

*Internal Audit Report*

**DEPARTMENT OF TECHNOLOGY  
AND COMMUNICATION SERVICES  
CONTRACT COMPLIANCE  
COUNTY SOFTWARE CONTRACTS  
MARCH 2008**

*Office of the County Auditor*





## OFFICE OF THE COUNTY AUDITOR

Haskell Arnold, CPA  
County Auditor

March 2008

The County Council and County Executive  
of Howard County, Maryland

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted a review of selected activities of the

### SOFTWARE CONTRACTS HOWARD COUNTY GOVERNMENT

and our report is submitted herewith. The scope of our examination related specifically to a review of Howard County Government software contracts. The body of our report presents our findings and recommendations.

The contents of this report have been reviewed with the Chief Administrative Officer, and the Budget Office and Department of Finance and Department of Technology and Communication Services. We wish to express our gratitude to the various departments for their cooperation and assistance extended to us during the course of this engagement.

Haskell N. Arnold.  
County Auditor

Keith N. Zumbrun  
Auditor-in-Charge

## INTRODUCTION AND SCOPE

We obtained a list of computer software that is used by various County departments from the Department of Technology and Communication Services. From this list we selected a sample of software contracts and reviewed the related purchase orders, purchase requisitions, and vendor files that the Office of Purchasing maintains. We noted that files were well organized and maintained in a manner that facilitated the retrieval of data pertaining to individual contracts. We also found that generally, all parties to the contracts we reviewed appear to be in compliance with their respective terms and conditions. However, we do have several recommendations that we believe will improve contract accounting, review, and administration.

## **BACKGROUND**

Computer software related contracts are similar to other contracts let by the County. Under \$5000 require an informal quote which can include telephone quotes. Under \$30,000 is an informal bid and requires at least 3 quotations. Over \$30,000 is a formal process. A request for proposal and invitations to bid are posted and mailed to interested parties. Computer items are generally not to be purchased via a departments PDQ card as the Office of Technology and Communication approves the purchases of these items. The contract terms are generally one (1) year with four (4) one year renewal options, exercisable at the sole discretion of the County and determined annually based on performance. The exceptions to the above are when it would be cost and time ineffective to have a term this short. A longer period of time would require the approval of the County Council. Such was the case with the County's payroll software contract.

## FINDINGS AND RECOMMENDATIONS

Object Code 0207, Service and Maintenance contracts, is the budget category that is primarily used to monitor expenditures related to computer software contracts. We noted that in fiscal year 2007, payments charged to this object code approximated \$7.1 million dollars. FY 2008 expenditures in this category are approximately \$2.5 million. It should be noted that these amounts include both operating and capital expenditures and are not limited exclusively to software.

The County has entered into several software contracts include software maintenance in the contract price. In our review of payments to software vendors, we found that in several instances, payments for software maintenance were made using capital project funds. Governmental Accounting, Auditing, and Financial Reporting (GAFFR) standards require that capital projects funds be maintained separately from funds used for ongoing operating activities. By following these guidelines, governmental agencies can avoid the distortions in financial resources trend information that can arise when capital and operating activities are mixed. Another consideration when allowing for the use of capital project funds is an asset's life. Replacements for short-lived assets, such as personal computers, may occur as often as every three years. Accordingly, these assets are typically purchased using operating funds rather than capital because of the relative short life cycle. Likewise, computer software maintenance is generally an annual, ongoing process that includes updates and modifications to software and therefore should also be paid from operating funds. We therefore recommend:

1. *Operating costs, including those associated with computer software maintenance, be paid using the appropriate Operating funds.*

### Administration's Response:

The Administration concurs with this recommendation. All operating costs, including those associated with computer software maintenance will be paid using the appropriate operating funds.

In another instance, we noted that administrative oversight appeared to be inadequate in regard to a particular software contract that governed payroll processing. The County had engaged Automatic Data Processing (ADP) to process employees' payroll for a ten-year term that began in 1993 and ended in 2003. Not until 2005 was it discovered that this contract needed to be re-bid to meet with the County's own purchasing and fiscal policies. To maintain the continuity of payroll

processing, the contract was treated as if it had been automatically renewed. The County Council subsequently approved Council Bill 9-2006. This bill provided for a multi-year Master Services Agreement between the County and ADP to process the County's payroll for an additional term of five years with one-year renewals, estimated at \$275,000 a year. However, the fact that management was unaware for an extended period of time that a critical contract such as this one did not comply with the County's own purchasing regulations reinforces the need for more diligent contract monitoring. Therefore, we recommend that:

- 2. The Department of Technology and Communication Services in combination with the Office of Purchasing review all existing significant hardware and software contracts for compliance with County purchasing rules and regulations.**

**Administration's Response:**

The Office of Purchasing will review all existing significant hardware and software contracts for compliance with County purchasing rules and regulations. When contracts are passed through the Department of Technology and Communication Services (DTCS), it is possible to assist with the purchasing, budget and legal issues in assessing compliance. DTCS, however, will be unable to assist to ensure compliance of software contracts that are not circulated through their department for approval. Additionally, the utilization of the appropriate funds for software and hardware purchases would be an issue for review by the Purchasing and Budgeting Office for compliance with County rules and regulations, not that of DTCS. Finally, DTCS would require a current list from the Purchasing Office of utilized software with maintenance and support information with expiration dates in order to assist in maintaining this information.

Another area of concern is the contract the County has with COGNOS, a company whose software has been purchased to support the budget process. In July 2006, the County entered into a nine-year contract for budgeting software, training and maintenance of the product. The County has paid \$768,000 through September 27<sup>th</sup>, 2007 to COGNOS. Presently, the capital budget portion of the software package has been installed and will be fully functional for the first time for the FY 2009 capital budget, but the operating budget portion cannot be fully used in formulation of the FY 2009. Its use will be limited to facilitating the input of FY 2009 budget data and it is not expected to be fully operational until formulation of the FY 2010 budget. We noted that the Budget Office has gone through three Budget Administrators in the two years this contract was awarded, thus continuity of the project was broken. We were told that the Budget Office would not have the resources to test and validate the system for the FY 2009 Operating Budget in a time frame that

would allow for its' timely preparation. Additionally, we are concerned that with the advent of the Enterprise System that will integrate general ledger, purchasing, payroll, budget, etc. as one primary system, will cause the early demise of this unimplemented software. We therefore recommend that:

3. *The Budget Office and the Department of Technology and Communication Services determine the continued viability of the COGNOS software package. If the budget software is found to be viable, its implementation schedule and performance be more carefully controlled and monitored.*

**Administration's Response:**

The Operating Budget has been delayed due to the circumstances noted in the report. Since meeting with the Auditor's Office, the Budget Office has met with the Director of the Department of Technology and Communication Services (DTCS) to determine the viability of the Cognos software and it's flexibility to interface with the new Enterprise General Ledger system. It is the Administration's expectation that the Operating budget module will be completed this summer and will be fully functional for the FY10 budget cycle.

Traditionally, the DTCS has not had the role in project management for department specific software such as Cognos. The department responsible for purchasing the software has also maintained the responsibility of its installation and maintenance. This role could fit well in the Department of Technology and Communications, but appropriate funds for project management need to be defined for such PM responsibilities with spending authority granted to the respective department.

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