

Audit Report

**Office of Budget and Finance,
Property Management Division**

**On-Call Contractors for
Capital Improvement Project Work Assignments**



Office of the County Auditor
Baltimore County, Maryland
July 2021



LAUREN M. SMELKINSON, CPA
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July 23, 2021

Honorable Members of the County Council
Honorable John A. Olszewski, Jr., County Executive
Baltimore County, Maryland

We have audited the Office of Budget and Finance, Property Management Division's procedures and controls over on-call contractors used for capital improvement project work assignments for the period July 1, 2017 to December 31, 2018. During the audit period, 53 on-call trades/professional services contractors and 4 on-call design-build construction contractors completed 489 capital improvement project work assignments (related to 34 capital improvement projects) with payments totaling approximately \$19.7 million.

Our audit disclosed that the Division's policies and procedures for its on-call contractors were not documented, certain established policies and procedures were not complied with or adequate, and other policies and procedures had not been established. Our audit also disclosed that the Division's policies and procedures were not adequate to ensure compliance with County Code requirements for awarding certain capital improvement project work assignments and for notifying the Council when the cost of certain capital improvement project work assignments exceeds 20% of the contractor's original quote.

The Division's response to this audit is included as Appendix A to this report. We have reviewed the response, which noted agreement with our recommendations.

We wish to express our appreciation to the Division for the cooperation and assistance extended to us during our audit.

Our audit reports and responses thereto are available to the public and may be obtained online at "www.baltimorecountymd.gov/agencies/auditor" or by contacting the Office of the County Auditor, 400 Washington Avenue, Towson, Maryland 21204.

Respectfully submitted,

A handwritten signature in black ink that reads "Lauren M. Smelkinson".

Lauren M. Smelkinson, CPA
County Auditor

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Background

The Office of Budget and Finance, Property Management Division is responsible for overseeing certain capital improvement projects, which include new construction/renovations and maintenance/repairs at County-owned facilities (e.g., office buildings, recreation and parks sites, library branches, police precincts, senior centers). Upon the identification of capital improvement project work, the Division either assigns it (for in-house completion by Division personnel) or outsources it. For outsourced work, the Division utilizes contractors that have active “on-call” contracts with Baltimore County for trades/professional services (e.g., carpentry, HVAC, turf field maintenance) or design-build construction work. For trades/professional services, the on-call contract¹ establishes unit prices (e.g., hourly rates for labor/equipment, materials markups), and a contractor quote (reviewed and approved by Division personnel) establishes compensatable quantities for the specific work assignment (e.g., hours per laborer and equipment, materials). For design-build construction, the on-call contract² establishes an arrangement for the provision of such work (all labor, materials, equipment, etc.), and a contractor quote (reviewed and approved by Division personnel) establishes the total compensation amount for the specific work assignment.

On-Call Contractor Work Assignments

During the audit period, from July 1, 2017 to December 31, 2018, various types of trades/professional services contractors, including multiple contractors for the same services, and 6 design-build construction contractors were “on-call” for capital improvement project work assignments the Property Management Division determined to outsource. Specifically, during the audit period, the Division assigned work to on-call trades/professional services and design-build construction contractors, as follows:

Trades/Professional Services: 53 on-call contractors for 36 different trades/professional services completed 456 work assignments (related to 23 capital improvement projects). Costs for work assignments ranged from approximately \$251 to \$2.5 million, and payments to the contractors totaled approximately \$9.8 million, primarily for the following trades/professional services.

¹ Approved by the Administration, with County Council approval also required for a service contract with a term in excess of two years or involving the expenditure of more than \$25,000 per year.

² Approved by the Administration only (treated as a construction contract).

Trades/Professional Service	# of Work Assignments	# of Contractors	Payments (\$ in millions)
Carpentry	67	3	\$0.9
HVAC	59	4	\$1.4
Turf Field Installation/Maintenance and Ball Diamond Maintenance	49	3	\$4.3
Masonry and Concrete	34	2	\$0.2
Plumbing	31	2	\$0.3
Flooring	26	3	\$0.2
Painting	24	2	\$0.2
Electrical	23	4	\$0.2
Other (28, incl. elevator maintenance/repair, fencing, tennis/basketball court maintenance)	143	30	\$2.1
Total	456	53	\$9.8

Design-Build Construction: 4 on-call design-build construction contractors completed 33 work assignments (related to 11 capital improvement projects). Costs for work assignments ranged from approximately \$11,400 to \$3.4 million, and payments to the contractors totaled approximately \$9.9 million (\$4.6 million for 12 work assignments, \$4.3 million for 9 work assignments, \$963 thousand for 11 work assignments, and \$17 thousand for 1 work assignment).

Contractor Oversight

The Division has policies and procedures for the oversight of its on-call contractors. The Division delegates to its 5 Supervisors (3 Property Managers and 2 Facilities Chiefs) and 20 Property Management Specialists the responsibility for:

- obtaining a quote for a work assignment;
- awarding the work assignment;
- reviewing and approving the contractor’s quote and the submitted invoices for payment; and
- overseeing the contractor in the completion of the work assignment.

Findings and Recommendations

- 1. On-call contractor policies and procedures the Division had established were not documented, certain established policies and procedures were not complied with or adequate, and other policies and procedures had not been established.**

The Property Management Division is responsible for overseeing the on-call trades/professional services and on-call design-build construction contractors it uses to complete its capital improvement project work assignments. During the audit period, on-call contractors completed 489 work assignments with payments totaling \$19.7 million, as follows: 53 on-call trades/professional services contractors completed 456 work assignments (related to 23 capital improvement projects) with payments totaling \$9.8 million, and 4 on-call design-build construction contractors completed 33 work assignments (related to 11 capital improvement projects) with payments totaling \$9.9 million.

Our audit disclosed that the Division had established certain policies and procedures to oversee its on-call contractors; however, the policies and procedures were not documented.

Our audit also disclosed that the Division did not always comply with certain established policies and procedures, as follows:

Review and Approval of Quotes and Invoices

The Division's policies and procedures require a Property Management (PM) Specialist and a Supervisor (i.e., Property Manager and/or Facilities Chief) to review (e.g., mathematically accurate, appears reasonable in terms of cost) and approve (PM Specialist stamps the quote/invoice "Approved for Delivery Order/Payment" and a Supervisor signs/dates the stamp) each contractor's quote (before work commences) and invoice for payment. However, our review of 39 work assignments (14 design-build construction and 25 trades/professional services), including 42 quotes totaling \$8.6 million (21 design-build construction totaling \$6.7 million and 21 trades/professional services totaling \$1.9 million) and 60 invoices totaling \$11.3 million (30 design-build construction totaling \$7.2 million and 30 trades/professional services totaling \$4.1 million), disclosed that the Division did not comply with its policies and procedures, as follows:

- 21 quotes totaling \$1.4 million lacked evidence of review and approval, including 6 quotes totaling \$199,680 (3 design-build construction totaling \$114,232 and 3 trades/professional services totaling \$85,448) by both a PM Specialist and a Supervisor, and 15 quotes totaling \$1.2 million (7 design-build construction totaling \$183,055 and 8 trades/professional services totaling \$988,836) by a Supervisor;
- 7 quotes totaling \$148,853 (5 design-build construction totaling \$119,705 and 2 trades/professional services totaling \$29,148) were reviewed and approved after the work had been completed;

- 4 invoices totaling \$490,216 (1 design-build construction totaling \$34,797 and 3 trades/professional services totaling \$455,419) lacked evidence of the review and approval by a Supervisor;
- 3 approved quotes totaling \$176,632 for trades/professional services lacked sufficient detail (e.g., project schedule, materials itemization) as required by the contracts; and
- 2 approved invoices for trades/professional services lacked supporting documentation related to payments totaling \$66,801 as required by the contracts: 1 invoice lacked receipts for materials purchases totaling \$25,368 and subcontractor invoice(s) totaling \$23,512, and 1 invoice lacked subcontractor invoice(s) totaling \$17,921.

On-Call Contractor Monitoring

The Division's policies and procedures require PM Specialists to monitor and evidence (e.g., hold bi-weekly meetings and maintain meeting minutes, obtain design and construction schedules as required by the contracts) each on-call design-build construction contractors' progress in completing a work assignment. However, our review of the Division's records to support 14 design-build construction work assignments totaling \$16.2 million, disclosed that the Division did not comply with its policies and procedures, as follows: 3 work assignments totaling \$4.2 million had no meeting minutes or design and construction schedules; 4 work assignments totaling \$1.3 million had no meeting minutes; and 7 work assignments totaling \$10.6 million had only certain meeting minutes.

Our audit also disclosed that the Division's policies and procedures were not adequate because the PM Specialists/Supervisors were not required to document their basis for the on-call contractor selected and awarded a work assignment (when multiple primary on-call contractors were available for the service); rather, they permitted PM Specialists/Supervisors to select from among the available primary on-call contractors and to award a work assignment upon deeming that the quote was reasonable (see Finding 2).

Additionally, our audit disclosed that the Division had not established policies and procedures to prevent potential conflicts of interest. For example, our audit disclosed that PM Specialists/Supervisors who solicited and/or awarded work assignments were not required to attend the County's annual ethics training or to file financial disclosure forms.

As a result, there was a lack of assurance that on-call contractors were properly monitored and that payments to on-call contractors were accurate and proper.

To ensure that on-call contractors are properly monitored, and payments to on-call contractors are accurate and proper, we recommend that the Division establish adequate, written policies and procedures and comply with its policies and procedures.

2. The Division’s policies and procedures were not adequate to ensure compliance with certain County Code requirements.

The Property Management Division is responsible for overseeing certain capital improvement projects, which include new construction/renovations and maintenance/repairs at County-owned facilities (e.g., office buildings, recreation and parks sites, library branches, police precincts, senior centers), and may outsource this work. For outsourced work, the Division utilizes contractors that have active “on-call” contracts with Baltimore County for trades/professional services (e.g., carpentry, HVAC, turf field maintenance) or design-build construction work. For trades/professional services, the on-call contract³ establishes unit prices (e.g., hourly rates for labor/equipment, materials markups), and a contractor quote (reviewed and approved by Division personnel) establishes compensatable quantities for the specific work assignment (e.g., hours per laborer and equipment, materials). For design-build construction, the on-call contract⁴ establishes an arrangement for the provision of such work (all labor, materials, equipment, etc.), and a contractor quote (reviewed and approved by Division personnel) establishes the total compensation amount for the specific work assignment.

During the audit period, various types of trades/professional services contractors, including multiple contractors for the same services, and 6 design-build construction contractors were “on-call” for capital improvement project work assignments the Property Management Division determined to outsource.

Our audit disclosed that the Division had established policies and procedures for the oversight of its on-call contractors. However, our audit disclosed that the policies and procedures were not adequate to ensure compliance with County Code, Section 10-2-502, which requires capital improvement project contracts in excess of \$25,000 to be procured competitively (i.e., bid or negotiated) to ensure the best price/value is obtained. Specifically, the Division’s policies and procedures did not require work assignments in excess of \$25,000 to be competitively procured among its primary contractors that offered the services; rather, it permitted PM Specialists/Supervisors to select from among the available primary on-call contractors and to award a work assignment upon deeming that the quote was reasonable (see Finding 1). During the audit period, the Division awarded work assignments in excess of \$25,000 when multiple primary contractors were available to perform the work, as follows: 54 trades/professional services work assignments with payments totaling \$2.7 million to 18 on-call trades/professional services contractors from 31 available, and 28 design-build construction work assignments with payments totaling \$9.8 million to 3 on-call design-build construction contractors from 6 available.

Our audit also disclosed that the Division’s policies and procedures were not adequate because they did not require a notification to the County Council (7-day notification process through the

³ Approved by the Administration, with County Council approval also required for a service contract with a term in excess of two years or involving the expenditure of more than \$25,000 per year.

⁴ Approved by the Administration only (treated as a construction contract).

County Administrative Officer) when the cost of an on-call design-build construction capital improvement project work assignment increased by more than 20% of the original quote, in accordance with County Code, Section 10-2-504. Specifically, our review of 14 design-build construction work assignments totaling \$16.2 million, disclosed 2 work assignments with costs that exceeded the original quote by at least 20% during the audit period, including one by 63% (\$324,458 to \$527,570) and another by 25% (\$330,800 to \$414,542).

Consequently, there was no assurance that the County obtained the best price and/or value for its capital improvement project work assignments.

We recommend that the Division establish adequate policies and procedures to ensure that the Division complies with County Code requirements for competitive procurement of capital improvement project work assignments when awarding work to its on-call design-build construction and trades/professional services contractors, and to notify the Council when the cost of a capital improvement project work assignment awarded to an on-call design-build construction contractor exceeds 20% of the original quote.

Audit Scope, Objectives, and Methodology

We have audited the Office of Budget and Finance, Property Management Division's procedures and controls over on-call contractors used for capital improvement project work assignments for the period July 1, 2017 to December 31, 2018. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with the Baltimore County Charter, Section 311, the objectives of our audit were to evaluate the adequacy of internal control practices and procedures over on-call contractors used for capital improvement project work assignments and to determine compliance with any applicable contract terms, policies and procedures, and rules and regulations. In planning and conducting our audit, we focused on certain on-call contractors the Division used for capital improvement project work assignments based on assessments of significance and risk.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected. We performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not audited.

The Division's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, regulations, contracts, policies, and procedures are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Baltimore County Council in exercising its legislative oversight function and to provide constructive recommendations for improving County operations. As a result, our reports generally do not address activities we reviewed that may be functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control and administrative and operating practices and procedures that could adversely affect the Division's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, regulations, contracts, policies, and procedures. Other less significant findings that did not warrant inclusion in this report were communicated to the Division.

APPENDIX A

**Office of Budget and Finance,
Property Management Division**

Response



JOHN A. OLSZEWSKI, JR.
County Executive

EDWARD P. BLADES, DIRECTOR
Office of Budget and Finance

July 23, 2021

Lauren M. Smelkinson, CPA
Office of the County Auditor
Baltimore County, Maryland
Courthouse, Room 221
Towson, Maryland 21204

Dear Ms. Smelkinson:

We are providing this letter in connection with your audit of the Office of Budget and Finance, Property Management Division's procedures and controls over on-call contractors used for capital improvement project work assignments for the period July 1, 2017 to December 31, 2018 to evaluate the adequacy of internal control practices and procedures over on-call contractors used for capital improvement project work assignments and to determine compliance with any applicable contract terms, policies and procedures, and rules and regulations. Enclosed please find the Division's responses.

Sincerely,

Debra Shindle

Debra D. Shindle, County Property Manager
Property Management Division

Findings and Recommendations

1. Audit Finding

On-call contractor policies and procedures the Division had established were not documented, certain established policies and procedures were not complied with or adequate, and other policies and procedures had not been established.

Audit Recommendation

To ensure that on-call contractors are properly monitored, and payments to on-call contractors are accurate and proper, we recommend that the Division establish adequate, written policies and procedures and comply with its policies and procedures.

Response to Audit Recommendation

The Division agrees with the audit recommendation. In 2019 (subsequent to the audit period), the Division began developing procedures. Currently, we have developed standards and procedures that are reviewed yearly and updated.

2. Audit Finding

The Division's policies and procedures were not adequate to ensure compliance with certain County Code requirements.

Audit Recommendation

We recommend that the Division establish adequate policies and procedures to ensure that the Division complies with County Code requirements for competitive procurement of capital improvement project work assignments when awarding work to its on-call design-build construction and trades/professional services contractors, and to notify the Council when the cost of a capital improvement project work assignment awarded to an on-call design-build construction contractor exceeds 20% of the original quote.

Response to Audit Recommendation

The Division agrees with the audit recommendation. Subsequent to the audit period, the Division began to competitively procure capital improvement project work assignments when awarding work to its on-call design-build construction and trade/professional services contractors. In addition, the Division has made it a standard and procedure to notify the Council when the cost of a capital improvement project work assignment awarded to an on-call design build construction contractor exceeds 20% of the original quote. The County has also begun to review all the on-call contractor procedures with the Blue Ribbon Committee.

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