



**Mecklenburg County  
Department of Internal Audit**

Finance Department Procurement Division  
Procurement Contract Approvals  
Report 1961

December 11, 2019

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**Internal Audit's Mission**

To support key stakeholders in cultivating an environment of accountability, transparency, and good governance.

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**Internal Audit Contacts**

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**Staff**

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**Acknowledgements**

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**Obtaining Copies of  
Internal Audit Reports**

This report can be found in electronic format at  
<https://www.mecknc.gov/audit/reports/pages/default.aspx>



**MECKLENBURG COUNTY**  
**Department of Internal Audit**

**To:** Sarah Lyberg, Director, Financial Services Department

**From:** Joanne Prakapas, Director, Department of Internal Audit

**Date:** December 11, 2019

**Subject:** Procurement Contract Approvals Report 1961

The Department of Internal Audit has completed its audit of the contract approval process to determine whether internal controls effectively manage key business risks inherent to this activity. Internal Audit interviewed key personnel; reviewed and evaluated policies, procedures, and other documents; and tested procurement contract and supporting documentation from July 1, 2016 through September 30, 2018. This audit excludes zero dollar<sup>1</sup> contracts.

This audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. These 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.

**OVERALL EVALUATION**

Overall, key risks inherent to procurement contract approval processes were managed to an acceptable level; however, opportunities exist to improve the design and operation of some control activities.

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<sup>1</sup> Zero dollar contracts receive zero dollars in County funding per contract terms.

## RISK OBSERVATION SUMMARY

The table below summarizes the risk observations identified during the audit, grouped by the associated risk factor, and defined in Appendix A. The criticality or significance of each risk factor, as well as Internal Audit’s assessment of the design and operation of key controls to effectively mitigate the risks, are indicated by the color codes described in Appendix B.

RISK OBSERVATION SUMMARY			
Risk Factors and Observations	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●
1.1 Formal Documentation			
2. Compliance Risk	●	●	●
2.1 Unapproved Contracts 2.2 Independent Internal Review			
3. Human Resources Risk	●	●	●
3.1 Training			
4. Documentation Risk	●	●	●
No risk observations noted			
5. Segregation of Duties Risk	●	●	●
No risk observations noted			

The risk observations and management’s risk mitigation strategies defined in Appendix C are discussed in detail in the attached document. Internal Audit will conduct a follow-up review to verify management’s action plans have been implemented and are working as expected.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 980-314-2889 if you have any questions or concerns.

- c: County Manager
- Assistant County Managers
- County Attorney
- Deputy County Attorney
- Board of County Commissioners
- Audit Review Committee
- Procurement Division Director

## BACKGROUND

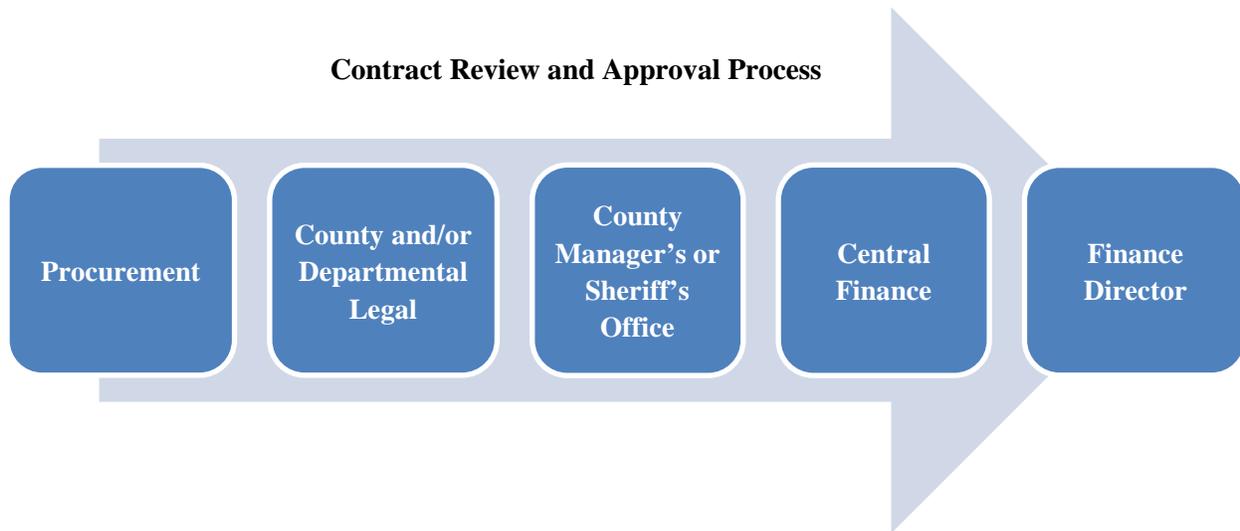
The Mecklenburg County Financial Services Department (Department) has three divisions: Central Finance, Departmental Financial Services, and Procurement. The County's procurement process is centralized and overseen by the Department, led by the Procurement Division. The Procurement Division is responsible for the administration of procurement policies and procedures and supports all County departments' purchasing needs.

### County Contracts

County procurement contracts can be either standard (CT) or master (MA) agreements. A CT defines contract performance requirements and expectations with a pre-determined dollar amount. An MA is a price agreement to procure specific items over a given period of time, but exact quantities and delivery times cannot be predicted. An MA allows for a single competitive procurement in lieu of repetitive requisitions. Contracts may be amended to modify an existing contract's prices, scope, or certain terms and conditions.

### Approval Process<sup>2</sup>

The requesting party must upload the final contract into OnBase, the County's electronic document storage system, to facilitate contract review and approval, as well as maintain supporting documentation. The approval process ensures contracts have sufficient funding appropriations and comply with County policies.



County contracts and amendments are considered fully executed once all required approvals are completed, particularly the final approval from the Finance Director or his or her designee. The Financial Services Department's expectation is that County departments will refrain from receiving goods or services prior to the final contract approval as required by North Carolina Statute §159-28.

Procurement activities must be performed in compliance with North Carolina Statute §132-8.1 regarding contract documentation maintenance and County procurement policy and procedures. The Procurement

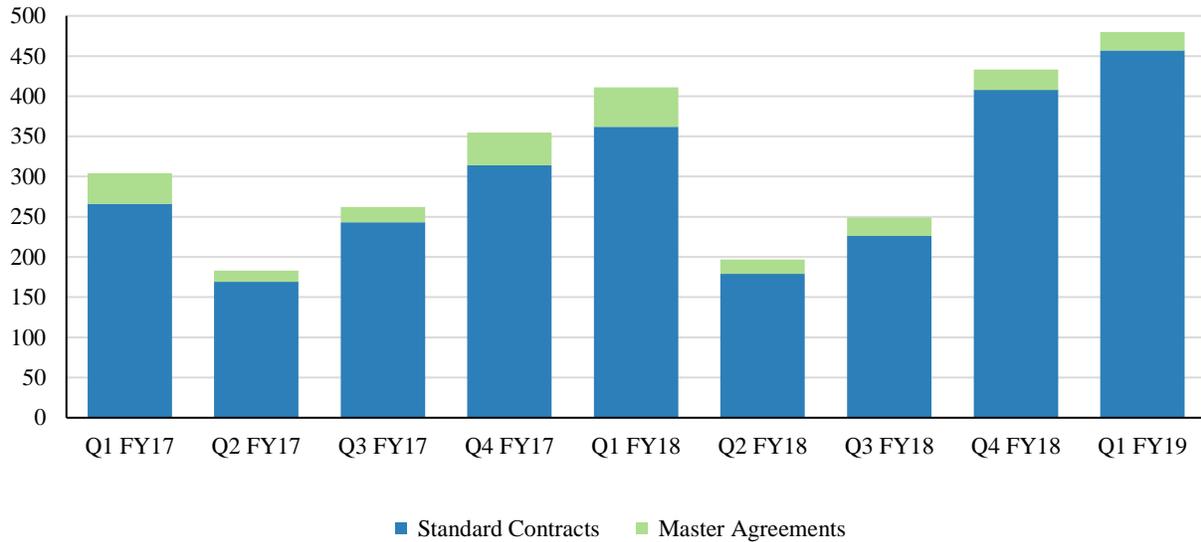
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<sup>2</sup> The Contract Review and Approval Process diagram excludes approval activities conducted by the Board of County Commissioners and City of Charlotte Risk Management.

Division relies on department directors to train their staff involved in the procurement process to ensure activities are in compliance.

All CT and MA contracts must be entered into Advantage, the County's financial system, to process vendor payments and record the activity in the general ledger.

### Contracts Processed Through Advantage



*Source: Auditor analysis of Advantage data, unaudited*

## COUNTY MANAGER'S OVERALL RESPONSE

The County Manager concurs with all risk mitigation strategies and timeframes for implementation.

## RISK OBSERVATIONS AND MITIGATION STRATEGIES

Risk Factor	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●

### Risk Observation

1.1 Formal Documentation—The County's procurement policies and procedures did not have a section specific to contract approvals. In addition, they did not always reflect department-level training requirements and current and/or best practice, e.g., monitoring of contract approval activities. Yet, policies and procedures are important control activities to help management ensure its directives are carried out while mitigating risks that may prevent the organization from achieving its objectives.

### Recommendation

1.1 Internal Audit recommends management develop and implement policies and procedures for the contract approval process. All staff involved in the contract approval process should be trained accordingly. Policies and procedures should, at a minimum, include:

- Roles, responsibilities, and training requirements for all staff involved in the approval process
- Documentation standards
- Communication protocols for issue follow-up and escalation
- Supervisory oversight and monitoring
- Frequency of policy and procedure reviews and updates

### Management's Response

1.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** April 2020

**Action Plan:** The Financial Services Department agrees with the recommendation and is already taking actions to address gaps in policy, procedure, and training consistent with the Strategic Business Plan goal to realize the value of Procurement.

The Department is currently engaged in an independent review of County procurement policies, procedures, and practices with the National Institute of Government Procurement. The final report should be available in November 2019, so the Department will immediately begin work on defining roles, responsibilities, training requirements, documentation standards reflecting input from the independent review, and will include frequency of policy and procedure reviews and updates early in calendar year 2020. Communication protocols and supervisory oversight and monitoring will be defined and implemented by the target completion deadline.

Risk Factor	Criticality	Design	Operation
2. Compliance Risk	●	●	●

### Risk Observations

- 2.1 Unapproved Contracts—Procurement Division management did not have a process in place to ensure contracts were appropriately approved prior to the County receiving goods or services. Thirty-one of 71 or 44% of contracts sampled had one or more documented payment requests for vendor services rendered prior to the contract’s final approval date. Another five of 71 had vendor documentation that did not indicate dates when goods and/or services were accepted. Without obtaining an approved contract prior to receiving goods and services, the County cannot ensure both parties have a full understanding of the legally binding scope of work and specific rights and obligations.
- 2.2 Independent Internal Review—While management had a process in place to routinely monitor the contract approval process, they did not include an independent internal review to identify inconsistencies and staff training opportunities.

### Recommendations

- 2.1 Internal Audit recommends management develop a training and monitoring process for appropriate County staff to help ensure contracts are timely and properly approved prior to the County receiving goods or services. Staff should be trained accordingly.
- 2.2 Internal Audit recommends management include an independent internal review in its contract approval monitoring process and provide staff training as necessary.

### Management’s Responses

- 2.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** March 2020

**Action Plan:** It is incumbent on the Department procuring the goods or services to ensure that they do not accept goods or services prior to contract approval. The Finance Department is already taking steps to help reduce the risk of accepting goods or services starting prior to contract execution by moving to multi-year contracts where appropriate, overlapping terms to account for the fiscal year closing process, and including non-appropriations language in all contracts. The Department agrees with the finding, and will develop a training and monitoring process for County staff to mitigate the risk that the County receives goods or services prior to contract approval. The Department anticipates developing and implementing training and monitoring to reduce the risk of County staff accepting goods or services before contract approval in the third quarter of fiscal year 2020.

- 2.2 **Risk Mitigation Strategy:** Reduce **Implementation Date:** April 2020

**Action Plan:** The Finance Department will include an independent internal review in its contract approval monitoring process that includes staff training as necessary to address inconsistencies. With recommendations from the National Institute of Government Procurement anticipated in November 2019, the implementation date reflects first work to define and refine roles and responsibilities within



## APPENDIX A—Risk Factor Definitions

Risk Factor	Definition
Compliance Risk	Failure to comply with established policies, procedures, and/or statutory requirements may result in unacceptable performance that impacts financial, operational, or customer objectives.
Documentation Risk	Failure to adequately collect, file, and retain key documentation may result in lack of accountability and/or evidence of inspection information and support.
Human Resource Risk	Failure to attract, train, develop, deploy, and/or empower competent personnel may inhibit the organization's ability to execute, manage, and monitor key business activities.
Policies and Procedures Risk	Failure to have formal, documented, clearly stated, and updated policies and procedures may result in poorly executed processes and/or increased operating costs.
Segregation of Duties Risk	Failure to adequately segregate duties may allow an employee or group of employees to perpetrate and conceal errors or irregularities without timely detection.

**APPENDIX B—Color Code Definitions**

The criticality of a risk factor represents the level of potential exposure to the organization and/or to the achievement of process-level objectives before consideration of any controls in place (inherent risk).

Criticality	Significance and Priority of Action
	The inherent risk poses or could pose a significant level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take immediate action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a moderate level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take prompt action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a minimal level of exposure to the organization and/or to the achievement of process level objectives. Risk observations related to this risk factor, however, may provide opportunities to further reduce the risk to a more desirable level.

The assessment of the design and operation of key controls indicates Internal Audit’s judgment of the process and system design to mitigate risks to an acceptable level.

Assessment	Design of Key Controls	Operation of Key Controls
	The process and system designs do not appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities is not consistently effective to manage the risk to an acceptable level.
	The process and system designs appear to be adequate to manage the risk to an acceptable level. Failure to consistently perform key risk management activities may, however, result in some exposure even if other tasks are completed as designed.	The operation of the process’ risk management capabilities is only partially sufficient to manage the risk to an acceptable level.
	The process and system designs appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities appears to be sufficient to manage the risk to an acceptable level.

**APPENDIX C—Risk Mitigation Strategy Definitions**

<b>Risk Mitigation Strategy</b>	<b>Definition</b>
Reduce	Risk response where actions are taken to reduce a risk or its consequences.
Accept	Risk response where no action is taken to affect the risk.
Transfer	Risk response where a portion of the risk is transferred to other parties.
Avoid	Risk response to eliminate the risk by avoiding or withdrawing from the activity giving rise to the risk.