

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



**Contract and Grant Monitoring by the
Department of Transportation**

July 16, 2013

Highlights

Why MCIA Did this Audit

As part of the County Wide risk assessment completed by MCIA, contract and grant monitoring by departments was identified as a high risk area. In FY12, the County's total value of purchase orders issued under contracts totaled \$736 million. Of that amount \$266 million related to the Capital Improvement Program (CIP) and the Department of Health and Human Services (HHS), both of which were previously subjected to contract and grant monitoring audits. The contract and grant monitoring audit of the Department of Transportation (MCDOT) is the third in a series of five department audits to focus on the \$470 million of grant and contract spending unrelated to CIP and HHS. MCDOT FY12 purchase order spending under contracts was \$37.6 million or 8% of the \$470 million, which is the fourth highest department in Montgomery County overall. Reports regarding the other four departments being audited will be issued separately.

What MCIA Recommends

MCIA is making three recommendations to MCDOT in order to improve the performance and enhance the existing internal controls pertaining to contract monitoring. MDCOT concurs with all recommendations.

July 2013

Contract and Grant Monitoring by the Department of Transportation

What MCIA Found

The Department of Transportation has designed and implemented adequate internal controls for contract monitoring and invoice review and approval. However, some control procedures are not operating as designed, therefore, they are not as effective as possible. In testing eight contracts, we found two contracts with two errors in our testing of MCDOT's review of contractor invoices and four contracts with five errors in our testing of contract monitoring. The errors were instances in which existing procedures were not performed as designed or identified opportunities to improve or strengthen existing procedures and controls.

We found weaknesses in internal controls over invoice review and contract monitoring in areas such as: (1) the depth of the review of invoice details for reasonableness of charges, (2) evidencing performance of vendor observations, site visits, and meetings regarding contractor performance with notes or other written documentation, (3) documenting in writing mutual agreement with vendor to delay contract reporting requirements, and (4) retaining support detailing cost allocations to be used by vendor when invoice for services is provided.

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Objectives

This report summarizes the work performed by Cherry Bekaert LLP in an internal audit of the Montgomery County contract and grant monitoring process. The scope of this engagement included reviewing the contract and grant monitoring policies and procedures of the Department of Transportation (MCDOT). The objective of the audit was to:

Review and test the effectiveness of contract and grant monitoring policies and procedures followed by County departments (excluding HHS and CIP projects) to ensure contractor performance is contractually compliant and being effectively tracked, that contract changes and extensions are being properly managed, and that applicable invoices are properly reviewed, maintained and are accurate. This audit will include reviewing monitoring by departments of both program performance and financial accountability.

This internal audit report was performed in accordance with consulting standards established by the American Institute of Certified Public Accountants (AICPA) and generally accepted government auditing standards (GAGAS) established by the Government Accountability Office (GAO), as appropriate. Our proposed procedures, developed to meet the objectives stated above, were reviewed and approved in advance by Montgomery County Internal Audit (MCIA). Interviews, documentation review, and field work were conducted from November 2012 to March 2013.

Background

Contracting Activity in Fiscal Year 2012

MCDOT was the fourth highest department in purchase order spending under contracts for FY12. MCDOT made up approximately 8% (\$37.65 million) of the total FY12 expenditures for Non-HHS and Non-Capital purchase orders issued. The department had a total of 214 contracts that were in effect during FY12 ranging from \$751 to \$2.93 million. The contracts in effect for FY12 for MCDOT tended to consist of: requisition of goods; maintenance services; and transportation-related services, including parking enforcement, citation processing, and call and ride services.

Invoice Review and Approval

Contract administrators or their designees receive invoices directly from vendors. The contract administrator or their designee reviews the invoice for compliance with contract terms and accuracy of fees charged. Contract administrators or their designee either sign or initial the invoice or the invoice cover sheet to evidence their approval of the invoice. In instances where the contract administrator's designee is the first reviewer and approver of an invoice, the designee forwards the invoice to the contract administrator for a second review and approval, which is also documented on the invoice or invoice cover sheet. The invoice is forwarded to the respective finance section for processing in the County's financial system. The Financial Section Director is the financial approver of section invoices. Invoice supporting documentation is filed by the finance section. Per County policy, any invoice over \$10,000 must also be submitted for approval to Accounts Payable personnel in the Department of Finance.

Scope and Methodology

We performed our review of contract and grant monitoring in two phases. Phase 1 consisted of interviewing responsible individuals from Department of General Services (DGS) and eight other

County departments, including MCDOT, to gain an understanding of the policies and procedures followed in monitoring vendor performance under contracts and grants. In addition, Phase 1 included detailed testing of contract and grants monitoring procedures of one contract for each of the eight County departments

with the highest purchase order spending for calendar year 2011. Results of the procedures performed in Phase 1 were used as a basis for developing the approach to Phase 2 testing. Phase 2 involved detailed testing of the monitoring procedures for 8 MCDOT contracts. In Phase 1 and Phase 2, Cherry Bekaert reviewed MCDOT contracts totaling \$16.57M or 45% of the total purchase orders issued for the department during FY12. See Appendix A for details of the MCDOT contract tested as part of Phase 1 (Asplundh Tree Expert Company, Inc.).

This audit covered contracts and grants in effect during fiscal year 2012. Using procurement data of purchase orders issued under contracts in effect for FY12 provided by DGS, Cherry Bekaert initially selected 15 contracts for discussion with department staff using the following criteria:

- o Dollar amount of purchase orders issued under the contract
- o Description of services being procured on purchase orders issued

Cherry Bekaert and MCIA met with MCDOT staff to gain an understanding of the goods or services being procured under each contract, the length and tenure of the contract or contractor, and how much activity the department had with the contractor in FY12. Based upon information shared by the department staff and the review of additional procurement information provided by the department, Cherry Bekaert selected the following 8 contracts for review.

Table 1 – Contract Sample Selection for Phase 2

Vendor	Contract #	Description of Goods or Services	PO Amounts for FY12
BARWOOD, INC.	6508000080AA	Call-N-Ride Services	\$2,937,074.00
SERCO, INC.	9505506068AA	Parking Enforcement Services	\$1,681,049.00
PROFESSIONAL ACCOUNT MANAGEMENT	7506060117AA	Parking Citation Processing and Collection Services	\$1,605,770.20
PENN PARKING, INC.	8506060097AA	Garage Cashier and Management Services	\$1,582,634.94
TRANSPORTATION ACTION PARTNERSHIP	1009604	North Bethesda Transportation Management District Grant Agreement	\$527,809.00
MARYLAND ENVIRONMENTAL SERVICES	1508000137AA	Trash removal Services for Ride On Bus Stops	\$473,277.00
LIGHTING MAINTENANCE, INC.	8506030385AA	Time and Material Electrical Services	\$445,998.00
ELCON ENTERPRISES, INC.	8506030198AA	Blanket Purchase Order for Elevator Inspection and Maintenance	\$236,072.00
Total			\$9,253,612.14¹

¹ The value of the contract tested in Phase 1 was \$7,080.510 , when added to Phase 2 contracts total tested \$16,334,122.14

Our testing for Phase 2 focused on the following

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

The attributes we tested are listed below:

Table 2 – Attributes Tested for Contract Administration/Monitoring

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

Table 3 – Attributes Tested for Invoice Review and Approval

Attribute	Description
A	Services or goods invoiced in accordance with contract terms
B	Supporting documentation required by the contract was submitted with the invoice and retained
C	Unallowable costs do not appear to be included in invoice submission
D	Invoice signed by Vendor (if applicable)
E	Invoice approved by Contract Administrator/Monitor /Task Order Manager and/or appropriate department manager
F	Voucher approved by appropriate finance department person
G	Voucher approved by A/P
H	Amount per invoice agrees to amount paid
I	Invoice signed by Contract Administrator's/Task Order Manager supervisor, if applicable
J	Invoice signed by Contract Administrator's/Task Order Manager subordinate, if applicable

Results

Our review found that contract and grant monitoring and invoice review and approval was generally performed in accordance with applicable County policies and procedures, department practices and contract or grant terms and conditions. We have identified opportunities for

improvement in contract monitoring and invoice review and approval for 5 of the 8 contracts. Four contracts were found to have 5 exceptions related to 3 of the 7 attributes tested for contract administration and monitoring (a 8.92%error rate²). Two contracts had 2 exceptions related to 2 of the 10 attributes tested for invoice review and approval or a 2.70% error rate³.

The tables presented below provide a summary of the exceptions noted during our testing.

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

Attribute Tested	Total Exceptions Per Attribute	Sample Tested Per Attribute	% Exceptions Per Attribute
A - Monitoring of contractor performance milestones delivery	1	8	13%
B - Reviewing of contractor status and performance reports	1	8	13%
C - Receiving, inspecting, and/or accepting of contractor work	0	8	0%
D - Certifying costs incurred for payment	0	8	0%
E - Visual observations of contractor work	3	8	37%
F - Monitoring procedures performed in accordance with contract terms	0	8	0%
G - Identification and reporting of contract problems timely	0	8	0%
Total Exceptions	5		
Total Sample Contracts	8		
# of Sample Contracts with Exceptions	4		

Table 5 – Summary of Exceptions from Phase 2 Invoice Review and Approval Testing

Attribute Tested	Total Exceptions Per Attribute	Sample Tested Per Attribute	% Exceptions Per Attribute
A - Services or goods invoiced in accordance with contract terms	1	8	13%
B - Supporting documentation required by the contract was submitted	0	8	0%
C - Unallowable costs do not appear to be included in invoice submission	1	8	13%
D - Invoice signed by Vendor, if applicable	0	5	0%
E - Invoice approved by Contract Administrator/ Task Order Manager	0	8	0%
F - Voucher approved by appropriate finance department person	0	8	0%

² Contract Monitoring Error rate : Total number of exceptions noted (5)/ Total number of attributes tested (56)=8.92%

³ Invoice Review and Approval error rate : Total number of exceptions noted (2)/ Total number of attributes tested (74)=2.70%

Attribute Tested	Total Exceptions Per Attribute	Sample Tested Per Attribute	% Exceptions Per Attribute
G - Voucher approved by A/P	0	5	0%
H - Amount per invoice agrees to amount paid	0	8	0%
I - Invoice signed by Contract Administrator's/ Task Order Manager supervisor, if applicable	0	8	0%
J - Invoice signed by Contract Administrator's subordinate, if applicable	0	8	0%
Total Exceptions	2		
Total Sample Contracts	8		
#of Sample Contracts with Exceptions	2		

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

Contract #8506060097AA – Penn Parking, Inc.: Garage Cashier and Management Services

1) Invoice Review and Approval (Attribute C):

Our review showed that the vendor, on 3 separate dates, charged hours greater than the maximum daily full time equivalent (FTE) hours for the parking lot location. The MCDOT contract administrator's review of the invoice did not detect the hours over maximum FTE hours for the location. The contract administrator's lapse in reviewing the invoice support for reasonableness of charges against expectations resulted in the non-detection of invoicing errors by the contractor. Per MCDOT staff, after follow up with the vendor, they determined that 2 of the 3 days had hours that were coded to the incorrect day and 1 of the 3 days had hours that were incorrectly charged to the County. The contract administrator should be reviewing all supporting information provided by the vendor to ensure hours being invoiced are reasonable compared to expectations of hours the garages are to be staffed per the contract.

Date	Hours Charged	Hours Over-Charged ⁴	Amount Over-Charged ⁵
05/16/2012	16.50	6.75	\$163.89

Date	Hours Charged	Hours over Expected FTE
06/06/2012	20.00	10.25
06/14/2012	15.50	5.75

Contract #9505506068AA – SERCO: Parking Enforcement Services

1) Invoice Review and Approval (Attribute A):

The supporting documentation provided by this parking enforcement vendor and retained by MCDOT was not adequate to support the cost allocation the vendor used in invoicing. The vendor provided invoice support consisted of a schedule of total hours worked by each of

⁴ Based upon average of 9.75 hours per day reported on invoice

⁵ Based upon rate of \$24.28 per hour per contract

the vendor's officers for the period being invoiced. However on the invoice, hours worked are allocated to two areas (Parking Lot Districts and Non Parking Lot Districts) using an agreed upon percentage. The cost allocation percentages used by the vendor were established at contract inception. However, the current contract administrator could not provide documentation detailing the agreed upon allocation percentages. We were unable to determine if the cost allocation on invoices tested were accurate. We did compare total hours between the support and invoice to ensure MCDOT was not invoiced for hours beyond what the vendor reported.

Per inquiry with the Program Managers and the Chief, Parking Operations, we determined that MCDOT developed an expectation of total hours and cost allocated between locations based upon the maximum FTE's the vendor should have deployed in each area. However there could be allowable instances in which the vendor workforce deployment would not be in accordance with the standard FTE allocation and that expected shift in workforce labor between areas would not be captured in the current invoicing cost allocation approach. For example, one segment of a parking lot district could be closed for parking for multiple days or months. This could lead to the patrol route of the vendors parking enforcement officer to be redirected to cover a non-parking lot district area instead of the officer's standard parking lot district route.

2) Contract Administration/Monitoring (Attribute E):

The contract administrator or the staff designated to observe the performance of the vendor did not document the performance of the observations. Currently the contract administrator performs unannounced visits to the vendor offices every six to seven weeks. While not required by the contract, evidencing the observations of work performed by the vendor helps establish the basis for approval of payment. The contract administrator can use the information from the observations to corroborate the fees being charged by the contractor.

Contract #1009604 – Transportation Action Partnership: North Bethesda Transportation Management District Grant Agreement

1) Contract Administration/Monitoring (Attribute B):

The vendor provides outreach regarding commuting options to businesses and workers in the North Bethesda Transportation Management District. The services provided range from commuter marking activities to data collection on commuter needs and habits. According to the terms of the contract, starting in 2012 the vendor is to submit a biennial report in the format provided by Commuter Services to include results of the Facility Inventory and Annual Commuter Survey performed by the vendor. The contractor and the MCDOT verbally agreed to postpone the delivery of the report to give the vendor more time to compile the required information. However, the agreement between the two parties was not formally documented in writing to support the change in contract terms.

Reporting Requirement as stated in the contract: Per Article 2 – Reports, Item B the contract, "*A biennial report must be submitted to MCDOT beginning in 2012 and each even-numbered year thereafter. An interim report of TMD⁶ commuting characteristics must be submitted in subsequent odd-numbered years.*"

⁶ TMD= Transportation Demand Management

2) Contract Administration/Monitoring (Attribute A):

Meetings held between the contractor, contract administrator and other MCDOT staff to discuss vendor performance and status of assigned tasks are not documented. Per the Contract Administration Course⁷, Chapter 3, Post Award Activities, Documentation; contract administrators should retain in contract files summaries of any meeting or telephone conversation with the contractor. Retaining such documentation in the contract file helps provided a trail of contract issues and steps taken to improve performance.

Contract #1508000137AA – Maryland Environmental Services: Trash Removal Services for Ride-On Bus Stops

1) Contract Administration/Monitoring (Attribute E):

The contract administrator or the staff designated to observe the performance of the vendor did not document the performance of the observations. Currently the contract administrator or her designees periodically follow the vendor while the vendor is performing trash collections to observe the performance of the vendor. While not required by the contract, evidencing the observations of work performed by the vendor helps establish the basis for approval of payment. The contract administrator can use the information from the observations to corroborate the fees being charged by the contractor.

Contract #8506030385AA – Lighting Maintenance, Inc.: Time and Material Electrical Services

1) Contract Administration/Monitoring (Attribute E):

The contract administrator or the staff designated to observe and inspect the performance of the vendor did not document the performance of the observations and inspections. Currently the contract administrators or his designees visit the vendor work sites daily. While not required by the contract, evidencing the observations of work performed by the vendor helps establish basis for approval of payment. The contract administrator can use the information from the observations to corroborate the time and material costs being charged by the contractor.

In addition, we had two observations from Phase 1 of our testing. The first observation related to the contract administrator's retention of documentation supporting approved contract amendments. The second observation related to the documentation of observation and inspection of vendor work. See Appendix A for full observation details.

Recommendations

We are making three recommendations to improve internal controls over the MCDOT contract monitoring and invoice review and approval process. Cherry Bekaert recommends that the Director of the Department of Transportation:

⁷ Source: Office of Procurement,

1. Reinforce with contract administrators the responsibility for reviewing the invoice detail and support for reasonableness of charges and for following up with the vendor on any charges deemed unreasonable or beyond expectations as set by the contract.
2. Reinforce with contract administrators and department staff the responsibility to retain all key documentation supporting items such as cost allocations to be performed by the vendor in support of invoices sent to the County.
3. Reinforce procedures for all MCDOT contract administrators or their designee that perform vendor observations or site visits or conduct meetings with vendors to document the performance of such contract monitoring procedures. Some best practices for documenting such actions include but are not limited to:
 - Signing off on work tickets/orders
 - Making notations on routine/standard daily or weekly activity reports
 - Using meeting agendas and taking minutes of meeting.

Comments and MCIA Evaluations

In discussing a earlier draft of this report with MCDOT officials they told us that they agreed with the proposed recommendations. We provided MCDOT with a draft of this report for formal review and comment on June 25, 2013 and MCDOT responded on July 9, 2013. MCDOT said it had no additional comments. (See Appendix B for MCDOT's response.)

Appendix A

The contract tested in Phase 1:

Vendor	Contract #	Description of Goods or Services	PO Amounts for FY12
Asplundh Tree Expert Company, Inc.	7506010024AA		\$7,080,510

The attributes tested and results from Phase 1

Table A1 – Attributes Tested for Contract Awarding

Attribute	Description	Exceptions for MCDOT
1	Determine if all documentation, per solicitation method, was included in submission package	0
2	Solicitation request met specified criteria	0
3	Determine DGS supervisor and management review was performed and documented (submission checklist)	0
4	Based on solicitation amount were proper formal or informal procurement procedures followed	0
5	Determine if there was proper cutoff on receipt of solicitations based on the solicitation due date	0
6	Determine if the department had proper management review and approval of award recommendations prior to submission to DGS (if applicable)	0
7	Determine if DGS performed review of the department's solicitation review and recommendation	0
8	Determine if DGS posted the award after approval of the award recommendation	0

Table A2 – Attributes Tested for Contract Administration/ Monitoring

Attribute	Description	Exceptions for MCDOT
1	Determine if a copy of the contract and all modifications are documented in the contract file	1
2	Determine if any correspondence concerning performance of the contract are documented in the contract file	N/A
3	Determine if status reports are documented in the contract file (if applicable)	N/A
4	Determine if invoices copies are documented in the contract file	0
5	Determine if contract has proper approval	0
6	Determine if amendments have proper approval	0

Attribute	Description	Exceptions for MCDOT
7	Determine if contract is properly monitored	1
8	Determine if contract and corresponding amendment(s) were approved in accordance with the Procurement Guide.	0
9	Determine if current contract cost exceed contract/PO cost	0
10	Determine if Contract Administrator has discussed project overrun with department management	N/A

Table A3 – Attributes Tested for Invoices Review and Approval

Attribute	Description	Exceptions for MCDOT
1	Invoice calculations are in accordance with the contract terms and accurate (foot and cross-foot)	0
2	Supporting documentation required by the contract was submitted with the invoice	0
3	Unallowable costs do not appear to be included in invoice submission	0
4	Invoice signed by Vendor (if applicable)	N/A
5	Invoice signed by Contract Monitor	0
6	Voucher approved by appropriate department person	0
7	Voucher approved by A/P	0
8	Amount per invoice agrees to amount paid	0
9	Invoice rates agree to contract rates	0

N/A = Attribute is non-applicable to contract

ASPLUNDH TREE EXPERT COMPANY INC

1. Contract Administration and Monitoring (Attribute 1): The MCDOT staff could not find one of the Amendments (Amendment #2) and was not aware of additional amendments beyond Amendment #3, which extended the contract to 9/20/10. Cherry Bekaert did obtain a copy of Amendment #2 and Amendment #4 from Office of Procurement. Amendment number #4 did extend the period of performance to 9/20/2011.
2. Contract Administration and Monitoring (Attribute 7): The department requires that one of 2 designated County employees visually inspect the contractor's work prior to approving the completion of a work order and turning it into the MCDOT staff to document completion of work. However the County employees do not evidence their inspection of work by signing or initialing the work orders. The performance of the inspection should be documented so that only those properly approved work orders are considered for payment on vendor invoices

Appendix B



DEPARTMENT OF TRANSPORTATION

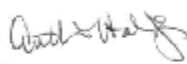
Isiah Leggett
County Executive

Arthur Holmes, Jr.
Director

MEMORANDUM

July 9, 2013

TO: Larry Dyckman, Manager
Office of Internal Audit

FROM: Arthur Holmes, Jr., Director 
Department of Transportation

SUBJECT: Response to MCDOT Contracting Report

As a follow-up to your request, the Department of Transportation does not have any comments to add to the draft final version of the report stated above. If you have any questions, please contact my office.

Thank you again for the opportunity to review the report.

AH:ta

Office of the Director

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