

Special Review

Department of Transportation State Highway Administration Construction Inspection Services Contracts

SHA and 10 Firms Arranged to Use \$11.3 Million in Contract Funds for Unrelated Projects, and/or to Conceal Overspending on Other Contracts

SHA Did Not Obtain Board of Public Works Approval for Certain Contract Activity

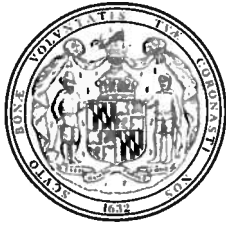
Certain Contract Values Could Not be Substantiated

November 2011



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

November 21, 2011

Bruce A. Myers, CPA
Legislative Auditor

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted a special review of certain construction inspection services contracts at the State Highway Administration (SHA). The review was performed based on certain issues noted in our June 2011 Special Report on SHA which addressed several allegations received through our fraud hotline. Specifically, we identified several questionable financial transactions with the contracts procured and managed by SHA's Office of Construction (OOC) that were not part of the reported allegations. As a result, we performed an expanded review of construction inspection services contracts processed by the OOC.

Our review disclosed that SHA, with the cooperation of the firms, redirected at least \$11.3 million from 10 contracts for unrelated projects, and/or to conceal overspending on other contracts, thereby circumventing Board of Public Works (BPW) oversight and approval. In addition, SHA requested BPW approval for new inspection contracts when there were still funds remaining on existing contracts and could not document the basis for the amounts requested. We also noted that SHA did not obtain BPW approval for certain contract extensions and did not use task orders to properly monitor the services provided by contractors and/or the related charges.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

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Scope, Objectives, and Methodology

We conducted a special review of certain contracts for construction inspection services at the State Highway Administration (SHA). The review was performed based on certain issues noted in our June 2011 Special Review on SHA, which addressed several allegations received through our fraud, waste, and abuse hotline. Specifically, in the related report, we identified several questionable financial transactions with construction inspection services contracts¹ procured and managed by SHA's Office of Construction (OOC) that were not part of the reported allegations.

For example, in our June 2011 Special Review, we noted instances where OOC used contract funds for services that were not within the scope of the contracts and that SHA could not document the basis for the estimated funding requests for contracts submitted to the Board of Public Works (BPW). Furthermore, we noted that SHA senior management personnel were copied on certain correspondence sent to the firms involved. As a result, we determined that an expanded review of OOC's construction inspection services contract funds and related issues was warranted.

We focused our current review on the 17 construction inspection services contracts, totaling \$146 million (identified in the aforementioned Special Review), that were active as of December 2010. We obtained a list of all invoices processed on these contracts between January 2008 and April 2011. Invoices relating to 16 of these contracts, totaling \$70 million, were paid during this period to 12 architectural and engineering firms (some of which had multiple contracts with SHA, including joint ventures with other firms).

Our review was conducted from April through August 2011 and consisted of tests, analyses, observations, and discussions with SHA personnel and others, as we deemed necessary, to achieve our objectives. Our review did not constitute an audit conducted in accordance with generally accepted government auditing standards. Our review was performed in accordance with State Government Article, Section 2-1220 of the Annotated Code of Maryland.

¹ In our June 2011 report, we referred to these contracts as construction management and inspection services contracts. We were advised by SHA management that the services provided under the contracts reviewed did not include construction management services as of August 30, 2011.

Background Information

Agency Responsibilities

The Transportation Article, Section 8-201 of the Annotated Code of Maryland, establishes the State Highway Administration (SHA) in the Maryland Department of Transportation. SHA is responsible for the planning, construction, improvement, maintenance, and operations of the State highway system. SHA operates numerous facilities throughout the State, including a headquarters in Baltimore City and seven district offices.

Background

SHA entered into multi-year contracts with architectural and engineering firms to provide construction inspection services for SHA construction projects. According to SHA records, there were 17 open contracts² with 12 firms (some of which had multiple contracts with SHA, including joint ventures with other firms) as of December 31, 2010 with contract costs totaling \$146 million and a remaining balance of approximately \$64 million. SHA obtained Board of Public Works (BPW) approval for each of these contracts, including the contract period and the maximum dollar amount to be paid to the contractor.

SHA's Office of Construction (OOC) was responsible for developing the scope of these contracts on behalf of the district offices, and the Office of Procurement and Contracts (OPC) conducted the related procurements (including issuing the requests for proposals and publishing the solicitations). SHA's district offices were responsible for assigning work to the firms under contract in their respective districts, for monitoring the related work, and for approving the invoices.

These contracts provided for the firms to perform construction inspection services for an undetermined number of highway construction projects in specific SHA districts. The contracts required the firms to submit a list of staff that would be assigned to the contract, along with their salaries and resumes, for SHA approval. SHA was to submit written requests for staff as needed for various construction projects. Payments to the firms were primarily based on salary costs (that is, reimbursements for direct salary costs and an overhead rate applied to these costs).

² Separate contracts are issued for each of the seven SHA district offices, each of which span several years, so certain jurisdictions had multiple contracts open at the same time.

Findings and Recommendations

Improper Use of Contract Funds

Finding 1

The State Highway Administration (SHA) and 10 architectural and engineering firms arranged to use unexpended balances of contracts, totaling \$11.3 million, to pay for work that was outside the scope of those contracts without obtaining required Board of Public Works approval.

Analysis

SHA and 10 architectural and engineering firms arranged to use unexpended balances of contracts for construction inspection services to pay for work that was outside the scope of those contracts. These arrangements circumvented State procurement regulations which require a formal contract modification and Board of Public Works (BPW) approval for a significant change in contract scope. Specifically, we tested invoices totaling approximately \$70 million from 16 contracts for construction inspection services provided by 12 firms which constituted all invoices paid during the period from January 1, 2008 through April 4, 2011. Our testing disclosed that, for 10 of these contracts, SHA and the firms arranged to use \$11.3 million of the \$45.5 million invoiced and paid on these contracts (or 25 percent) for unrelated projects, and /or to conceal overspending on other contracts.

For example, on October 15, 2008, the BPW approved a \$16 million contract for construction inspection services in a specified district. SHA subsequently made several requests of the firm to use contract funds for services that were not within the contract scope and instructed the firm how to submit its invoices to facilitate payment. The first 28 invoices submitted on this contract, between January 6, 2009 and January 31, 2011, all included charges unrelated to the contract. Specifically, \$4.4 million (66 percent) of the \$6.7 million invoiced and paid by SHA during this period were for services that were not within the defined scope of the BPW-approved contract (for example, the charges were for work performed in other districts).

For another contract, we noted a number of requests from a firm to use unexpended balances from an \$8 million construction inspection services contract to provide services under a contract with another SHA unit. During the period from January 12, 2008 through March 1, 2010 the firm submitted 31 invoices totaling \$6.1 million on this \$8 million contract. Our review disclosed that 29 of the invoices included expenditures, totaling approximately \$962,000 (16 percent), that were not within the defined scope of the firm's BPW-approved contract.

SHA did not maintain records to account for the funds used on other projects that were outside the contract scope and could not readily provide us with the total amount improperly expended on these contracts. In response to our request, SHA initiated a survey of its units to identify the total amount of contract costs incurred for unrelated work. As of November 2, 2011, the survey had not been completed. However, preliminary results from one unit suggest that improperly expended funds could involve services outside of SHA (that is, other Maryland Department of Transportation units.)

SHA's use of contracts to perform work outside of the contract scope instead of requesting BPW approval for change orders violates State laws and regulations which require contract modifications that materially change the scope, amount, or any cost component of a contract by more than \$50,000 to be submitted to BPW for approval. In addition, the aforementioned conditions may have federal implications since these contracts are funded, in part, with federal funds.

Furthermore, the arrangements made between SHA and the firms are indicative of a less than arm's-length relationship between those parties that, in turn, could raise questions regarding the integrity of the procurement and payment process for subsequent contracts involving these firms. Specifically, SHA personnel advised us that, with respect to the aforementioned arrangements, it was an accepted practice for the "reimbursement" of the contract funds, which were used to perform work outside of the contract scope, once a subsequent contract was entered into with the same firm. We noted that, in response to one request, Office of Construction (OOC) management stated that *"the other unit will be responsible for reimbursing OOC when their [sic] new contract(s) is (are) in."* If the same firm did not get the replacement contract, that would not be a viable option because it would be difficult to reimburse the funds redirected from the contract.

In this regard, our test of 5 of the aforementioned 10 construction inspection contracts disclosed that all of the participating firms had been awarded one or more replacement contracts totaling \$55 million by SHA during the period from July 2009 through March 2011 for construction inspection services and other services. For example, the "reimbursement" process for the previously noted \$8 million contract worked in the following manner: Some of the contract funds from the \$8 million construction inspection services contract attributable to one unit (lending unit) were used for services applicable to another SHA unit (borrowing unit). According to the firm, this was necessary because its contract with the borrowing unit had been fully expended. SHA subsequently awarded this firm a \$4 million replacement contract, approved by the BPW on January 20, 2010, to be used for services rendered to the borrowing unit. In an attempt to make the lending unit's contract with the firm whole for the funds borrowed, the firm then began charging the new \$4 million contract for services applicable to the lending unit. In fact, we noted that the first 11 invoices paid on this new contract, totaling \$1.1 million, included \$733,119 in payments for construction inspection services related to the lending unit's contract.

Recommendation 1

We recommend that SHA

- a. develop procedures and controls to ensure contract funds are only used as authorized,**
- b. obtain BPW approval for significant contract modifications including the aforementioned \$11.3 million that was improperly used on other projects, and**
- c. evaluate its procurement activities to ensure the processes promote competition and integrity.**

Lack of Task Orders

Finding 2

SHA did not issue task orders to formally assign work and to manage construction inspection services contracts awarded to the firms.

Analysis

SHA did not issue written task orders to formally assign work and to manage construction inspection services contracts awarded to the firms. Specifically, we were advised by OOC personnel that the contracts between SHA and the firms were considered the task orders and that it would be too cumbersome to prepare a task order for individual projects completed. In this regard, the initial contracts did not contain specific deliverables for the contractors, such as the projects that were to be performed, the number of inspections required, and the estimated hours and cost for each inspection. Rather, the contracts only provided for a maximum dollar amount and for the firms to perform construction inspection services for an undetermined number of highway construction projects in specific SHA districts.

Task orders should be completed prior to the initiation of any work and should be agreed to by both SHA and the firm. Generally, a task order should specify the work to be performed by the firm, a budget identifying the allowable labor hours and associated rates, firm personnel that will be assigned to complete the task, and fees that can be charged. Because task orders were not used, SHA could not effectively monitor services provided by firms, as well as the related charges billed by the firms. For example, if an invoice included charges for 100 hours worked by one employee, there was no assurance that the services warranted 100 hours and that the services performed correlated to the hours charged.

SHA policies and procedures required task orders for architectural and engineering design work, but not for inspection work. We were advised by SHA management that task orders are also generally required by other SHA units.

Recommendation 2

We recommend that SHA

- a. ensure that task orders are issued for all construction inspection services provided before the work is initiated, and**
- b. use the task orders to monitor the work and related invoices.**

Improper Extension of Contract Terms to Retain Funds

Finding 3

SHA extended contract expiration dates without BPW approval, resulting in the accumulation of approximately \$26 million in unspent contract funds.

Analysis

SHA extended contract terms without BPW approval. Specifically, our review disclosed that, during the period from September 2008 through August 2009, SHA improperly extended the contract expiration dates for all nine construction inspection services contracts reviewed that had expired, allowing SHA to retain approximately \$26 million in unspent contract funds.³

SHA usually used correspondence referred to as “extension time” letters to request the firms to extend the expiration dates for the contracts. The reason SHA extended the contract expiration dates was to retain authority to spend the remaining funds within the contracts. For example, in April 2009, SHA sent a letter to one firm stating that its \$8 million contract was to expire on June 1, 2009 and that there were funds totaling \$3.2 million remaining as of February 17, 2009. The letter stated that SHA “desires to extend the time limit on the contract until June 1, 2010...to utilize the remaining funds within the existing contract.” This contract was subsequently extended two more times until July 8, 2011.

Although seven of these nine contracts had been initially approved by BPW for a three-year contract period, SHA subsequently extended the related contract periods for these contracts a total of 19 times—resulting in extensions of each for two or more additional years—without BPW approval.

SHA does not have the authority to extend the term of a contract without formal BPW approval. Specifically, BPW approval is required for extensions of contracts that meet certain criteria (such as significant modifications to the contract, and extensions not

³ The amounts of unspent contract funds stated here were referenced in the letters to the firms requesting the contract period extensions.

disclosed in the original contract). As a result, the firms were able to submit invoices to SHA for payment and likewise receive payment for work that was performed beyond the BPW approved contract period.

Recommendation 3

We recommend that SHA

- a. submit the aforementioned improperly extended contracts to the BPW for approval;**
- b. refrain from using any contract funds on existing contracts unless BPW approval is obtained; and**
- c. ensure that, in the future, BPW approval is obtained for significant contract modifications, including the extension of contract expiration dates.**

Lack of Support for Funding Requests

Finding 4

SHA could not adequately document the basis for the maximum value of construction inspection contracts submitted to the BPW for approval.

Analysis

SHA could not adequately document the basis for the maximum value of construction inspection contracts submitted to the BPW for approval. Specifically, our test of four contract awards, totaling \$34 million and approved by the BPW, disclosed that SHA could not adequately support the amount of funds that had been requested. In this regard, two employees involved in developing the contract amounts provided a differing basis for determining contract amounts. One employee advised us that construction inspection services generally represented five percent of the related estimated construction costs. The second employee advised us that these amounts represented “guesstimates” based on the amount expended in the prior contract, adjusted upward for an increase in firm labor costs. If this second process were used, the improper use of contract funds noted previously in Finding 1 would result in inaccurate estimates since prior contracts were used for expenditures unrelated to the contracts.

However, our test of these four contracts raised significant questions about the process used to develop inspection contract award amounts. Specifically, we requested documentation to support the contract award amounts and were provided with documentation prepared 18 months prior to the effective date of the inspection contracts. These documents included estimates of the total related construction costs to be overseen by each inspection contract. In response to our inquiry seeking support for the total estimated construction costs on these forms, we were provided an undated handwritten list and two emails, dated 21 months later listing various construction projects related to three of the four inspection contracts. In no case did the subsequent support agree with the

original construction cost estimate, and for the fourth construction inspection contract, no support was provided.

Furthermore, our review of the aforementioned documents disclosed no consistent, discernible basis for estimating construction inspection contract values. Specifically, as highlighted in the following table, the percentage of construction inspection contract values to related construction costs ranged from 3 to 27 percent based on original estimates and ranged from 5 to 11 percent based on subsequent support.

Selected Construction Inspection Contracts and Related Construction Costs					
Contract	Inspection Contract Award	Construction Costs		Percent of Inspection Contract Award to Construction Costs	
		Estimate From Initial Documentation	Contract List from Subsequent Support	Estimate	Support
1	\$10,000,000	\$ 54,900,000	\$166,957,781	18%	6%
2	\$10,000,000	\$ 297,300,000	Not Provided	3%	n/a
3	\$10,000,000	\$ 79,900,000	\$94,256,524	13%	11%
4	\$ 4,000,000	\$ 14,900,000	\$78,275,749	27%	5%

n/a – not applicable

The lack of adequate support for the funding requests is significant because, when the construction inspection contracts were submitted to the BPW for approval, there was no disclosure of the related construction contracts value. In addition, as noted in Finding 1, SHA used excess contract funds to cover over-expenditures on other contracts.

Recommendation 4

We recommend that SHA

- a. establish a documented process that justifies the contract values based on projected construction projects and related costs, and**
- b. review the funding for the aforementioned contracts to determine the proper amounts needed and submit change orders reflecting these values to the BPW for approval.**

Accumulating Unspent Funds

Finding 5

SHA procured new construction inspection contracts even though unspent funds remained on existing contracts.

Analysis

SHA procured new construction inspection contracts when there were unspent funds remaining on existing contracts. For example, we noted the following conditions:

- In October 2008, SHA requested and received BPW approval for a \$16 million contract for construction inspection services in one district even though \$15.4 million in available contract funds remained on the existing contracts in this district. In December 2008, SHA requested and received BPW approval for another \$16 million contract in this district although \$30 million in available contract funds remained in this district. In November 2009 SHA requested and received BPW approval for yet another \$10 million contract for the same district although \$36.5 million in available contract funds remained in this district. (See table below). Furthermore, as noted in Finding 2, during this same period, SHA was entering into agreements with firms to extend the contract terms to retain unspent funds.

Construction Inspection Contracts for One District					
Contract	BPW Approval	Contract Amount	Remaining Balance of Earlier Contracts as of		
			10/15/08	12/17/08	11/18/09
1	06/21/06	\$ 8,000,000	\$ 4,440,276	\$ 4,067,744	\$ 1,734,312
2	07/26/06	\$ 8,000,000	\$ 5,185,068	\$ 4,515,665	\$ 2,665,936
3	10/18/06	\$ 8,000,000	\$ 5,810,564	\$ 5,464,158	\$ 3,362,342
4	10/15/08	\$ 16,000,000	-	\$ 16,000,000	\$ 12,957,848
5	12/17/08	\$ 16,000,000	-	-	\$ 15,741,364
6	11/18/09	\$ 10,000,000	-	-	-
Total		\$ 66,000,000	\$15,435,908	\$ 30,047,567	\$ 36,461,802

- In March 2011, SHA requested and received BPW approval for a \$14 million construction inspection services contract in another district when there was still \$3.5 million remaining on an existing contract. In addition, in April 2011, SHA requested and received BPW approval for another \$14 million construction inspection services

contract in the same district. At the time of this request, SHA had \$17.4 million remaining on the two existing contracts for this district.

SHA could not readily justify the need for the new contracts and did not disclose the existing fund balances to the BPW when requesting approval for the new contracts.

Recommendation 5

We recommend that SHA either discontinue the practice of requesting new contracts when existing funds are available or fully disclose existing contract balances to the BPW.

APPENDIX



Maryland Department of Transportation
The Secretary's Office

November 16, 2011

Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor

Beverley K. Swaim-Staley
Secretary

Darrell B. Mobley
Deputy Secretary

Bruce Myers, CPA
Legislative Auditor
Office of Legislative Audits
Department of Legislative Services
Room 1202
301 West Preston Street
Baltimore MD 2121

Dear Mr. Myers:

Enclosed please find the Department's responses to the Office of Legislative Audits' Draft Special Review dated November 7, 2011, for the Maryland Department of Transportation (MDOT) – State Highway Administration (SHA). Additionally, an electronic version of this document has been sent to your office via email at response@ola.state.md.us (file name: SHAMyersDraftSpecialReview2011).

I want to express my sincere appreciation to your staff for the assistance provided to me as we have worked over the summer to address the issues identified in the June 2011 Special Review that continue into this follow-on report.

If you have any questions or need additional information, please do not hesitate to contact Mr. Darrell Mobley, Deputy Secretary/Acting SHA Administrator or myself. Mr. Mobley can be reached at 410-545-0400, or by e-mail at dmobley@mdot.state.md.us.

Sincerely,

A handwritten signature in blue ink, appearing to read "Beverley K. Swaim-Staley".

Beverley K. Swaim-Staley
Secretary

Enclosure

cc: Ms. Betty Conners, Director of Finance, State Highway Administration
Mr. David L. Fleming, Chief Financial Officer, Maryland Department of Transportation
Ms. Cheryl R. B. Hill, Deputy Administrator for Administration, State Highway Administration
Mr. Joseph J. Lambdin, Director, Office of Audits, Maryland Department of Transportation
Mr. Darrell Mobley, Deputy Secretary, Maryland Department of Transportation

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State Highway Administration
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Improper Use of Contract Funds

Finding 1

The State Highway Administration (SHA) and 10 architectural and engineering firms arranged to use unexpended balances of contracts, totaling \$11.3 million, to pay for work that was outside the scope of those contracts without obtaining required Board of Public Works approval.

Recommendation 1

We recommend that SHA

- a. develop procedures and controls to ensure contract funds are only used as authorized,**
- b. obtain BPW approval for significant contract modifications including the aforementioned \$11.3 million that was improperly used on other projects, and**
- c. evaluate its procurement activities to ensure the processes promote competition and integrity.**

Response 1:

- a. The Administration concurs with the auditors' recommendation. The Office of Construction has been directed to discontinue the practices cited in the finding.

As we responded in the June 2011 Special Review, a memorandum dated March 9, 2011, was sent to SHA's senior managers addressing procurement and management consultant issues. The memorandum specifically discusses limiting the use of contracts to work authorized in the contract. SHA is performing a review of all active consultant contracts to determine if tasks are for work authorized under the terms of the contract. If not authorized, SHA will seek appropriate approval from the BPW.

As noted in the finding, SHA initiated a survey to identify improperly expended contract funds. This survey was sent to all senior managers responsible for the management of architectural and engineering contracts. SHA is currently in the analysis stage of this effort and has identified contracts with tasks issued for work that were unauthorized under the terms of the contract. Once complete, SHA has conferred with BPW staff to seek guidance on required actions.

It should be noted that while the survey did uncover improperly expended contract funds, the services incurred were not determined to be unrelated to authorized projects. Contract services, such as construction inspection may fall outside of the geographic area under contract, but are necessary project costs.

Although the task order process is used in other areas of the Administration, SHA is currently developing a similar process to issue task orders for construction inspection services. The new task order process will require review and approval prior to issuance to ensure that the

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services requested are authorized under the terms of the contract. This process will be in place by December 31, 2011.

Additionally, the Administration is developing procedures and processes to enter and track all task orders in the financial management system (MDOT FMIS). This will further enhance the control environment over the management of the contract. This new process will be in place by December 31, 2011.

As mentioned in the response to the June 2011 Special Review, SHA's Office of Finance now requires a checklist that documents contract manager's certification of compliance with contract terms and conditions when consultant invoices are processed for payment. This checklist requirement was developed, training was conducted, and the process was implemented on September 1, 2011. SHA's Office of Audits began reviewing compliance with the checklist process in October 2011. Additionally, SHA's Office of Audits has developed an audit plan to test for compliance that contract funds are only used as authorized.

The Administration is developing contract management guidance and will provide training to contract managers and procurement staff across SHA. This guidance will be comprehensive and deployed in multiple phases. Training is planned to begin in December 2011 and completed by June 2012. This training will be on-going.

- b. The Administration concurs with the auditors' recommendation. The Administration has consulted with BPW staff to seek their guidance addressing any improperly used contracts. There will be follow up meetings with BPW staff to seek the appropriate authorization from the BPW as required.
- c. The Administration concurs with the auditors' recommendation. The Administration established the A&E Process Review Team to address issues brought out in the June 2011 Special Review. The Team has focused on many issues, which includes the A&E procurement process to better support our business needs and ensure that the process promotes competition and integrity. This process should be completed and final recommendations implemented by March 31, 2012. Additionally, the Office of Audits will perform periodic reviews of the Office of Procurements and Contracts testing for compliance with applicable laws, regulations, policies and procedures.

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Lack of Task Orders

Finding 2

SHA did not issue task orders to formally assign work and to manage construction inspection services contracts awarded to the firms.

Recommendation 2

We recommend that SHA

- a. ensure that task orders are issued for all construction inspection services provided before the work is initiated, and**
- b. use the task orders to monitor the work and related invoices.**

Response 2:

- a. The Administration concurs with the auditors' recommendation. As mentioned in the response to Finding 1, the Administration is currently developing a process to ensure task orders are issued for all work requested under consultant contracts before the work is initiated. It should be noted that processes are in place to monitor the activity of the consultant construction inspectors, including assignment of work and direct oversight by SHA project managers. However, the new task order process will add additional controls and enhance the process.
- b. The Administration concurs with the auditors' recommendation. The new task order process will add a requirement that the consultant invoice is directly related to the work performed and authorized under the task order scope of services and budget.

Improper Extension of Contract Terms to Retain Funds

Finding 3

SHA extended contract expiration dates without BPW approval, resulting in the accumulation of approximately \$26 million in unspent contract funds.

Recommendation 3

We recommend that SHA

- a. submit the aforementioned improperly extended contracts to the BPW for approval;**
- b. refrain from using any contract funds on existing contracts unless BPW approval is obtained; and**

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- c. **ensure that, in the future, BPW approval is obtained for significant contract modifications, including the extension of contract expiration dates.**

Response 3:

- a. The Administration concurs with the auditors' recommendation. Contracts extended without required BPW approval will be submitted to the BPW for consideration.
- b. SHA acknowledges that certain contract expiration dates were extended without BPW approval, where required. SHA met with BPW staff to seek guidance to ensure that all required contract extensions are approved by the BPW. Also, a separation of duties in the financial management system control environment will be implemented to ensure that only properly authorized contract extensions are available for use. This change, which will improve checks and balances between the Office of Finance and Office of Procurement and Contracts, will be implemented by December 31, 2011.
- c. The Administration concurs with the auditors' recommendation. The Administration will seek BPW approval, where appropriate, for contract modifications including the extension of contract expiration dates.

Lack of Support for Funding Requests

Finding 4

SHA could not adequately document the basis for the maximum value of construction inspection contracts submitted to the BPW for approval.

Recommendation 4

We recommend that SHA

- a. **establish a documented process that justifies the contract values based on projected construction projects and related costs, and**
- b. **review the funding for the aforementioned contracts to determine the proper amounts needed and submit change orders reflecting these values to the BPW for approval.**

Response 4:

- a. The Administration concurs with the auditors' recommendation. In July 2011, the Administration established a documented process to justify contract value for all new contracts. This justification process documents the consideration and evaluation of expenditure history, existing contract balances, and projected construction program needs.
- b. The Administration concurs with the auditors' recommendation and will review the contracts cited and consider any appropriate action. Although the contract values are significant, expenditures are constrained by the budgetary process.

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Accumulating Unspent Funds

Finding 5

SHA procured new construction inspection contracts even though unspent funds remained on existing contracts.

Recommendation 5

We recommend that SHA either discontinue the practice of requesting new contracts when existing funds are available or fully disclose existing contract balances to the BPW.

Response 5:

The Administration concurs with the auditors' recommendation and advises the BPW of existing similar contract authority and the intended use of that contract authority with new contract requests. The Administration is currently reviewing all active consultant contracts to ensure the appropriate contracts are in place to support our business needs. At this time, the review of consultant contract requests is based on our current business needs, which includes determining the proper contract value, number of contracts, and contract terms. However, the Office of Procurement and Contracts will develop and fully implement written procedures documenting this process by March 2012.