

Internal  
Audit  
Report

*Division of Fiscal Services – Office of Purchasing*

**Contracts, Agreements, and Leases  
Audit**

*March 2023*



Baltimore County Public Schools  
Office of Internal Audit

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# Report Highlights

## Contracts, Agreements, and Leases

*March 2023*

### Objective

To ensure that the execution of contracts, non-real estate leases, and agreements comply with Board policy, Superintendent rules and Purchasing guidelines and SOPs.

### Background

The Office of Purchasing (Purchasing) executes contracts for the acquisition of goods and services on behalf of BCPS. A contract cannot be initiated until it is properly executed by Purchasing.

### Audit Period

Active contracts, agreements, and leases, as of October 21, 2022

## Summary of Results

**Purchasing has not implemented corrective actions related to their Standard Operating Procedures (SOPs) as noted in prior audit reports.**

- The UHY, LLP Audit Report, dated 4/9/2019.
- The Office of Legislative Audits (OLA) Financial Management Practices Audit, dated, 11/2020.
- The Office of Internal Audit Follow-Up to the UHY Audit, dated 11/17/2021.
- The Office of Internal Audit Follow-Up to the OLA Audit, dated 2/17/2022.

## Audit Rating

**Satisfactory**

Purchasing received a satisfactory audit rating:

- Controls are largely operating in a satisfactory manner and provide some level of assurance.
- The design of controls is adequate in addressing key risks.
- There are no high-rated issues identified.

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## BACKGROUND

### Organizational Status and Information

Purchasing is part of the Division of Fiscal Services and educates, guides, and supports its customers by providing timely and efficient delivery of procurement services. It demonstrates high standards of proficiency in compliance with policies, rules, and governmental regulations to guarantee all stakeholders' success while preserving public trust. Its mission ensures contract documents are designed to optimize the quality of goods and services while at the same time minimizing the financial risk to the school system.

Purchasing established uniform guidelines for the review, approval, and execution of contracts and the modification of contract documents on behalf of the Board of Education and BCPS.

As of October 21, 2022, BCPS Purchasing had over 500 active contracts and/or leases, and over 700 active consultant agreements.

### Regulations

Purchasing processes are governed by Board Policy and Superintendent Rule 3215 - Contract Execution. Purchasing also has draft SOPs for review, approval and execution of contracts, non-real estate leases, and consultant agreements.

## COMMENDATIONS

### Communication

The Purchasing Director was prompt in her submission of audit requests and provided detailed explanations when follow-up was requested.

### Consultant Agreements

Sampled items contained the appropriate approval signature for execution.

### Contract/Leases

The sampled items contained the appropriate approval signatures for execution and were properly executed prior to payments made to the vendor.

## RESULTS

### **Issue 1 – Purchasing has not implemented corrective actions related to their Standard Operating Procedures (SOPs) as noted in prior audit reports.**

Issue Rating	Medium
Criteria	By implementing corrective actions, an organization can make changes in its system to perfect its processes. They are an essential part of the audit process. To achieve the goal of addressing audit recommendations, management must implement their corrective actions to all audits.
Issue	<p>Since 2019, there were previous audits that documented Purchasing’s lack of formal procedures. Although Purchasing SOPs have been revised, they remain in a draft format and have not been finalized. Corrective actions related to Purchasing’s SOPs from the prior audits have not been fully addressed:</p> <ul style="list-style-type: none"><li>• The UHY, LLP Audit Report, dated April 9, 2019.</li><li>• The Office of Legislative Audits (OLA) Financial Management Practices Audit, dated, November 2020.</li><li>• The Office of Internal Audit Follow-Up to the UHY Audit, dated November 17, 2021.</li><li>• The Office of Internal Audit Follow-Up to the OLA Audit, dated February 17, 2022.</li></ul>
Cause	Multiple reasons have contributed to the delay in finalizing the SOPs: Competing priorities, staffing levels, changing technologies and processes.
Effect	If corrective actions are not completed timely there could be a risk for additional subsequent findings or operational risk. Failure to implement audit recommendations could lead to ineffective and inefficient procurement processes, adherence to outdated or obsolete processes, and non-compliance with current Board policy and Superintendent rules.
Recommendation	Purchasing should implement the corrective actions noted in prior audits related to its SOPs.

#### Management’s Corrective Action

Purchasing will implement the corrective action focusing on SOPs related to contracts, agreements, and non-real estate leases.

#### Responsible Person(s)

Purchasing Director

#### Anticipated Completion Date

July 1, 2025

## AUDIT RATING

- Satisfactory** Purchasing received a satisfactory audit rating:
- Controls are largely operating in a satisfactory manner and are providing some level of assurance.
  - The design of controls is adequate in addressing key risks.
  - There are no high-rated issues identified.

See **APPENDIX B** for the audit rating definitions.

## OBJECTIVE, SCOPE & METHODOLOGY

- Objective** To ensure that the execution of contracts, non-real estate leases, and agreements comply with Board Policy, Superintendent Rules, and Purchasing guidelines and SOPs.
- Scope** The audit period is active contracts, agreements, and non-real estate leases as of October 21, 2022.
- Methodology** To achieve the audit objectives, we performed the following:
- Planned the audit in cooperation with the Purchasing Director to ensure an understanding of the contract, lease, and agreement execution process.
  - Interviewed the Purchasing Director who is knowledgeable of the contract, lease, and agreement execution process.
  - Reviewed Board Policy and Superintendent Rule 3215, SOP 3215-001 Contract Execution Non-Construction over \$500,000, SOP 3215-005 Contract Modifications over \$500,000, SOP 3215-007 Contract Execution - Consultant Agreement.
  - Evaluated risks and controls over the contract, non-real estate lease, and agreement execution process.
  - Performed detailed tests to support our conclusions.
    - We randomly selected samples of contracts, non-real estate leases and agreements to ensure that they were properly executed.
    - For contracts and non-real estate leases, we reviewed Vendor Transaction History within Advantage Financial to ensure payments were made after execution.

## APPENDIX A – Issue Rating Definitions

Issues will be rated high, medium, or low based on these factors:

1. Level of financial impact.
2. Extent of violation of external laws, regulations, and restrictions.
3. Lack of documented policy, procedure, or noncompliance with a policy in an important matter.
4. Lack of internal controls or ineffective controls and procedures.
5. Fraud, theft, inappropriate conflicts of interest or serious waste of school system resources.
6. Significant opportunity exists for real gains in processing efficiency.
7. Poor cost controls or potential for significant savings and/or revenue generation.
8. Condition places the school systems reputation at risk.
9. Ineffective reporting and/or communication structure results in financial risks and/or inefficient operations.
10. Post audit implementation review reveals little or no effort to implement an action plan in response to a previous audit finding.

## APPENDIX B – Audit Rating Definitions

Audit Rating	Definition
<p><b>Unsatisfactory</b></p>	<p><b>Design</b> - Design of controls is ineffective in addressing key risks  <b>Documentation and communication</b> - Non-existent documentation and/or communication of controls/policies/procedures  <b>Operation/implementation</b> - Controls are not in operation or have not yet been implemented  <b>Compliance</b> - Significant breaches of legislative requirements and/or departmental policies and guidelines  <b>Risk management</b> - Risks are not being managed  <b>Issues/deficiencies</b> - Most issues were rated as high and urgent corrective actions are necessary</p>
<p><b>Needs Improvement</b></p>	<p><b>Design</b> - Design of controls only partially addresses key risks  <b>Documentation and communication</b> - Documentation and/or communication of controls/policies/procedures is incomplete, unclear, inconsistent, or outdated  <b>Operation/implementation</b> - Controls are not operating consistently and/or effectively or have not been implemented in full  <b>Compliance</b> - Breaches of legislative requirements and/or departmental policies and guidelines have occurred  <b>Risk management</b> - Risks are not effectively managed which could result in failure to ensure school objectives are met  <b>Issues/deficiencies</b> - Some high-rated and/or medium-rated issues were identified</p>
<p><b>Satisfactory</b></p>	<p><b>Design</b> - Design of controls is largely adequate and effective in addressing key risks  <b>Documentation and communication</b> - Controls/policies/procedures have been formally documented and are up to date but are not proactively communicated to relevant stakeholders  <b>Operation/implementation</b> - Controls are largely operating in a satisfactory manner and are providing some level of assurance  <b>Compliance</b> - No known breaches of legislative requirements and/or departmental policies and guidelines have occurred  <b>Risk management</b> - Risks are largely effectively managed  <b>Issues/deficiencies</b> - No high-rated or medium-rated issues identified</p>