

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



**Contract and Grant Monitoring by
The Montgomery County Fire and Rescue Services**

June 5, 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 Montgomery County Fire and Rescue Services (MCFRS) is part of a series of five department audits to focus on the \$470 million of grant and contract spending unrelated to CIP and HHS. MCFRS FY12 purchase order spending under contracts was \$5.6 million or 1.19% of the \$470 million, which is the eighth highest department in Montgomery County overall.

What MCIA Recommends

MCIA is making four recommendations to MCFRS in order to improve the performance and enhance the existing internal controls pertaining to contract monitoring. MCFRS concurred with the recommendations and said it was in the process of or already had taken action to ensure that the weaknesses we observed will not reoccur.

June 2013

Contract and Grant Monitoring by the Montgomery County Fire and Rescue Services

What MCIA Found

The Montgomery County Fire and Rescue Services (MCFRS) has adequately designed and implemented procedures and internal controls for contract monitoring and invoice review and approval. However, some controls procedures are not performed as designed and therefore not as effective as possible. In testing eight contracts, we found three contracts with four errors in our testing of contract monitoring. We found two contracts with three errors in our testing of invoice review and approval.

We found internal controls over invoice review and approval and contract monitoring could be improved to ensure the following; (1) vendors are compliant with contract requirements such as background checks and adherence to federal regulations; (2) contract administration duties are formally re-assigned when there is turnover in staff performing those duties and responsibilities; (3) department staff are always following department procedures for validating the receipt of goods delivered to fire stations and storage locations and that the required documentation is properly forwarded for matching to purchase orders and invoices; (4) documentation of department monitoring of vendor performance, including meetings held to discuss such issues.

TABLE OF CONTENTS

Objectives 1

Background..... 1

Scope and Methodology 2

Results 3

Recommendations 8

Comments and MCIA Evaluation..... 8

Appendix A..... 10

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 Montgomery County Fire and Rescue Services (MCFRS). 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.

Background

Contracting Activity in Fiscal Year 2012

In FY12, MCFRS was the eighth highest department in purchase order spending under contracts. MCFRS had approximately 1.19% (\$5.6 million) of the total FY12 expenditure for Non-HHS and Non-Capital purchase orders issued. A total of 81 contracts were in effect during FY12 ranging from \$615 to \$989,587. MCFRS contracts in effect tended to consist of the purchase of: medical equipment and supplies, personal services such as a medical director, counselors, fitness equipment, vehicles, and maintenance (janitorial and vehicle).

Invoice Review and Approval

Contract administrators receive invoices directly from vendors. The contract administrator reviews the invoice for compliance with contract terms and accuracy of fees charged. Contract administrator's either sign or initial the invoice or the invoice cover sheet to evidence their approval of the invoice in accordance with department issued written guidance on invoice review and approval. The approved invoice is forwarded to the MCFRS Procurement Section for processing in the County's financial system. The Procurement Section Manager is the financial approver of department invoices in Oracle. The Procurement Section Manager is ultimately responsible for the approval of all invoices, but may assign a designee to engage the actual approval. Invoice supporting documentation is filed by the Procurement Section. Per County policy, any invoice over \$10,000 must also be submitted for approval to Accounts Payable personnel in the Department of Finance.

Per MCFRS guidelines issued two years ago, department storage location and fire station staff are to compare goods received at those locations to vendor packing slips. The staff member performing the comparison is to sign or initial the packing slip to evidence the performance of the comparison and the results. Signed Packing lists are forwarded to the respective contract administrator for matching to purchase orders and vendor invoice. Once the three way match is complete the contract administrator will follow the above procedures to approve the invoice for payment.

Scope and Methodology

We reviewed 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 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 from 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 contracts in the MCFRS. In Phase 2, we reviewed MCFRS contracts totaling \$1.99 million or 36% of the total purchase orders issued for the department during FY12.

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 the Office of Procurement, Cherry Bekaert initially selected 15 contracts for discussion with department staff using the following criteria:

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

Cherry Bekaert and MCIA met with MCFRS 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. For contracts that had multiple task orders, we selected one task order for testing.

Table 1 – Contract Sample Selection for Phase 2

Vendor	Contract #	Description of Goods or Services	PO Amounts for FY12
Brown Industries LLC (Brown Specialty Vehicles)	1007419	Urban Area Security Initiative Vehicles	\$989,587.40
Bound Tree Medical LLC	1000126	EMS Medical Supplies	\$384,442.00
Roger M. Stone MD	9454000176AA	EMS Medical Director	\$141,120.00
Physio-Control, Inc.	7451001083AA	Defibrillators	\$135,661.00
Fitness Resource	1017750	Purchase Order for Fitness Equipment	\$128,670.03
Maryland Fire Equipment Corp	1007226	Personal Protective Ensemble Elements Garments and Inspection	\$80,000.00
Alliant Insurance Services, Inc.	1013662	Insurance Broker Services	\$70,000.00
Chrysalis Group, Inc.	1015874	Counseling and Intervention to Juvenile Fire Starters	\$63,000.00
Total			\$1,992,480.43

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	Additional Supporting Documentation Present (packing slips, etc.)

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 6 of 8 contracts. Three contracts had exceptions with 2 of the 7 attributes tested for

contract monitoring or a 7.1% error rate¹ . Two contracts had exceptions with 3 of the 9 attributes tested for invoice review and approval or a 4.6% error rate².

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	2	8	25%
B - Reviewing of contractor status and performance reports	0	8	0%
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	0	8	0%
F - Monitoring procedures performed in accordance with contract terms	2	8	25%
G - Identification and reporting of contract problems timely	0	8	0%
Total Exceptions	4		
Total Samples	8		
# of Samples with Exceptions	3		

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	0	8	0%
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	6	0%
E - Invoice approved by Contract Administrator/ Task Order Manager	1	8	13%
F - Voucher approved by appropriate finance department person	0	8	0%
G - Voucher approved by A/P	0	8	0%

¹ Contract Monitoring Error rate : Total number of exceptions noted (4)/ Total number of attributes tested (56)=7.1%

² Invoice Review and Approval error rate : Total number of exceptions noted (3)/ Total number of attributes tested (65)=4.6%

Attribute Tested	Total Exceptions Per Attribute	Sample Tested Per Attribute	% Exceptions Per Attribute
H - Amount per invoice agrees to amount paid	0	8	0%
I –Additional Supporting Documentation Present (packing slips, etc.)	1	3	33%
Total Exceptions	3		
Total Samples	8		
#of Samples with Exceptions	2		

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

Contract #1015874 Chrysalis Group, Inc.: Counseling and Intervention to Juvenile Fire Starters

1) Contract Administration/Monitoring (Attribute F):

The contract administrator had not ensured that the vendor staff had been subject to a background check as required by the contract. In addition, the contract administrator had not sought or obtained support as to how the vendor is ensuring adherence to required federal regulations required by the contract.

Per Attachment C, items 2, 3, and 5 (respectively):

- *“The Contractor must adhere to all requirements of the Juvenile Justice and Delinquency Prevention Act including the provision of not discriminating against disadvantaged juveniles.”*
- *“The contractor agrees to and must comply with Title 28 of the Code of Federal Regulations on confidentiality of Identifiable Research and Statistical Information and maintain a copy of same on premises. Each employee of the contractor or any subcontractor must be responsible for being familiar with the regulations and contents.”*
- *“All Contractor personnel associated with the program must submit to a full background investigation including a criminal record check. Persons with a criminal record must be disqualified for employment under this contract.”*

MCFRS management acknowledged that the background checks were not performed due to a misunderstanding of who had responsibility to ensure performance the checks. There was an assumption by MCFRS, that the background checks were performed as part of the contract award process. The contract administrator told us that they relied on program partners from the Maryland Department of Juvenile Justice and the Juvenile Court to ensure the contractor compliance with the contract regulations. However no formal procedures were established with the partners to ensure they were aware of the contractor administrator’s reliance on them to provide notification of non-compliance with requirements.

Due to the nature of the contract and the scope of working closely with children, it is important that background checks be administered as required by the contract and MCFRS verifies that the contractor is complying with required federal regulations.

Contract #1017750 Fitness Resources: Purchase Order for Fitness Equipment

1) Contract Monitoring (Attribute A and F):

MCFRS did not adequately monitor the vendor's performance pertaining to order delivery. We noted the department had ordered equipment in July 2011 and it was not delivered until December 2012. Per the contract all deliveries of non-stock items were due within 45 days of ordering.

Per Article VIII, Special Terms and Conditions, paragraph 8, Delivery:

- Delivery shall be FOB, Destination, Inside Delivery, Freight Prepaid and Allowed. For in-stock items, delivery shall be within five (5) calendar days after receipt of purchase order or release against a blanket purchase order. For non-stock items, delivery shall be within forty-five(45) calendar days after receipt of purchase order or release against a blanket purchase order, unless the original equipment manufacturer specifies in writing a longer delivery period.

Per interviews with MCFRS staff, there were three staff members who each had responsibility for one aspect of working with the vendor from placing equipment orders, to confirming receipt of goods ordered and to communicating issues to the vendor. However during the period of delayed delivery, documentation was not retained to support the follow up communication with the vendor regarding late delivery or overall service issues. Staffing turnover in the department led to a lapse in the contract administration duties being performed for this vendor. While various members of the department staff were aware of the vendor issues, there was no clear designation of contract administration duties to one staff member. After our completion of field work, MCFRS management did designate a staff member as contract administrator.

Purchasing the fitness equipment is a requirement under the current agreement with the Montgomery County Career Fire Fighters Association of the International Association of Fire Fighters Union. There is risk of non-compliance with the union agreement if required equipment is not available for union members to use.

Contract #1013662 Alliant Insurance Services Inc.: Insurance Broker Services

1) Invoice Review and Approval (Attribute E):

There is a lack of evidence supporting the contract administrator approval of the vendor invoice. The contract administrator signature or initials were not on the copy of the invoice provided for testing. We were unable to determine if the contractor administrator approved the invoice for payment processing.

The vendor assisted the department in assessing coverage of vehicle and liability policies as well as providing status updates of outstanding claims. The vendor also provided expertise in advising the County regarding policy additions and claims.

Evidence of contract administrator approval of an invoice indicates that services provided by the vendor have been deemed acceptable and the County should compensate the vendor for work performed.

Contract #1000126 Bound Tree Medical LLC: EMS Medical Supplies

1) Invoice Review and Approval (Attribute C and I):

There is a lack of consistency in the performance of department procedures for forwarding packing slips to the EMS section for matching to purchase orders and invoices for EMS medical supplies. We observed missing packing slips or other delivery verification for three of the eight invoices included in our sample. Per the EMS section staff, efforts are made to obtain the packing slips or other corroboration of delivery (email or voice); however the department staff is not consistently following newly implemented department procedures.

Per MCFRS management, two years ago department staff was given written guidance requiring that upon delivery, goods such as supplies are to be validated against the packing slip. MCFRS management indicated that implementation of the new procedures was continuing and that efforts were made to obtain the required documentation prior to payment. The staff member performing the validation should sign the packing slip. The packing slip should then be forwarded to the appropriate Assistant Chief for matching against the purchase order and invoice. Without the validated packing slip the Assistant Chief may not be able to determine if the County has been properly invoiced for goods received.

Invoice Number	Items not Supported	Amount not Supported	Invoice Amount	Percentage not Supported
80727074	7	\$59.91	\$59.91	100%
80778040	161	\$1,393.63	\$1,393.63	100%
80686018	17	\$883.34	\$884.33	99.8%
Total		\$2,341.88	\$2,337.87	

2) Contract Administration/Monitoring (Attribute A):

Meetings held between the vendor, contracts administrator and other MCFRS staff to discuss vendor performance are not documented. The contract administrator and other MCFRS staff met with the vendor to discuss performance issues and the vendor agreed to address MCFRS concerns, however no documentation was retain detailing the actions to be taken by the vendors improve performance.

According to training material in a Contract Administration Course offered to County employees³, 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 provide a trail of contract issues and steps taken to improve performance.

Recommendations

We are making four recommendations to improve internal controls over the MCFRS contract monitoring process. We recommend that the Chief of Fire and Rescue Services:

1. Reinforce with contract administrators the responsibility of ensuring vendors comply with all contract requirements, the need to develop a working knowledge of all contract requirements and to evidence their review and approval of vendor invoices. Additionally, regarding the Chrysalis Group contract, require the contract administrator coordinate with applicable department staff or other County departments to have background checks performed on vendor staff as required by the contract.
2. Reinforce with department management the importance of formally re-assigning contract administration duties when there is turnover in staff positions performing those duties and responsibilities.
3. Reinforce with contract administrators and department staff the responsibility to follow department procedures and ensure documentation supporting the delivery of goods are retained and forwarded to the proper section or individual for inclusion in the review and approval of invoices.
4. Develop and implement department guidance for contract administrators or their designees regarding documenting meetings with vendors to evidence the performance of such contract monitoring procedures and the topics discussed with vendors.

Comments and MCIA Evaluation

We provided MCFRS with a draft of this report for review and comment on May 3, 2013 and MCFRS responded with comments on May 17, 2013. The response received had been incorporated in the report at Appendix A. MCFRS concurred with the recommendations in the report and said it was in the process of or already had taken action to ensure that the weaknesses we observed will not reoccur. MCFRS also stated that at the time of the audit, it had just implemented several newly engaged processes, particularly as applicable to medical supplies procurement. MCFRS added that since then, its personnel have acclimated and with the implementation of several additional

³ Source: Office of Procurement.

procedural adjustments, compliance has dramatically improved. We have not retested MCFRS' compliance since completing our audit work.

Appendix A



MONTGOMERY COUNTY FIRE AND RESCUE SERVICE

Isiah Leggett
County Executive

Steven E. Lohr
Fire Chief

MEMORANDUM TO: Mr. Larry Dyckman – Manager, Office of Internal Audit
FROM: Fire Chief Steve Lohr – Montgomery County Fire and Rescue Service
SUBJECT: Response – Internal Audit Report on Contract and Monitoring
DATE: May 15, 2013

At your request, my staff and I have compiled a formal response to the preliminary report on the Montgomery County and Fire Rescue Service (MCFRS) and the evaluation of our grant and monitoring processes. Attached herein are substantive comments with additional commentary already submitted, in “Track Changes” format, in the *Word* file I transmitted on May 8, 2013.

Recommendation #1: Reinforce with contract administrators the responsibility of ensuring vendors comply with all contract requirements, the need to develop a working knowledge of all contract requirements and to evidence their review and approval of vendor invoices. Additionally, regarding the Chrysalis Group contract, require the contract administrator coordinate with applicable department staff or other County departments to have background checks performed on vendor staff as required by the contract.

The MCFRS acknowledges this recommendation and will undertake future steps to ensure our contractual obligations are fulfilled relative to conducting and ensuring appropriate background checks for our vendor staff. Further, and as a department, we are committed to enrolling all future contract administrators in the county offering for contract administration classes.

Recommendation #2: Reinforce with department management the importance of formally re-assigning contract administration duties when there is turnover in staff positions performing those duties and responsibilities.

Again, the MCFRS acknowledges the importance of re-assigning critical functions relative to contract administration. Steps have been taken to ensure contingencies are in place to manage similar instances in the future.

Recommendation #3: Reinforce with contract administrators and department staff the responsibility to follow department procedures and ensure documentation supporting the delivery of goods are retained and forwarded to the proper section or individual for inclusion in the review and approval of invoices.

Office of the Fire Chief

100 Edison Park Dr., 2nd Floor, Gaithersburg, Maryland, 20878
Serving with dedication, courage and compassion

(continued) The MCFRS is committed to assuring the adherence to all policies and procedures applicable to the procurement process including applicable and accurate recordation processes. At the time of this audit, several newly engaged processes had just been implemented in the MCFRS, particularly as applicable to medical supplies procurement. Since that time, our personnel have acclimated and with the implementation of several additional procedural adjustments, compliance has dramatically improved. It remains our steadfast commitment to further improve our compliance as it pertains to this recommendation.

Required Attention: During the course of our review, my staff identified several numeric errors which require addressing, prior to the final report's issuance.

- 1) On Page 2, in Paragraph 1 (under Scope and Methodology), reference is made to this audit having reviewed MCFRS contracts totaling "1.92 million...". Totaling the purchase order amounts for Fiscal Year 2012, cited in "Table 1" on the same page, a more accurate total of \$1,992,480.40 is calculated.
- 2) In the same paragraph as referenced above, the rounded percentage, based on a corrected purchase order total, would be nearer thirty-five and one-half (35.5).
- 3) "Table 1 – Contract Sample Selection for Phase 2," at the bottom of Page 2, must be corrected to reflect an accurate total of \$1,992,480.40.

Thank you again for providing us an opportunity to comment on this preliminary report. It remains our intent to apply these recommendations in a manner which improves our procurement processes while fully supporting the critical variables associated with accountability and recordation. As always, please feel free to contact me with any questions or concerns at 240-777-2451.

SEL:jd

cc: Division Chief Diane Zuspan – Chief of MCFRS Administrative Services
Assistant Chief Scott Graham – Executive Officer, Office of the Fire Chief
Mr. Dominic Del Pozzo – Senior Budget Analyst, Office of the Fire Chief