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Chairman Kasemeyer, Vice Chair Madaleno, and committee members, thank you for the opportunity to present the results of our review of a \$3.68 million payment made by the Department of Information Technology (DoIT) for services provided by contractors under an October 2016 work order related to the eMaryland Marketplace (eMM), an internet-based procurement system. The system is currently used by the State and other governments in Maryland primarily to publish solicitations and contract awards for goods and services.

As requested by the Joint Audit Committee, the purpose of the review was to determine whether the charges submitted by the contractors to support the payment were proper.

In response to a DoIT request, a contractor under an existing statewide eGovernment services master contract proposed to meet certain procurement-related goals and process improvements, and provide day-to-day project management and oversight. Under the arrangement, the statewide contractor would use the State's existing eMM vendor as a subcontractor since that vendor's proprietary software was integral to the proposal.

The proposal provided for four primary services: (1) management and training; (2) upgrade and launch of a new version of eMM; (3) strategic sourcing and supplier enablement; and (4) procure-to-pay implementation. This latter service would result in the replacement of the existing procurement component of the State's Financial Management Information System (FMIS), which is overseen by the Comptroller of Maryland and DoIT.

The resulting work order was executed on October 14, 2016. Under the work order, the State had no direct financial obligation to the statewide contractor and its subcontractor for their costs associated with the work order because the contractor was authorized to charge a convenience fee to vendors using eMM to sell goods and services to State agencies and other entities. There were no limits established or estimates made regarding the total compensation to be received under the work order. The statewide contractor would retain all the convenience fees up to \$15 million from the vendors and remit 30 percent of any fees above \$15 million to DoIT.

Based on the request of the Office of the Comptroller of Maryland, DoIT suspended the work order on March 3, 2017. The compensation arrangement was one of the concerns expressed by the Comptroller's Office with the work order.

On July 26, 2017, the Board of Public Works approved the request of DoIT and the Department of General Services to make a retroactive payment to the eMM vendor totaling \$3,682,404 for work performed under the work order. This payment consisted of three components: (1) amounts to be paid to the statewide contractor (\$500,512); (2) eMM subscription and hosting fees (\$783,761); and, the eMM vendor's labor charges (\$2,398,131).

The focus of our work was to review the support for the costs under these three components. To do this, we obtained a billing summary prepared by the vendor and other evidence and explanations as to how the \$3.68 million retroactive payment was calculated. The billing summary primarily listed the individuals working on work order tasks, the hours charged each day and then their cost based on rates set under the eGovernment master contract. In total, the contractors reported 13,788 labor hours used under the work order.

We found that certain amounts billed could not be substantiated and, in some cases, raise questions that would require additional follow-up by the State to resolve.

- The eMM vendor and the statewide contractor charged for labor occurring prior to work order execution (\$250,493) and after work order suspension (\$522,071). Whether these charges are appropriate is unclear, given that DoIT was aware that both contractors were performing work during those periods.

- The eMM vendor included indirect labor hours costing \$243,016 even though the rates used for direct labor hours already incorporated indirect costs.
- The subscription and hosting fees charged by the eMM vendor based on information provided by DoIT and the eMM vendor appear to be approximately \$109,000 higher than they should have been.

Based on the work we could perform, it appears the labor hours charged by the eMM vendor (other than the indirect labor hours) was supported by the vendor's timekeeping system. The labor hours for the statewide contractor could not be substantiated since those hours were estimated.

Although there was evidence of work being performed by the statewide contractor and the eMM vendor, we were unable to determine whether the 13,788 labor hours reported by the contractors were justified relative to work progress and expected outcomes. Neither the statewide contractor's nor the eMM vendor's reported labor hours were categorized to determine the hours spent for each of the four primary services, and a project plan was never approved by DoIT to help identify the level of effort expected for these services. According to DoIT, no deliverables for the four primary services were accepted and none of the work completed is likely to have any substantive future benefit.