

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



**FINAL AUDIT REPORT**

**Contract and Grant Monitoring by  
The Montgomery County Department of Recreation**

**September 12, 2014**

# 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 FY13, the County's total value of purchase orders issued under contracts totaled approximately \$871 million. This audit of the Department of Recreation (Recreation) is part of a continuing review of contract and grant monitoring; Recreation is the eighth department we are reporting on. Recreation FY13 contractual purchase orders totaled approximately \$19.3 million, or 2% of the total \$871 million.

## What MCIA Recommends

We are making two recommendations to Recreation to improve the performance and enhance the existing internal controls pertaining to contract monitoring and invoice review and approval. Recreation concurred with the recommendations.

## September 2014

### Contract and Grant Monitoring by the Montgomery County Department of Recreation

#### What MCIA Found

The Montgomery County Department of Recreation has adequately designed and implemented procedures and internal controls for contract monitoring and invoice review and approval. However, there is an opportunity for improvement regarding contract performance monitoring. Our testing of seven Recreation contracts identified two instances where contract monitoring was insufficient.

We found internal controls over contract monitoring and invoice review and approval could be improved to ensure that: 1) all required supporting documentation regarding material cost is obtained from the vendor prior to invoice approval and 2) documentation supporting the delivery of goods purchased is retained.

## **TABLE OF CONTENTS**

Objectives .....	2
Background.....	2
Scope and Methodology .....	3
Results.....	5
Recommendations .....	7
Department Comments and MCIA Evaluation .....	8
Appendix A .....	9

## Objectives

This report summarizes the work performed by Cherry Bekaert LLP on behalf of Montgomery County Office of Internal Audit (MCIA) 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 Department of Recreation (Recreation). The objective of the audit was to:

Review and test the effectiveness of contract and grant monitoring policies and procedures followed by the Department of Recreation. The audit will seek to determine whether 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 by 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 MCIA. Interviews, documentation review, and field work were conducted from April 2014 to May 2014.

## Background

### Contracting Activity in Fiscal Year 2013

In FY13, Recreation was the seventh highest department in purchase order spending under contracts. Recreation had approximately 2.21% (\$19.3 million) of the total FY13 expenditure for purchase orders issued. A total of 175 contracts were in effect during FY13 ranging from \$612 to \$13.5 million. Recreation contracts in effect tended to consist of the purchase of: fitness equipment; services for recreation programs; maintenance within recreation facilities; and purchase orders for gear for various sports teams and other recreation programs within the County.

### Contract Monitoring

Contract administrators have the responsibility of monitoring their respective contracts to ensure vendors are performing to contract specifications. In the Department of Recreation, contract administrators are selected based on their area of expertise. For example, a department member working with aquatics would handle contracts related to aquatics. Contracts in Recreation are a mixture of service-related and purchases. Contract administrators monitor performance on service-related contracts by visiting vendors on site to observe performance, scheduling meetings or conference calls to review performance, reviewing monthly status reports, and through communication with other Recreation staff who are on-site when services are provided. Contract administrators monitor performance on purchase contracts by reviewing packing slips, inspecting purchased goods, and through communication with other Recreation staff that are on-site when deliveries are made.

### Invoice Review and Approval

Contract administrators receive invoices directly from vendors and review the invoice for compliance with contract terms and accuracy of fees charged. Informal department guidance requires contract administrators either sign or initial the invoice or the invoice cover sheet to evidence their approval of the invoice. Once approved, the invoice is forwarded to the designated Recreation Administrative Specialist for processing in the County's financial system (Oracle). The department has designated individuals in roles, such as administrative specialist, manager III, and IT specialist III, to provide primary approval in Oracle of department invoices. In the case of absence of an approver, there are individuals assigned as secondary approvers. The Recreation accountant performs a second approval of department invoices in Oracle. Invoice supporting documentation is filed by the Administrative Specialist. 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 reviewed contract and grant monitoring in two phases. Phase 1, conducted in FY12, 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.

Between FY13 and FY14, six departments were audited as part of Phase 2; the results of those audits are detailed in reports posted on the MCIA web site<sup>1</sup>. That part of Phase 2 involves detailed testing of the monitoring and invoice review and approval procedures for County departments over contracts and grants in effect for FY12, while the continuation of Phase 2 utilized fiscal year 2013 contracts and grants. Using the Office of Procurement's 2013 purchase order data, we initially selected 17 contracts for discussion with Recreation staff, using the following criteria:

- Dollar amount of purchase orders issued under the contract
- Description of services being procured on purchase orders issued
- Length of time contract was in place during FY13

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<sup>1</sup> Departments previously audited during Phase 2 include the Department of Environmental Protection, the Police Department, the Department of Transportation, the Department of General Services, Fire and Rescue Services, and Department of Economic Development

We met with Recreation staff to gain an understanding of the goods or services procured under each contract, the length and tenure of the contract, or contractor, and how much activity the department had with the contractor in FY13. Based upon information shared by department staff, we selected 7 contracts, totaling \$96,809 or approximately 0.5% of the total purchase orders issued for the department, for review as follows:

**Table 1 – Contract Sample Selection for Phase 2**

<b>Vendor</b>	<b>Contract #</b>	<b>Description of Goods or Services</b>	<b>PO Amounts for FY13</b>
<b>Heartline Fitness</b>	1017508	Purchase of fitness equipment.	\$29,342.75
<b>City of Takoma Park</b>	1008735	Programming and managing various recreation programs at the Takoma Park Recreation Center	\$21,912.50
<b>Fry Communications, Inc.</b>	1003430	Printing recreation guides	\$20,545.25
<b>Personalized Classics, Inc.</b>	1017870	Printing uniforms/t-shirts	\$9,681.28
<b>Eyre Bus Services</b>	1026050	Coach bus transportation	\$6,606.40
<b>Amato</b>	1017773	Delivery of chemicals to swimming pools	\$5,581.28
<b>Colossal Contractors</b>	136600009AA	Carpentry and painting for recreation facilities.	\$3,140.00
<b>Total</b>			<b>\$96,809.46</b>

Our testing for Phase 2 focused on the following:

- Review of procedures performed by department staff to ensure contractor performance was in accordance with contract terms.
- Review of 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**

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

**Table 3 – Attributes Tested for Invoice Review and Approval**

<b>Attribute</b>	<b>Description</b>
<b>A</b>	Invoice calculations are reasonable and accurate (foot and cross-foot)
<b>B</b>	Supporting documentation required by the contract was submitted with the invoice
<b>C</b>	Unallowable costs do not appear to be included in invoice submission
<b>D</b>	Invoice signed by Contract Administrator/Monitor
<b>E</b>	Invoice approved by department designated individual
<b>F</b>	Voucher approved by A/P
<b>G</b>	Amount per invoice agrees to amount paid
<b>H</b>	Invoice is approved by accountant within department
<b>I</b>	Items on invoice are traced to corresponding packing slips (if applicable)

## **Results**

Overall, the results of our testing found that contract and grant monitoring and invoice review and approval were generally performed in accordance with applicable County policies and procedures, department practices and contract or grant terms and conditions. For all contracts tested, opportunities for improvement in contract monitoring were noted as evidence by the two exceptions related to two attributes tested for contract monitoring, yielding a 4.08% error rate.<sup>2</sup> For all contracts tested, an opportunity to improve invoice review and approval was noted as evidence by the one exception related to one attribute tested for invoice approval yielding a 1.85% error rate.<sup>3</sup>

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<sup>2</sup> Contract Monitoring Error rate : Total number of exceptions noted (2)/ Total number of attributes tested (49)=4.08%

<sup>3</sup> Contract Monitoring Error rate : Total number of exceptions noted (1)/ Total number of attributes tested (54)=1.85%

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**

<b>Attribute Tested</b>	<b>Total Exceptions Per Attribute</b>	<b>Sample Tested Per Attribute</b>	<b>% Exceptions Per Attribute</b>
A - Monitoring of contractor performance milestones delivery	1	7	14%
B - Reviewing of contractor status and performance reports	-	7	0%
C - Receiving, inspecting, and/or accepting of contractor work	-	7	0%
D - Certifying costs incurred for payment	-	7	0%
E - Visual observations of contractor work	-	7	0%
F - Monitoring procedures performed in accordance with contract terms	1	7	14%
G - Identification and reporting of contract problems timely	-	7	0%
Total Exceptions	<b>2</b>		
Total Samples Tested	<b>7</b>		
# of Samples with Exceptions	<b>2</b>		

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

<b>Attribute Tested</b>	<b>Total Exceptions Per Attribute</b>	<b>Sample Tested Per Attribute</b>	<b>% Exceptions Per Attribute</b>
A - Invoice calculations are reasonable and accurate (foot and cross-foot)	-	7	0%
B - Supporting documentation required by the contract was submitted with the invoice	1	7	14%
C - Unallowable costs do not appear to be included in invoice submission	-	7	0%
D - Invoice signed by Contract Administrator/Monitor	-	7	0%
E - Invoice approved by department designated individual	-	7	0%
F - Voucher approved by A/P	-	4	0%
G - Amount per invoice agrees to amount paid	-	7	0%
H - Invoice is approved by accountant within department	-	7	0%
I - Items on invoice are traced to corresponding packing slips (if applicable)	-	1	0%
Total Exceptions	<b>1</b>		
Total Samples	<b>7</b>		
#of Samples with Exceptions	<b>1</b>		



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

Contract #136600009AA Colossal Contractors: Carpentry and Painting for Recreation Facilities

1) Contract Administration and Monitoring (Attribute F) and Invoice Review and Approval (Attribute B)

- Per the contract, Section C: *Manager and Method of Payment*, the vendor should be submitting, with invoices, a copy of paid receipts for materials /equipment used or installed for each job performed. In Section E: 17: *Pricing for Materials*, the contractor's invoices for materials must be accompanied by sufficient documentation of the actual cost of material provided. In discussions with the contract administrator, it was stated they have relied on professional judgment to assess the reasonableness of the material charges and have not requested copies of vendor invoices to support charges billed for materials. The contract administrator should follow the contract requirement for receiving receipts from the contractor, which is an effective internal control, to ensure the County is not overpaying for any material and equipment either through a mark-up or other means.

Contract #1017508 Heartline Fitness: Purchase of Fitness Equipment

1) Contract Administration and Monitoring (Attribute A):

- Per discussion with members of Recreation, we noted the contract administrator is not consistently obtaining all packing slips for delivered items. The department's common practice is for the packing slips to be kept on file by the point of contact, who accepts the delivery, and that individual would inform the contract administrator of the delivery via email. If the contract administrator is on site to observe a delivery, he will view the packing slip but leave it at the delivery point. We requested packing slips related to the 4 deliveries for review; the department was unable to provide the slips to us. Ensuring all delivery slips are retained and easily accessible helps support approval for payment beyond the contract administrator's handwritten notes or notification emails received.

## **Recommendations**

We recommend the Department of Recreation Director:

1. Reinforce with the contract administrator for the Colossal Contract the importance of obtaining adequate support for materials used by the vendor to ensure materials are not being overcharged to the County.
2. Reinforce with department staff the importance of retaining the packing slips for delivery of fitness equipment and how it supports their communication of items delivered to the contract administrator. Guidance should also be given as to how long the packing slips should be retained and available for review by the contract administrator.

## **Department Comments and MCIA Evaluation**

We provided Recreation with a draft of this report for formal review and comment on August 18, 2014 and Recreation responded on September 9, 2014. Recreation stated it concurred with the report's recommendations and had implemented corrective actions. (See Appendix A for Recreation response.)

# Appendix A



## DEPARTMENT OF RECREATION

Isiah Leggett  
*County Executive*

Gabriel Albornoz  
*Director*

### MEMORANDUM

September 9, 2014

TO: Office of Internal Audit

FROM: Gabriel Albornoz, Director  
Department of Recreation 

SUBJECT: Contract and Grant Monitoring Report for Department of Recreation

The Department of Recreation has reviewed the findings of the audit conducted earlier this year reviewing the Department's policies and procedures relative to contract and grant management. The Department concurs with the recommendations of the report.

As a follow up, the Department has already instituted the recommendations. Specifically, Colossal Contractors are now required to submit their receipt of purchase for supplies. In addition, Heartline Fitness will provide delivery slips for all equipment to center staff. Center staff are then required to forward delivery slips to the Director's Office.

Thank you for this opportunity and support.

#### Office of the Director

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