

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



**Contract Management Audit
Montgomery County Department of Recreation**

February 21, 2025

Highlights

Why MCIA Conducted this Audit

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

The Contractor has two active contracts with the County, each managed and administered by the Montgomery County Department of Recreation (REC).

REC is responsible for contract management duties including ensuring funding is disbursed to support programs and initiatives defined within the respective contract scopes of service, and ensuring the Contractor adheres to the specifications, terms, conditions, and price documented in the respective contract.

The audit focused on the following within REC:

1. Processes and controls when managing the in-scope contracts.
2. Compliance with respective contract terms and County requirements.
3. Compliance with respective contract scopes of service.

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

February 2025

Contract Management Audit

What MCIA Found

REC contract management operations include processes and procedures designed to comply with contractual terms, scopes of service, and County requirements.

However, opportunities exist for REC to improve its processes and compliance efforts.

MCIA identified five areas of improvement to strengthen processes and compliance activities within REC.

1. Development of department-specific policies and procedures.
2. Workload distribution of contract management responsibilities.
3. Alignment with County Accounts Payable policy requirements.
4. Enhanced retention of supporting documentation provided by the Contractor.
5. Enforcement of executed contract terms to ensure contractor/vendor compliance.

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Objectives

This report summarizes the results of an audit of Montgomery County Government's (County) contract management processes related to two contracts between the Montgomery County Department of Recreation (REC) and a selected Contractor.¹ (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 objectives of the audit were to:

1. Evaluate County departmental processes and controls for managing the selected Contractor's contracts.
2. Evaluate County departmental processes and controls for complying with contractual terms, County requirements, and contractual scopes of services.

Background

Montgomery County Department of Recreation (REC) Background

REC provides inclusive quality recreation programs and activities that serve the recreation and leisure needs of the community. These programs include out-of-school activities, aquatics classes, youth and adult sports programs and leagues, senior programs, and therapeutic recreation that enhance the quality of life for participants of all ages, cultures, and abilities. REC manages 40 facilities including an administrative headquarters, community and neighborhood recreation centers, senior centers, and indoor and outdoor aquatic facilities.²

REC is organized into three sections:

1. Administration, including Business Services, Technology Services, and Communications & Public Outreach
2. Programs, including Countywide Programs, Senior Facilities, and Youth Development
3. Facilities

REC has entered into over 600 (as of September 2024) contracts with contractors/vendors across the County to provide various goods and services needed by the department to achieve its objectives and perform daily operations. One Program Manager II within Business Services is the designated contract administrator for these contracts and is responsible for the execution, administration, and monitoring of all contracts within REC.

REC currently manages two contracts with the selected Contractor, referred to in this report as Contract 1 and Contract 2.

Contract 1

The Contractor was awarded Contract 1 to perform certain activities and fund grants "to support and assist arts organizations and artists within Montgomery County." Specifically, *Section II – Scope of Services* of the contract states the Contractor "must:

- A. Maintain a database of arts groups in Montgomery County;
- B. Provide a counseling and referral service for artists and arts organizations to assist them with acquiring grant funding, marketing support and assistance with program development;
- C. Provide information to artists, arts organizations and the public through a periodic newsletter and calendar of arts events;

¹ The contractor's name has been replaced with "Contractor" in the report and contract language references. Further, the labels "contractor" and "vendor" are used interchangeably throughout this report.

² Montgomery County Department of Recreation Website (<https://www.montgomerycountymd.gov/rec/>).

- D. Plan and manage special events (which include arts shows, performances, fairs and festivals) to promote the arts in Montgomery County;
- E. Provide volunteer art "juries" on an as needed basis for implementation of County projects involving the arts;
- F. Conduct workshops and seminars related to the arts;
- G. Provide assistance to programs which bring arts to disadvantaged [sic] populations within Montgomery County;
- H. Designate and convene a grant panel twice each County fiscal year to award the sum designated within this Contract for grants to individual artists and arts organizations, including, but not limited to Cultural program [sic], Artist Fellowships and Project Grants, in Montgomery County, and;
- I. Distribute and monitor grants to arts and humanities organizations listed in this agreement, and which have been approved in Council Resolution 17-7 43."

Section IV – Invoices of the contract states, but is not limited to, the following:

- A. "With respect to administrative costs, the Contractor must submit an invoice in a form acceptable to the County which must meet, at a minimum, the following requirements:
 - 1. The invoice must be submitted on a monthly basis to the Contract administrator by the 15th of the following month. This invoice must include the Contractor's monthly statement of Financial Position; and
 - 2. Each monthly invoice must not request payment of more than one-twelfth of the total yearly maximum amount allowable for administrative expenses.
- B. With respect to all goods, services, and grants required under this Contract (excluding the funding for administrative costs, addressed in Section III, A. I) the Contractor must submit a quarterly invoice, due within 15 days following the end of the quarter, to the County's Contract Administrator. The invoice must include a listing of all recipients and the amounts received for grant funding disbursed under this Contract and a listing of all administrative costs incurred with respect to the disbursement of the grant funds."

Contract 2

The Contractor was awarded Contract 2 to support designated art services administered throughout the County. Specifically, *Section II. Scope of Services, Subsection A* states the Contractor, in consultation with Montgomery County Public Schools, Montgomery College, Montgomery County Parks Commission, and REC, will provide the County with the following:

- 1. "Acquisition of permanent and temporary installations of works of art, to include:
 - a. Recommending sites for permanent and temporary installations of works of art;
 - b. Inviting submissions from artists;
 - c. Selecting, on a competitive basis, works of art to be recommended to the County for acquisition;
 - d. Overseeing installation of the works of art;
 - e. Holding special openings for works of art;
 - f. Overseeing de-installation of temporary exhibits;
 - g. Obtaining two independent appraisals for each work of art to be purchased by the County, if requested by the County, and;
 - h. Maintaining the current stock of public art in Montgomery County."

Section IV. Invoices, states "The Contractor must submit an invoice in a format acceptable to the County on a monthly basis. The invoice must reflect actual hours of service provided, and with respect to all requests for reimbursement, must be supported by appropriate documentation that supports the request for reimbursement of costs including documentation such as itemized receipts. Invoices must be submitted to the County's Contract Administrator."

Invoice Review and Approval

The Contractor submits invoices directly to REC's payables email address. REC's Business Services Manager manages the email address and provides received invoices to REC's Office Services Coordinator (OSC). The OSC then reviews the invoices and support to verify the goods/services align with the scope of services outlined in the respective contract. Evidence of review is documented on the invoice via the OSC's signature and date of review. The OSC then submits reviewed invoices to the Program Manager II for review and approval. The Program Manager II is the official "True Approver" and is ultimately responsible for ensuring the invoiced goods/services are in-scope and accompanied by the appropriate supporting documentation. Evidence of approval is documented on the invoice via the Program Manager II's signature and date of approval. The Program Manager II submits approved invoices to the Accountant/Auditor III, who also serves as the Oracle Receiver, for payment. The Accountant/Auditor III enters the approved invoices into Oracle, the County's third-party enterprise resource planning (ERP) system, for payment.

Accounts Payable Processing

County Accounts Payable (AP) reviews approved invoices within Oracle to ensure the invoices are in line with the County AP Policy. Invoice information within Oracle is compared to supporting documentation uploaded as attachments in Oracle. County AP may contact REC to obtain additional support/information, as necessary. Once reviewed, the invoice is approved by County AP, and payment is remitted to the Contractor via check or automated clearing house (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. REC contracts:
 - a. Contract 1
 - b. Contract 2
2. Time periods:
 - a. Transactions: The audit tested transactions from June 29, 2022, through June 30, 2024.
 - b. Contract management process: The audit evaluated the current state of REC contract management processes for the in-scope contracts.
3. County policies:
 - a. Accounts Payable (AP) Policy – 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 REC to understand their current contract monitoring procedures and controls for the selected 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 list of information needed to perform the test steps developed during process understanding, 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 both contracts. The samples were selected from a report of transactions dated from June 29, 2022, through June 30, 2024. SC&H utilized both judgmental and random selection methods for sampling.

Internal Control Testing

SC&H performed the following:

1. 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.
2. Contract Monitoring: Reviewed documentation, where applicable, and documented improvement opportunities based on inquiry with REC.

Contract Term and County Requirement Testing

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

Contract Scope of Services Testing

Contract scope of services testing consisted of reviewing the scope of services between the contract 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.

Validation

The preliminary test results were compiled and confirmed with REC, County AP, and the IA Manager.

Findings and Recommendations

Results

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

To provide an appropriate context for the findings concerning REC's contract management processes (including invoice processing) that follow, it is appropriate to point out an effective contract management process and control environment consists of a multi-layered approach: (1) Countywide policies and processes developed, promulgated, and administered by corporate offices (such as the Office of Procurement and the Department of Finance); (2) department-level policies and processes that need to be developed, documented, and implemented at each department consistent with the Countywide policies and processes; (3) application of the department policies and procedures to specific contracts; (4) compliance by each contractor/vendor with the contract terms and requirements; and (5) enforcement by the contract administrator and department of the contract terms and requirement. This review identified findings and risks at multiple levels that are discussed below and that should be addressed to help ensure (a) the Contractor is adhering to contractual terms and (b) the County is paying for goods/services expected and as agreed upon.

The audit yielded five findings specific to departmental operations with eight supporting recommendations. This audit focused on two contracts administered by REC, and therefore, the following findings are specific to the two in-scope contracts the County manages with the Contractor. While the findings do not necessarily extend to all contracts managed by REC. REC should consider the potential for the applicability of the findings to other REC contracts when addressing recommendations and implementing management process and control changes.

Finding 1: Lack of Documented Policies and Procedures

Background

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

1. Invoice receipt, review (e.g., supporting documentation, recalculations, and areas of focus), and approvals.
2. System entry and approvals.
3. Reconciliation performance (e.g., support to system information) and approvals.
4. Contract monitoring, reporting, support, etc. issue identification, communication, and resolution activities.
5. Policies and procedures, training, and governance.

Finding

SC&H requested REC documentation, conducted process understanding interviews, and documented risks and controls via a process narrative and risks and control matrix. Based on the control design evaluation performed, REC does not have established policies and procedures detailing invoice processing and contract management control activities and responsibilities. Although REC updated invoice processing procedures in May 2024 to adhere to the County AP Policy, REC has not established or issued policies and procedures detailing the department's invoice processing procedures.

Risks

Lack of documented 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 1.1

REC should develop department-specific policies, procedures, and trainings to formally document contract management and the roles/responsibilities of the Contract Administrator within the department. These policies and procedures should be consistent and align with related County policies.

County policies typically present specific definitions of requirements and guidance for departments to manage their invoicing operations. However, there are supplemental criteria departments are expected to build into their own processes and operations, to support the requirements and guidance. These criteria, sometimes in the form of internal controls, offer departments operational flexibility, while maintaining compliance and mitigating related risks. For instance, REC should consider the following based on County policy.

1. Invoice processing: REC should develop contract management and invoice review/approval/processing policies and procedures in alignment with the County AP Policy requirements.
2. Contract management:
 - a. The County's policies related to contract management are largely provided by the Office of Procurement ("Procurement") in summary format. For instance:
 - i. Chapter 11B of the Montgomery County Code provides County regulations related to solicitations and high-level contract management guidance.
 - ii. Procurement Guide: Section 9 (Contract Administration Responsibilities) provides bulleted information related to the responsibilities of the Contract Administrator following the execution of a contract.
 - b. Procurement also provides resources on its intranet site to assist with contract management responsibilities. These include guidance documents, templates, checklists, and other resources detailing contract management and key procedural steps.
 - c. REC should use the information provided in 2.a.i, 2.a.ii, and 2.b above as guidance to develop risk-based, control driven processes to manage contracts, and should document these policies and processes. As the information is more general in nature, REC should also consider aligning certain operations, when relevant, into its redesigned invoice processing operations. For example, when review/approving invoices, REC should ensure the review addresses contractual terms, scope of services, etc. prior to authorizing for payment.

REC should ensure that any changes in County policies as they apply to contract management operations are reflected in department policies, procedures, and trainings.

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 performed when developing/executing contracts with Contractors.

Finding 2: Contract Administration Workload

Background

As noted above, an effective contract management process and control environment consists of a multi-layered approach. The County relies on its departments and personnel to conduct effective procedures to mitigate the risks against contractual noncompliance and inappropriate contractor/vendor payments. The audit identified a cross-cutting condition that could increase risks for contractor/vendor noncompliance with contractual terms and the potential the County could pay for goods/services not consistent with the contract terms.

Finding

As of September 2024, REC has one Program Manager II who oversees compliance for over 600 active contracts, including the two in-scope contracts for this audit. Responsibilities include those stated in this report and include, but are not limited to, communicating with County departments and contractors/vendors, facilitating intake and vetting potential contractors/vendors, obtaining contractor/vendor insurance, ensuring compliance by the contractor/vendor with contractual terms and taking appropriate enforcement action when required, etc. The Program Manager II is also responsible for performing other assigned responsibilities.

Many of the findings that are discussed below could be attributed to an imbalance between the workload required to effectively manage contracts and ensure contract compliance relative to resources assigned to manage the contracts.

Risks

Failure to ensure adequate contract administration resources required to effectively oversee contractor/vendor performance increases the following risks to the County:

1. Failure to ensure contractor/vendor compliance with contractual terms, resulting in damage to reputation and failure to receive all contracted goods/services.
2. Unauthorized and inappropriate goods/services being paid for using County funds.
3. Failure to track contract expiration dates, resulting in service interruptions and loss of favorable terms.

Recommendation 2.1

REC should assess its current contract administration resources relative to the workload (including such considerations as number of contracts, invoices, and contract reporting requirements) to determine whether there are adequate contract administration resources available and assigned to effectively administer the number of contracts for which REC is responsible. If there are insufficient contract administration resources available/assigned to effectively manage the current and projected REC contract workload, REC should take appropriate steps (e.g., reallocate and/or reassign contract administration duties, and/or seek additional contract administration resources through the budget process) to address the identified workload imbalance.

Finding 3: Contractor Invoice Review and Approval Exceptions

Background

Invoices submitted for payment by the Contractor must be reviewed and approved in adherence with the County AP Policy.

The County AP Policy provides guidance related to the adequacy of support to be obtained from contractors/vendors, as well as the signatures evidencing approval of individual invoices. Specifically, the County AP Policy states the following:

Finding 3: Contractor Invoice Review and Approval Exceptions

1. Section 5. Receiving Goods and Services of the AP Policy states, "At a minimum, segregation of duties requires that the following tasks be performed by different people:
 - Authorizer of purchase and/or approver of invoice
 - Receiver - Verifier of goods or services
 - Invoice processor - Enters invoice in Oracle....The notation near the signatures of "Received" and "Approved" as appropriate, or similar terms may be handwritten, electronically notated, stamped, or affixed by another means. The signatures, however, must be manual or electronic, not affixed by a stamp or similar means."
2. Section 6. Invoice Requirements and Approvals of the 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."

Finding

SC&H reviewed 13 sample transactions to verify adherence to the requirements for invoice review and approval within the County AP Policy. SC&H identified the following exceptions:

1. Prior to May 2024, REC did not adhere to the County AP Policy in regard to invoice review and approvals. Specifically, REC did not sufficiently document the review and approval of the True Receiver and True Approver on vendor invoices received from the Contractor.
 - a. 10 of 13 invoices reviewed did not clearly document signatures of the True Receiver and True Approver reviewing the invoice prior to payment.
2. There does not appear to be a process for formally verifying the receipt of goods and services performed and invoiced by the Contractor. Invoices received are reviewed and approved by members of REC staff who may not have detailed knowledge of ongoing projects being performed by the Contractor. For example, REC staff do not currently visit community sites with installations supported by the funding provided to the Contractor to ensure they meet the scopes of services set forth within REC's contracts with the Contractor. Invoices are reviewed as received, along with profit and loss statement support. With the exception of grant invoices, invoice support does not include information related to ongoing programs and evidence of the installations being supported by County funds. As a result, there does not appear to be a method to effectively confirm the proper use of County funds as they relate to the in-scope contracts.

In May 2024, REC met with the County AP Manager to review the process for documenting approval on contractor/vendor invoices and implemented additional procedures to more sufficiently document the True Receiver and True Approver on invoices processed for payment.

SC&H reviewed three invoices submitted to REC from the Contractor during and following May 2024 to ensure updated procedures were implemented and evidence of the True Receiver and True Approver were adequately documented on the Contractor's invoices. No exceptions were identified during the review procedures.

Risks

1. 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.

Finding 3: Contractor Invoice Review and Approval Exceptions

Failure to follow required segregation of duties policies and requirements can increase the risk of:

- a. Lack of sufficient evidence of review of the Contractor's invoices resulting in the County paying for goods/services not received and/or remitting payment to the Contractor prior to receiving a fully approved invoice. This could further lead to misappropriation of department funding/budget due to an inappropriate/unapproved invoice being processed for payment.
 - b. Payment may not be remitted to the Contractor timely, due to AP being unable to verify an invoice was appropriately reviewed and approved by department personnel, as outlined in the County 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.
2. Lack of formalized procedures and effectively monitoring to confirm proper use of County funds could result in improper contract usage.

Recommendation 3.1

REC should formalize this process by documenting the recently implemented processes and controls to ensure all invoices are reviewed and approved in accordance with the County AP Policy. When documenting and implementing the controls, REC should consider:

1. Ensuring adequate segregation of duties exist and are effective.
2. Consulting with County AP to ensure alignment with the County's documented policy.

Recommendation 3.2

REC should ensure that the documented and implemented processes and controls referenced in Recommendation 3.1 are implemented across all contracts administered by REC.

Recommendation 3.3

REC should establish a process for documenting the appropriateness of goods/services invoiced by the Contractor and/or require them to provide a status report/details related to the goods/services included in monthly invoices. Verification of the appropriateness of goods/services invoiced could include, but is not limited to:

1. Establishing a process for the OSC and or REC staff visiting sites and documenting the results of their inspection to be included with invoice support. This may include a statement on the face of the invoice indicating the date goods/services were received and that items were reasonable and in accordance with the terms of the contract.
2. Implementing a process for Program Managers to sign off on invoices as the True Receiver to indicate their confirmation of the appropriateness of items invoiced.
3. Establishing a requirement for the Contractor to provide a status report and/or justification of items invoiced as part of the invoice package submitted to REC.

Finding 4: Documentation Maintenance Exceptions

Background

Within both contracts managed by REC, there are requirements related to support required to be provided with invoices submitted to REC. Specifically, they state:

1. Contract 1, *Section IV. Invoices, Subsection C*: "With respect to grants for Operating Support, the Contractor must disburse funding, in accordance with Attachment A, within 14 days of the receipt of an approved invoice from that organization. The Contractor can then invoice the County for those funds."
2. Contract 2, *Section IV. Invoices*: "The Contractor must submit an invoice in a format acceptable to the County on a monthly basis. The invoice must reflect actual hours of service provided, and with respect to all requests for reimbursements, must be supported by appropriate documentation that supports the request for reimbursement

Finding 4: Documentation Maintenance Exceptions

of costs including documentation such as itemized receipts. Invoices must be submitted to the County's Contract Administrator. The County will make payment to the Contractor within 30 days after receipt, approval and acceptance of the Contractor's invoice and supporting documentation."

Similarly, both contracts require the Contractor to submit periodic status reports to the County detailing work performed and ongoing initiatives that are being undertaken utilizing County funds. Both contracts provide further guidance related to the cadence of reporting.

Specifically, they state:

1. Contract 1, *Section VI. Reports*: "On or before July 15th, the Contractor must furnish the County with a year-end report including a summary and accounting, by program activity, of the expenditures made under this Contract. This report must include either a certification by the Contractor's Director that the information contained in the report is true and correct, or an audit statement by a certified public accountant indicating that the Contractor's report fairly represents the activities of carried out under this Contract."
2. Contract 2, *Section VI. Reports*: "The Contractor must submit progress reports on January 30 and June 30 to the Contract Administrator describing the results achieved with the funds provided under this Contract. This information will enable the contracting department (the Department of Recreation) to submit required reports".

Finding

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

1. Invoicing
 - a. Contract 1: 11 of 11 sampled invoices reviewed did not include support evidencing the Contractor's disbursement of funding to organizations within 14 days of receipt of organizational invoices. Per Contract 1, the Contractor must disburse funding to organizations prior to invoicing REC for reimbursement of the funds. Per inquiry, REC does not maintain or request evidence of payment remittance by the Contractor to organizations who receive grant funding.
 - b. Contract 2: Two of two sampled grant invoices submitted by the Contractor did not include supporting documentation for all line items detailed on the invoice. This included support for salaries and individual programs supported by the grant funding. The total amount of unsupported line items for both invoices was \$232,690.21.
 - c. Contract language provides specificity related to the goods/services to be rendered under the terms of the contract. For 8 of 13 sampled invoices reviewed, supporting documentation and evidence provided by the Contractor did not provide detail related to how the goods/services being invoiced aligned with the scopes of services defined in the contracts.
2. Status Reporting
 - a. Contract 1: REC did not receive or maintain a copy of annual reports submitted by the Contractor detailing work performed utilizing County funding. Per inquiry, annual reports were submitted directly to the County Council for review. The member of the County Council who maintained and reviewed the reports is no longer with the County, and copies of the reports were not shared with/retained by REC to ensure compliance with the terms of the contract. As a result, SC&H was unable to obtain and validate reports were submitted timely and at the frequency stated in the contract.
 - b. Contract 2: REC did not receive or maintain a copy of progress reports submitted by the Contractor detailing work performed utilizing County funding. Per inquiry, progress reports were submitted directly to the County Council for

Finding 4: Documentation Maintenance Exceptions

review. The member of the County Council who maintained and reviewed the reports is no longer with the County, and copies of the reports were not shared with/retained by REC to ensure compliance with the terms of the contract. As a result, SC&H was unable to obtain and validate reports were submitted timely and at the frequency stated in the contract.

Risks

Insufficient maintenance of supporting documentation and progress reporting could result in REC being unable to effectively monitor individual contracts and Contractor adherence.

Specifically, lack of supporting documentation could result in the following:

1. Unauthorized and inappropriate goods/services being paid for using County funds.
2. Limited transparency between REC and the Contractor related to work being performed and status of ongoing projects and initiatives.

Recommendation 4.1

REC should ensure all invoices include all supporting documentation for line items, in line with contract terms. Invoices that do not include support for all line items should not be approved and processed for payment. REC should ensure that program staff and the Contractor understand the types of support to be provided and consider amending contract language to detail support required to be submitted.

Recommendation 4.2

REC should ensure the Contractor submits copies of all required regular progress and annual reports. Information included in such reports should be agreed upon between the County and the Contractor.

Finding 5: Noncompliance with Contract Terms and County Enforcement

Background

Contracts between the Contractor and REC specify requirements for the submittal of invoices and status reports and the frequency with which documentation is to be provided to the County for review and/or payment. Specifically, the contracts state:

1. Contract 1, *Section IV. Invoices, Subsection B*: "With respect to all goods, services, and grants required under this Contract (excluding the funding for administrative costs, addressed in Section III, A. I) the Contractor must submit a quarterly invoice, due within 15 days following the end of the quarter, to the County's Contract Administrator. The invoice must include a listing of all recipients and the amounts received for grant funding disbursed under this Contract and a listing of all administrative costs incurred with respect to the disbursement of the grant funds."
2. Contract 1, *Amendment 16 Changes* (specific to the use of ARPA funding): "The Contractor must submit monthly reports identifying amount spent and programmatic progress and an annual audit."
3. Contract 2, *Section IV. Invoices*: "The Contractor must submit an invoice in a format acceptable to the County on a monthly basis. The invoice must reflect actual hours of service provided, and with respect to all requests for reimbursements, must be supported by appropriate documentation that supports the request for reimbursement of costs including documentation such as itemized receipts. Invoices must be submitted to the County's Contract Administrator. The County will make payment to the Contractor within 30 days after receipt, approval and acceptance of the Contractor's invoice and supporting documentation."

Finding

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

Finding 5: Noncompliance with Contract Terms and County Enforcement

1. Contract 1

- a. Two of two sampled grant invoices were submitted annually, not quarterly, per the terms of the contract. Per discussion with the Program Manager II, the contract language was written during a period of economic downturn, and a determination was made that invoices could be submitted annually, as opposed to quarterly. However, an amendment to the contract was not made to document this change and subsequent amendments did not reflect the change to the frequency of invoice submittal. As a result, the frequency of invoice submission is not compliant with the executed terms of the contract under review.
- b. For one of one sampled invoice reviewed related to the use of the American Rescue Plan Act of 2021 (ARPA) funding, SC&H was not provided with the monthly status reports related to the use of ARPA funding because they were not submitted by the Contractor to REC per the terms of the contract. Per inquiry with the Program Manager II, monthly reports were not submitted because monthly invoices were not furnished in relation to the ARPA grant. REC did not request or receive monthly progress reports from the Contractor due to all funding being remitted at the beginning of the grant period. As a result, failure to submit/review monthly status reports is not compliant with the executed terms of the contract under review.

2. Contract 2

- a. For two of two sampled invoices reviewed, invoices were submitted annually, not monthly per the terms of the contract, and paid out in the beginning of the fiscal year. The contract language has not been modified through amendments to reflect the updates to the frequency of submission of invoices by the Contractor. The original contract language states invoices must be submitted monthly, but as of the period in scope, Contractor invoices were not submitted at this frequency. Per inquiry with the Program Manager II, the Contractor is allowed to submit invoices quarterly or annually regardless of the contract language due to a determination made between REC and the Contractor. The justification for this determination was not documented or provided. Additionally, an amendment to the contract was not made to document the change in the frequency of invoice submittal by the Contractor. As such, frequency of invoice submission is not compliant with the executed terms of the contract under review.

Risks

1. The following could occur if contracts are not adequately adhered to.
 - a. Invoices received are not processed timely, resulting in inaccurate financial information and/or reputational damage with the Contractor.
 - b. Unauthorized or inaccurate disbursements are made, resulting in misappropriation of funds or overpayment to the Contractor.
 - c. Disbursements are made for goods/services not received, resulting in overpayments to the Contractor.
2. Dated/unclear contractual language could increase the likelihood that contract requirements are bypassed and the risk of contract noncompliance.

Recommendation 5.1

REC should review the current terms of the contracts with the Contractor to determine whether the terms accurately reflect the current requirements of the County. If the current terms reflect requirements of the County, REC should enforce the contract terms with the Contractor and hold the Contractor accountable for compliance with the contract terms. If the

Finding 5: Noncompliance with Contract Terms and County Enforcement

current contract terms require revision, REC should, in conjunction with County's Office of Procurement amend the contracts as appropriate to ensure that contract terms are accurate and reflect the cadence and expectations of receipt of invoice and status documentation from the Contractor, and provide specificity related to the following:

1. The frequency and timing of invoice and progress report submittals.
2. Required supporting documentation to be submitted with invoices in order to ensure timely remittance of payment.
3. Required information to be included with progress reports. This includes, but is not limited to, information related to the status of ongoing projects and initiatives, tracking of budget to actual funds spent, tasks planned to be performed prior to the submittal of the next progress report, and any delays/challenges being faced in the completion of initiatives.

Comments and MCIA Evaluation

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

- Department of Recreation (REC)
- Department of Finance
- Office of Procurement

Finance and Procurement had no formal comments on the report. Recreation responded and indicated its concurrence with relevant findings, and its commitment to improve and formalize procedures and improve compliance with County AP policies.

No changes were made to the report based on the comments.

The Department of REC comments are included in Appendix A.

APPENDIX A - DEPARTMENT COMMENTS



DEPARTMENT OF RECREATION


Marc Elrich
County Executive

Robin Riley
Director

MEMORANDUM

November 24, 2024

TO: Bill Broglie, Internal Audit Manager
Office of the County Executive

FROM: Robin Riley, Director
Montgomery County Recreation 

SUBJECT: Formal Comments on Draft Report: "Contract Management Audit, Montgomery County Department of Recreation, October 2024"

Please find enclosed Recreation's formal response to the Montgomery County Department of Recreation, Contract Management Audit, draft final report issued by Internal Audit.

If you or the audit firm working with you have any questions, please don't hesitate to contact me directly.

cc: Adriane Clutter, Division Chief, Recreation
Carmen Berrios, Division Chief, Recreation
Shawna Fachet, Division Chief, Recreation
Charlotte Keys, Manager, Recreation

Montgomery County Recreation welcomed the opportunity to engage with the audit process and takes its responsibility seriously to uphold the highest contract management standards. In pursuit of continuous improvement, the department looks forward to addressing the areas of improvement highlighted in the findings and strengthening its contract management process by implementing the suggested recommendations.

While the Department needs to address the identified areas of improvement in its entire contract management process, it's important to recognize the disparate process that exists within the Department for non-competitive contracts when a vendor is specifically named in an appropriation resolution approved by the Council, which represents 3.2% or less of all existing contracts. "While the findings do not necessarily extend to all contracts managed by REC," the Department immediately recognizes the potential for applicability of the findings to all contracts; but also acknowledges the applicability of existing processes currently used for other contract types, which have a more widespread workload distribution, greater segregation of duties, better controls, and more frequent monitoring, that can be quickly adopted and applied to the Department's non-competitive contract process.

Non-competitive contracts when a vendor is named in an appropriation resolution are seemingly like grants and uniquely different than other department contracts, which have unintentionally resulted in a different monitoring process internally than for other contracts. This has occurred largely because this work falls outside of the Department's general operations. Differences in non-competitive contracts include:

- The principal purpose of the relationship is the transfer of money, property, services, or anything of value to the grantee or to a subgrantee to accomplish a public purpose of support and/or stimulation approved by the Council through an appropriation resolution.
- The principal purpose of the relationship is not the purchase of goods or services by the County for the direct use or benefit of the County.
- The replacement of services is not required if the awardee fails to perform.
- The County will not be directly involved in the implementation of the subject project, will not incur liability for the project, nor will it have control or supervision of the means and methods utilized.
- The principal purpose of the relationship is not the purchase of goods or services by the County for the direct use or benefit of the County nor will the County be the recipient of grantee work product.
- In some cases the grantee, not the County defines the scope of the subject project (including specific service levels, and the programmatic approach) for carrying out the grant or subgrant.

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Historically, the Department has underestimated its role in the development and enforcement of non-competitive contracts, leading to a lack of awareness about the ability to adjust contract terms and scope to fit unique requirements. This misunderstanding, passed down over time, has resulted in missed opportunities for more effective management. As a result of participation in the audit process, the Department now is clearer in its understanding of risk-based control driven processes to manage contracts. Furthermore, the Department recognizes the foundation for effective contract monitoring begins in the drafting phase with well-defined contract terms and clearly defined requirements tailored to the unique conditions of each contract. (Contract Monitoring Guidance 2/27/22)

Therefore, the Department intends to immediately address the findings and work to implement recommendations by:

1. Notifying all contractors of changes coming to the contract monitoring process, which may include but are not limited to editing contracts to strengthen terms and clearly define scope, enhanced review of supporting documentation, and more frequent observations where applicable.
2. Conduct a Contract Risk Assessment of all non-competitive contracts to identify a prioritized list of contracts to monitor and to focus oversight on contracts with the greatest risk and most critical to achieving the County's mission.
3. Formalizing the Department's policy and procedure for contract monitoring.
4. Formalizing notes, asks and communication in the monitoring process.

Recommendation 1.1

REC should develop department-specific policies, procedures, and trainings to formally document contract management and the roles/responsibilities of the Contract Administrator within the department. These policies and procedures should be consistent and align with related County policies.

Recreation's Response 1.1:

Recreation concurs with this recommendation and is in the process of formalizing its policies and procedures and ensuring all contracts follow the same department process. This is expected to be implemented in January 2025.

Recommendation 2.1

REC should assess its current contractor administration resources relative to the workload (including such considerations as the number of contracts, invoices, and contractor reporting requirements) to determine whether there are adequate contract administration resources available and assigned to effectively administer the number of contracts for which REC is responsible. If there are insufficient contract administration resources available/assigned to effectively manage the current and projected REC contract workload, REC should take appropriate steps (e.g., reallocate and/or reassign contract administration duties, and/or seek additional contract administration resources through the budget process) to address the identified workload imbalance.

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Recreation's Response 2.1:

Recreation concurs with this recommendation and recognizes that resources needed to address the workload are limited and can best be addressed through a shared departmental process.

Recommendation 3.1

REC should formalize this process by documenting the recently implemented processes and controls to ensure all invoices are reviewed and approved in accordance with the County AP Policy. When documenting and implementing the controls, REC should consider:

1. Ensuring adequate segregation of duties exist and are effective.
2. Consulting with County AP to ensure alignment with the County's documented policy.

Recommendation 3.2

REC should ensure that the documented and implemented processes and controls referenced in Recommendation 3.1 are implemented across all contracts administered by REC.

Recommendation 3.3

REC should establish a process for documenting the appropriateness of goods/services invoiced by the Contractor and/or require them to provide a status report/details related to the goods/services included in monthly invoices. Verification of the appropriateness of goods/services invoiced could include, but is not limited to:

1. Establishing a process for the OSC and or REC staff visiting sites and documenting the results of their inspection to be included with invoice support. This may include a statement on the face of the invoice indicating the date goods/services were received and that items were reasonable and in accordance with the terms of the contract.
2. Implementing a process for Program Managers to sign off on invoices as the True Receiver to indicate their confirmation of the appropriateness of items invoiced.
3. Establishing a requirement for the Contractor to provide a status report and/or justification of items invoiced as part of the invoice package submitted to REC.

Recreation's Response 3.1-3.3:

Recreation concurs with this recommendation and is in the process of documenting internal processes and formalizing an internal policy and procedure that aligns with County and procurement regulations. This process will ensure segregation of duties, clarity for signatures at each stage, and contract management and maintenance documentation.

Recommendation 4.1

REC should ensure all invoices include all supporting documentation for line items, in line with contract terms. Invoices that do not include support for all line items should not be approved and processed for payment. REC should ensure that program staff and the Contractor understand the types of support to be provided and consider amending contract language to detail support required to be submitted.

Recommendation 4.2

REC should ensure the Contractor submits copies of all required regular progress and annual reports. Information included in such reports should be agreed upon between the County and the Contractor.

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Recreation's Response 4.1 4.2:

Recreation concurs with this recommendation and plans to edit current contracts to ensure Specific, Measurable, Achievable, Relevant, and Time-Bound terms, which lend to more effective monitoring, improved transparency and accountability, and reduced risk.

Recommendation 5.1

REC should review the current terms of the contract with the Contractor to determine whether the terms accurately reflect the current requirements of the County. If the current terms reflect requirements of the County, REC should enforce the contract terms with the Contractor and hold the Contractor accountable for compliance with the contract terms. If the current contract term require revision, REC should, in conjunction with County's Office of Procurement amend the contracts as appropriate to ensure that contract terms are accurate and reflect the cadence and expectations of receipt of invoice and status documentation from the Contractor, and provide specificity related to the following:

- I. The frequency and timing of invoice and progress report submittals.
 2. Required supporting documentation to be submitted with invoices in order to ensure timely remittance of payment.
 3. Required information to be included with progress reports. This includes but is not limited to, information related to the status of ongoing projects and initiatives, tracking of budget to actual funds spent, tasks planned to be performed prior to the submittal of the next progress report, and any delays/challenges being faced in the completion of initiatives.

Recreation's Response 5.1

Recreation concurs with this recommendation and is undergoing a risk assessment and will review non-competitive contracts according to the resulting prioritization list to focus oversight on contracts with vague language that do not meet requirements. The department will ensure compliance and enforce the existing terms if they are in alignment with the County's needs. Should the contract terms require revision, we will make the necessary amendments, ensuring the revised contract provides clear requirements for invoicing, reporting, and other required documentation, creating accountability, transparency, and timely administration of the contract terms.

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