the JAF. DGS contract, Section IV. Work Assignments, sub section Scheduled Work (a), states, "The Request for Job Order Proposals issued by the County will include detail of the work to be performed, completion time, due date for the Job Order proposal, and other information as may be necessary to enable the Contractor to submit a complete and accurate Job Authorization Form (Attachment F). All proposals will be on a "not to exceed" format..."

Finding 4: Inconsistencies between Work Order and Invoice Documentation**Applicable Departments: DGS**

A JAF may be completed following repairs being performed by the Contractor when a repair is deemed an emergency and is accompanied by an emergency work order.

Finding

SC&H identified three samples that appeared to have an estimated amount that was submitted on the JAF that was also the exact dollar amount on the invoice submitted by the Contractor. Representative samples included \$4,915.68, \$10,788.25, and \$2,396.60. Additionally, SC&H identified one sample where the date on the JAF submitted by the Contractor was after the date of the invoice submitted. Per review of work order documentation, the instances identified were not designated as emergencies. As such, the JAF should have been completed prior to the commencement of work.

Risks

Retroactive submittal and review of estimate documentation by Contractors could result in inappropriate/unsupported costs being paid by the County.

Recommendation 4.1

DGS should develop processes and controls to ensure that all JAFs and required documentation are submitted prior to performance of work by the Contractor when routine repairs are requested. In the event an emergency arises and a JAF must be completed retroactively, an associated emergency work order should be referenced and included with supporting documentation maintained by the department.

Finding 5: Limited Formalized Procedures**Applicable Departments: DGS, MCDOT, MCFRS****Background**

County departments perform multiple contract administration control activities designed to mitigate inherent risks. These include preventive and detective control activities within the following sub-processes:

1. Work order request receipt, review, and approval.
2. Invoice receipt, review (e.g., supporting documentation, recalculations, and areas of focus), and approvals.
3. System entry and approvals.
4. Reconciliation performance (e.g., support to system information) and approvals.
5. Contract monitoring, reporting, support, etc. issue identification, communication, and resolution activities.
6. Processes and protocol when other County departments use their respective contracts.
7. Policies and procedures, training, and governance.

Finding

SC&H requested and reviewed department documentation, conducted process understanding interviews, and documented risks and controls via process narratives and risks and controls matrices. Based on the control design evaluation performed, the following design control gaps⁹ were identified, organized by department:

⁹ Design control gaps are processes, controls, or lack of them that do not appear to be effectively designed to mitigate the associated risks.

Finding 5: Limited Formalized Procedures**Applicable Departments: DGS, MCDOT, MCFRS****DGS:**

1. The Department does not appear to have formally documented contract monitoring processes and procedures for each vendor/contract, such as tracking budget to actuals, outstanding invoices, purchase order balances, and/or performance metrics, etc.

MCDOT:

1. The Department does not appear to have (or did not provide) department specific policies or procedures for contract administration related activities, roles, and responsibilities, etc.
2. The Department does not appear to have a formal and consistent contract monitoring process for each vendor/contract, such as tracking budget to actuals, outstanding invoices, purchase order balances, and/or performance metrics, etc.

MCFRS:

1. The Contract Administrator is responsible for the majority of aspects of contract administration, without a formal requirement for an independent or secondary approval from a supervisor. The Contract Administrator is responsible for solicitation of the contract, work order triage, and JAFs review and approval.
2. The Department does not appear to have (or did not provide) department specific policies or procedures for contract administration related activities, roles, and responsibilities, etc.
3. The Department does not appear to have a formal and consistent contract monitoring process for each vendor/contract, such as tracking budget to actuals, outstanding invoices, purchase order balances, and/or performance metrics, etc.

Risks

Lack of complete policies and procedures that align with Countywide requirements could negatively impact:

1. The establishment and performance of necessary activities performed consistently, efficiently, and effectively in a controlled and timely manner.
2. The ability to perform critical activities in the absence of the primary users.

Recommendation 5.1

Departments should develop/update policies, procedures, and trainings to formally document contract monitoring and the roles/responsibilities of the Contract Administrator within individual departments. Further, these policies and procedures should be consistent and align with County policies and procedures. Departments should ensure going forward that any changes in County policies are reflected in department policies, procedures, and trainings; and should periodically review the department policies, procedures, and trainings to ensure alignment with County policies.

For example, the policies, procedures, and training documents could include, but not be limited to the following:

1. Documenting roles and responsibilities, tools, and resources for contract monitoring processes, such as tracking budget to actuals, outstanding invoices, purchase order balances, and/or performance metrics, etc.
2. Documenting roles and responsibilities and related lines of communication between the department and the Office of Procurement to ensure all required steps are

Finding 5: Limited Formalized Procedures**Applicable Departments: DGS, MCDOT, MCFRS**

performed when developing/executing contracts with Contractors and/or subcontractors.

Recommendation 5.2

Departments should incorporate content and related procedures into any related developed policy, procedure, and training material.

Comments and MCIA Evaluation

The draft final report was shared with the following departments for their review and comment:

- Department of General Services
- Department of Transportation
- Fire and Rescue Service
- Department of Finance (Finance)
- Office of Procurement (Procurement)

MCDOT, MCFRS, Finance, and Procurement had no formal comments on the report. DGS responded and indicated their concurrence with relevant findings, and indicated their commitment to improve and formalize procedures and improve compliance with County AP policies. While DGS stated that there were four invoices identified as exceptions that should not have been identified, Internal Audit has previously revisited the 4 exceptions directly attributed to the DGS contract. Based on that review and additional information provided, and further discussion with Finance's Accounts Payable, we removed one exception. However, the remaining three invoice exceptions were retained as not complying with County AP policy, since the invoices did not clearly identify the role an invoicing reviewer/approver and/or receiver was performing. No changes were made to the report based on the comments.

The DGS comments are included as Appendix A.

Appendix A – Department Comments



DEPARTMENT OF GENERAL SERVICES

Marc Elrich
County Executive

David E. Dise
Director

May 28, 2024

TO: William Broglie, Internal Audit Manager
Office of County Executive

FROM: David Dise, Director 
Department of General Services

SUBJECT: Formal Comments – Contract Management Audit

As you know, DGS has been afforded the opportunity to provide FORMAL COMMENTS for inclusion in the final Contract Management Audit report. Accordingly, please see below DGS comments related to Findings #1, #3, and #5 of the referenced audit.

Finding 1: Contract Scope of Services Exceptions: SC&H reviewed 23 sample transactions to determine alignment between the scope of services outlined in the contract with the job description listed on the work order request via the JAF, and the work described on the Contractor's invoice.

Response: DGS concurs with the results in Finding #1-1. DGS appreciates that our comment concerning subcontracting will be kept in the report.

Finding 1: Contract Scope of Services Exceptions: For 7 of the 23 sample transactions (across all contracts), the work performed by the Contractor and/or subcontractor (when applicable) appeared to be outside the scope of the contract based on the documentation provided. For example, work was performed related to the assessment of repairs on automatic/sliding doors, a marquee sign, and ground water ejection system. DGS added content to exception 2.

Response: DGS concurs with the results in Finding #1-2. DGS appreciates that the comment concerning diagnosis and dispatching of staff will be included in the report as a footnote reference.

Finding 3: Incomplete Adherence to County Accounts Payable Policy Requirements: For 4 of 17 samples (DGS and MCFRS only), departments did not clearly identify the role an invoice reviewer/signer was performing. For example, invoices included evidence (i.e., signatures) of multiple individuals reviewing/approving an invoice, but it was not indicated whether the

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individual was the true receiver or true approver of the invoice. This appears to indicate non-compliance with County AP policies. DGS added content to exception 1.

Response: DGS concurs with the results in Finding #3. DGS will work to continuously improve complete compliance to the County AP Policy. While DGS has an established procedure, where signatures identifying the various roles and approvers have been established, there were 4 exceptions wrongfully included on the invoices to be paid.

Finding 5: Limited Formalized Procedures: The Department does not appear to have a formal and consistent contract monitoring process for each vendor/contract, such as tracking budget to actuals, outstanding invoices, purchase order balances, and/or performance metrics, etc. DGS added content to exception 1.

Response: DGS concurs with the results in Finding #5. DGS will work to continuously improve and formalize procedures. While DGS has an established procedure, wherein each Monday, the fiscal management group of DGS Facilities Management Division provides a listing and status of operating and capital budgeted purchase orders and contracts for DFM contracts, these procedures need to be formally documented, and periodically reviewed. In addition, the Contracts Section for DGS within the Central Services Division will work to formalize its role for broad contract oversight, planning, renewal, type, and problems with approximately 350 contracts on a continuous basis.