

COUNTY COUNCIL OF WICOMICO COUNTY, MARYLAND

2014 Legislative Session

Legislative Day No. 02

Resolution No. 11-2014

Introduced by: The President of the Council

**A RESOLUTION ADOPTING THE WICOMICO COUNTY
SERVICE CONTRACT PROCUREMENT SYSTEM AUDIT REPORT.**

WHEREAS, under Section 305, titled "County Internal Auditor" of the Charter of Wicomico County, Maryland, the Internal Auditor is charged with the duty to report on internal accounting controls, administrative and operating practices and procedures, and other pertinent financial and compliance matters within Wicomico County; and

WHEREAS, the Internal Auditor has submitted a Wicomico County Service Contract Procurement System Audit Report for the County Council's consideration that focuses on the policies and procedures of securing contracts for various County purposes, as well as the level of compliance with those procedures and controls.

NOW, THEREFORE, BE IT RESOLVED, by the County Council of Wicomico County, Maryland that the Wicomico County Service Contract Procurement System Audit Report submitted by the County Internal Auditor, attached as Exhibit A, is approved and adopted.

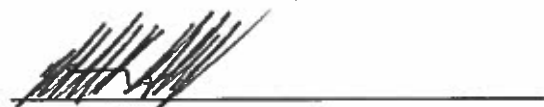
Done at Salisbury, Maryland, this 21st day of January, 2014.

ATTEST:



Matthew E. Creamer,
Council Administrator

COUNTY COUNCIL OF
WICOMICO COUNTY, MARYLAND

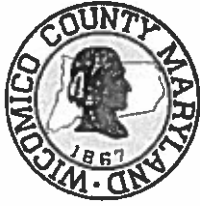


Matt Holloway,
Council President

CERTIFICATION

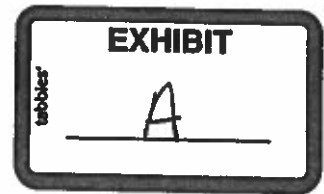
This Resolution was Adopted , Adopted with Amendments , Failed , Withdraw by the County Council on January 21, 2014.

Certified by 
Matthew E. Creamer, Council Administrator



Wicomico County, Maryland
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Steve Roser, CPA/CIA
Internal Auditor

November 25, 2013

Internal Auditor's Report

The County Council and County Executive of Wicomico County, Maryland:

Pursuant to Section 305(D) of the Wicomico County Code and Council Resolution No. 106-2013, the Office of the Internal Auditor (IA) has conducted an Audit of the Wicomico County Service Contract Procurement System. A report is submitted herewith. The purpose of the audit was to determine the adequacy of procedures and controls along with the level of compliance with those procedures and controls for the process of securing contracts for various County purposes.

IA conducted the audit with due professional care, and IA planned and performed the audit to obtain reasonable assurance about whether the current contract procurement system practices are in compliance with applicable policies and procedures and whether those policies and procedures are adequate to obtain an acceptable level of control. The audit revealed a process in transition including the development of a new Wicomico County Purchasing Manual and the development of new procedures involving internet technology and other resources.

IA extends our appreciation to Management and Staff of Wicomico Purchasing Department, Department of Law and County Administration for their timely assistance, cooperation, and candid assessment of the current status of the contract procurement system.

Respectfully submitted,

Digitally signed by J. Stephen Roser, CPA
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email=sros@wicomicocounty.org, c=US
Date: 2013.11.25 09:46:19 -05'00'

J. Stephen Roser, CPA/CIA
Internal Auditor

Contents

Internal Auditor's Report	1
Contents	2
Audit Report	3
Background	3
Audit Objectives	3
Scope of the Audit.....	3
General Highlights.....	4
Conclusion.....	4
Schedule of Findings and Recommendations/Management Response	4
1. Codification	4
2. Accountability	4
3. Threshold for Bidding.....	5
4. Changes in the Bidding Process	5
Auditor's Closing Remark.....	6

Audit Report

Background

Wicomico County, like any entity, depends upon the services of widely varied companies and individuals in order to achieve its goals. Each Department has needs that are unique to its functions. Purchasing is therefore driven primarily on a Department level. Departments are frequently responsible for the purchase of goods and services along with vendor accountability in adherence to those contracts. The foregoing is not to imply that the County does not have central purchasing. Central purchasing has a vital role in assuring compliance with the rules and providing a platform for the bidding process. Many large service contracts (e.g. energy and equipment leases) affect the entire County and therefore must have central control and accountability.

The third leg in the service contract arena is the Department of Law. The contract (a legal document) must contain language that provides a clear understanding (by all parties) of the contents allowing for a successful arrangement. A successful arrangement must include provisions for measuring performance (accountability). Many contracts contain complicated technical parameters in the area of engineering, information technology, and others. The Department of Law must work with various experts, both inside and outside the County, to assure the contract language and specifications are acceptable to its purpose.

Audit Objectives

The objectives of the audit were to:

1. Evaluate internal control over procurement of service contracts
2. Assure adherence to controls

Scope of the Audit

The audit period examined on a test basis was FY 2013 and FY 2014 to date. The Scope was open ended. Observations and Inquiries with appropriate personnel were conducted, as well as examination of various documents (subject to change based on preliminary surveys and interviews) pertaining to the following:

- Evaluate a sample of contracts in force
- Evaluation of procedures to procure selected contracts
- Interview selected service providers
- interview purchasing personnel
- Consult with the Law Department

General Highlights

Wicomico County Department of Law in collaboration with the Purchasing Department is in the process of creating a new countywide procurement manual. Council adopted the current Purchasing Manual on June 16, 1987. The 39-page manual was written at a time before routine use of computers and the internet was commonplace. A 1997 revision to the manual was not officially adopted. IA is of the opinion that evaluation of 26-year-old procedures, in light of the fact that a new manual is under construction, would be a waste of resources. We decided instead to monitor the development of the new manual before finalizing this audit. This report outlines the work done to date along with some findings and observations based on the preliminary work performed.

Conclusion

Based on the points mentioned in the prior section of this report, we offer no conclusion at this time. We can state, however, that we discovered no material or significant deficiencies in control over service contract procurement during the work performed thus far.

Schedule of Findings and Recommendations/Management Response

The findings listed below represent some key issues that warrant discussion as an added feature to the audit process. As mentioned previously, we plan additional testing in the future based on the forthcoming new Purchasing Manual. The findings are both positive and negative and they do not rise to the level of concern that material weakness or significant deficiencies would garner.

1. Codification

Wicomico County is currently using a Purchasing Manual that Council approved in 1987. The County created this manual before the benefit of routine modern technology, such as computers and an extensive e-mail system. The Law Department, in conjunction with the Purchasing Department, is working on drafting an updated manual. The Wicomico County purchasing system seems to have adapted to new technology and modern situations on an ad-hoc basis. New rules have developed and have been placed in service on an informal basis over the years. IA determined that there exists limited benefit to an evaluation of current contracts using an outdated manual especially in light of the fact that a new one is under construction. This audit (with Council's permission) will convert to a continuing audit until sometime after the County places the new audit manual in service. Additionally, we stand ready to assist with, and monitor the creation of the new manual. IA would like to add that a high-level review of the 1987 manual revealed no apparent guidance as to procedures and actions required after the awarding of a bid. We therefore recommend that the County add post-award procedures to the new Purchasing Manual.

2. Accountability

As mentioned in the Conclusion section of this report, we are unable to offer opinion as to what, if any, deficiencies exist in the County purchasing system. We looked at contract accountability and it seems at this early stage of our assessment that, in some cases, it becomes unclear as to who is responsible for contract accountability once they are in force. Department Heads are responsible for ensuring that contracts meet specifications and that vendors adhere to contract terms. Senior management must be able to depend on Department Heads when it comes to contract accountability. Some contracts,

however, span multiple departments or the entire County. For example, the contract for the cleaning services of multiple government buildings does not fall to one specific department. Additionally, accountability for compliance with the Energy Services Group contract for energy savings becomes a countywide concern. IA recommends consideration of accountability in creating the new Purchasing Manual and suggests that a robust shared repository for contract documentation may be desirable.

3. Threshold for Bidding

Wicomico County has a credit card limit threshold of \$1,000 for most users. That is, purchase cards may be used for purchases up to \$1,000. In addition, on a case-by-case basis, the threshold may be increased, up to a maximum of \$5,000. Informal price comparisons are required on procurements between \$1,000 and \$4,999. Departments must obtain three separate price quotes for the product or service. This ensures fairness to vendors. The County uses formal bidding for purchases of \$5,000 and over through a competitive bidding process.

The advent of a purchasing card system streamlined the purchase-order process to make it much less time-consuming to facilitate small purchases. Some members of management believe that an increase in the threshold would further the benefit. It is noteworthy that the City of Salisbury and the State of Maryland have bidding thresholds of \$25,000¹.

As with any such change, County management must weigh the risks against the benefits. There are risks associated with the purchasing card program, such as the possibility for fraud, favoritism, overspending, etc. that may be attributed to a lapse in internal controls. On the other hand, the Purchasing and Travel Card Audit (report dated October 14, 2011) revealed a robust system with extensive checks and balances. The benefits of raising the limit for requiring purchase orders: more independence and accountability on the department level and less burden for the Law, Finance, and Purchasing Departments, may outweigh the costs. IA, with Council's permission, stands willing to assist in any testing required to determine if raising the limit is appropriate.

4. Changes in the Bidding Process

Wicomico County has been using the bidding process from the 1987 Purchasing Manual with some changes. According to the Purchasing Department, the old bidding process was as follows:

1. Bids are collected and reviewed
2. After careful consideration, a decision is made
3. An award is distributed to the selected vendor
4. The purchase order is created
5. Following the creation of the purchase order, a contract is drafted with the Department of Law
6. The package is then sent to the Executive Office for signature

¹ Title 21, Subtitle 07 Chapter 3 of the State of Maryland Procurement Regulations apply to purchase orders in excess of \$25,000

Recently, Purchasing implemented a new bidding process to help make the process more efficient. The new process is as follows:

1. Bids are collected and reviewed
2. After careful consideration, a decision is made
3. A purchase order is created (which encumbers the funds)
4. From there, it is sent to Department of Law to draft the contract
5. After that, the award is sent out to the selected vendor
6. Finally, the contract is sent to the Executive Office for signature

Under the new system, Purchasing creates the purchase order prior to the drafting of the contract and sending the award to the vendor. This process allows the creation of a complete package (purchase order, bid award, and a contract) before the County strikes the deal with the vendor. If this new process proves superior to past practices, management may want to consider inclusion in the new manual.

Auditor's Closing Remark

The Wicomico County Office of the Internal Auditor would like to thank management and staff from Wicomico County Purchasing Department, Department of Law, and Administration for their timely cooperation and assistance during the audit. Special thanks go to Purchasing Agent Rick Konrad for keeping us in the loop concerning the changes, upgrades, and other Purchasing issues.