



PRINCE WILLIAM COUNTY

Prince William County, Virginia Internal Audit Report: Contract Compliance

November 15, 2024





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TRANSMITTAL LETTER

November 15, 2024

The Board Audit Committee of
Prince William County, Virginia
1 County Complex Court
Prince William, Virginia 22192

Pursuant to the internal audit plan for calendar year ("CY") 2024 for Prince William County, Virginia ("County" / "PWC"), approved by the Board of County Supervisors ("BOCS"), we hereby present the internal audit of contract compliance. We will be presenting this report to the Board Audit Committee of Prince William County at the next scheduled meeting on December 10, 2024.

Our report is organized into the following sections:

Executive Summary	This provides a high-level overview and summary of the observations noted in our internal audit over the contract compliance process(es).
Background	This provides an overview of the function, as well as relevant background information.
Objectives and Approach	The internal audit objectives are expanded upon in this section, as well as a review of the various phases of our approach.
Observations Matrix	This section includes a description of the observations noted during our internal audit, recommended actions, and Management response, including the responsible party and estimated completion date.

We would like to thank the staff and all those involved in assisting our firm with this internal audit.

Respectfully Submitted,

RSM US LLP

RSM US LLP

EXECUTIVE SUMMARY

Background

Contract compliance encompasses all activities from the execution of a contract through to the completion and acceptance of the contracted work, final payment, and resolution of any disputes. Effective internal controls over contract compliance and administration are essential to promoting the efficient use of County financial resources, verifying that services are delivered in accordance with contractual terms, and supporting adherence to relevant laws, regulations, and policies.

The County operates within a complex network of contractual agreements with various vendors, service providers, and external partners. These contracts cover various services across all operational and administrative aspects of the County, including construction, facility maintenance, transportation, technology, security, custodial services, emergency services, and more. As part of this internal audit, we reviewed two (2) contracts, one (1) managed by the Department of Community Services and one (1) managed by the Planning Office. At the time of our testing, the County spent ~\$2,382,2881 and ~\$1,015,315 on these two contracts, respectively.

While some aspects of the contracting process are centralized within the Office of Procurement Services, many high-risk activities related to daily contract administration and monitoring are decentralized to individual end-users, assigned contract administrators, legal personnel, and accounts payable staff. These administrators manage the day-to-day coordination and delivery of contracted goods and services, including overseeing invoicing, receipt, and billing processes, evaluating contracted vendors, confirming that contract terms and conditions are not altered without proper County authorization, and confirming that contract modifications are appropriate and properly approved.

Internal Audit performed a review of contract compliance for other sampled County departments/agencies, see report dated April 5, 2024. Included in this previously issued internal audit report are County-level observations to be applied to overall contract compliance and administration processes within the County.

Overall Summary / Highlights

The observations identified during our assessment are detailed in the pages that follow. We have assigned relative risk or value factors to each observation identified. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider in determining the relative risk rating of an observation, including financial, operational, and/or compliance, as well as public perception or 'brand' risk.

Objectives and Scope

The objective of this internal audit was to evaluate the design, control structure, and operating effectiveness of County controls related to managing and administering two (2) sampled contracts. Procedures performed included the following:

- Interviewed and performed walkthroughs with key stakeholders, including contract administrators, within the Office of Procurement Services, the Department of Community Services, and the Planning Office.
- Assessed the County's process for identifying unique risks within our sampled contracts and ability to develop procedures to mitigate.
- Assessed the adequacy and compliance with select terms of each of the two (2) contracts, including insurance requirements and service level agreements.
- Assessed controls related to vendor monitoring and performance, contract documentation, contract modifications, and contract approvals.
- Tested a sample of invoices for each of the selected contracts to validate:
 - Supporting documentation agreed to the payment amount and was mathematically accurate;
 - Payment was made in a timely manner and in accordance with the pricing terms of the contract; and
 - Performance under the contract was properly verified or monitored prior to payment of the invoice.

Our audit scope and period included the full lifecycle of two executed County contracts, which were originally executed in 2019 (Planning Office) and 2022 (Department of Community Services), including expenditures through September 2024.

Fieldwork was performed from September through November 2024.

Summary of Observation Ratings

(See page 3 for definitions)

	High	Moderate	Low
Contract Compliance	1	4	-

We would like to thank all County team members who assisted us throughout this internal audit.

EXECUTIVE SUMMARY (CONTINUED)

Observations Summary

Below is a summary listing of the observations that were identified during this internal audit. Detailed observations are included in the observations matrix section of the report. In addition, improvement opportunities have been provided following the detailed observations section.

Summary of Observations	
Observations	Rating
1. Invoice Review Procedures	High
2. BOCS Approval of Contract Modifications	Moderate
3. System and Organization Controls Report	Moderate
4. Vendor Insurance Documentation	Moderate
5. Contract Modifications	Moderate
Process Improvement Opportunity	
1. Direct Purchase Material	

Provided below are the observation risk rating definitions for the detailed observations.

Observation Risk Rating Definitions	
Rating	Definition
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals. Action should be taken within 12 months (if related to external financial reporting, must mitigate financial risk within two months unless otherwise agreed upon).
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Action should be taken within nine months (if related to external financial reporting, must mitigate financial risk within two months).
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. Action should be taken immediately, but in no case should implementation exceed six months (if related to external financial reporting, must mitigate financial risk within two months).

BACKGROUND

Overview

With more than \$300 million in annual expenditures for supplies and services, the County enters into contractual agreements with third parties to accomplish daily operational objectives and strategic goals. Contracts formally document a legally binding relationship between at least two (2) parties: the County and the third party capable of providing the desired good or service. Contract terms are required to clearly state expected behaviors and responsibilities for both parties and provide a decisive course of action in case of a dispute or deviation from the planned outcome.

The following summarizes some of the primary roles and responsibilities involved in the contract execution and administration processes for the County.

- ❖ **Office of Procurement Services:** Procurement Services is ultimately responsible for validating that all goods and services procured for the County comply with all applicable policies, procedures, and regulations, including federal requirements associated with federally awarded funds. Procurement Officers determine the procurement method to be utilized before the contracting process, create solicitation documents, facilitate the award process, answer questions related to laws and regulations, approve purchases, and conduct training related to contract usage and vendor relations. Procurement Officers are responsible for confirming task orders (“TOs”) have the appropriate approvals, collaborate with end-user departments, and contract administrators to create the control environment necessary for sound contract compliance practices.
- ❖ **Contract Administrators:** Contract administrators are responsible for the day-to-day delivery and coordination of contracted goods and services, including oversight of the invoicing, receipt, and billing processes, the evaluation of contracted vendors, and confirmation that contract terms and conditions are not modified in any way without proper County authorization. The contract administrator role was designed to achieve centralized oversight of contracts, regardless of which department or division utilizes the agreement.
- ❖ **End-Users:** End-users are any individual department or division within the County seeking to utilize an established contract or seeking to execute a new contract when an existing agreement does not meet a need. Often, the end-user is a project manager overseeing an initiative, construction project, or consulting project. End-users must communicate the needs and objectives of a contract to Procurement Services, write scopes of work and create task orders, obtain estimates from vendors, confirm that the performance of the services is in alignment with the agreement, and collaborate with contract administrators to report performance deficiencies.
- ❖ **Finance Department:** Personnel within the Finance Department are responsible for facilitating the payment process and investigating errors in Mobius – the County’s comprehensive finance, budget, human resources, and payroll system - to determine the root cause of any system error (i.e., issues related to budget/funding, technical issues, or contractual issues). Should an error exist within Mobius, Finance personnel notify the appropriate contract administrator to seek resolution.
- ❖ **Office of the County Attorney:** Regarding contract execution, the County Attorney’s Office is responsible for reviewing contract templates and standard contract clauses. These clauses are preloaded into the Mobius system and used during Procurement’s solicitation creation process. County Attorney’s Office reviews all solicitations valued at \$200,00 or more, solicitations for professional services values at \$80,00 or more, all contracts using non-County forms over \$100,000, and is available to review contract documents if changes to standard language are requested.

Contract Review and Execution

The Prince William County Procurement Regulations state that “all formal contracts to which the County is part of... shall be awarded after competitive sealed bidding or competitive negotiation.” The County utilizes Invitations for Bids (IFB), Requests for Proposals (RFP), and Requests for Quotations (RFQ) as vehicles for competition. The Regulations also state that all contracts shall be in a form prepared by the County and approved by the County Attorney or shall be individually prepared for a specific procurement. Contracts may be negotiated through the Chief Procurement Officer or an appointed designee before ultimately being approved and awarded by the requesting user department. The County Attorney may be consulted throughout the procurement and contracting process.

BACKGROUND (CONTINUED)

Contract Terms and Clauses

Every contract to which the County is a party is required to contain several standard clauses. Mandatory language includes requirements about ethics, examination of records, procedures related to claims and disputes, opportunities for rightful termination resulting from non-appropriation of funds, contract default and convenience, provisions related to payment, and attestations to a drug-free workplace. Additional contract clauses may apply based on the type of good or service provided. For example, the Planning contract included in this review included language regarding the use of task orders. In contrast, the Community Services contract included requirements about the Virginia Department of Behavioral Health and Development Services licensing rules and regulations.

Change Orders and Contract Modifications

Contract modifications or amendments may be made for various reasons. For contracts with renewal options, the Chief Procurement Officer may approve modifications to extend the contract's lifespan with approval from the head of the using department and appropriate funding. The Chief Procurement Officer may also extend a contract term to prevent disruption in County operations.

Change orders, used to adjust the scope of work or contract price, also constitute contract modifications. Change orders require approval from the head of the using department and the vendor, and sufficient justification for the change must be provided. A contract may include provisions for modification of the contract during performance. Still, fixed-price contracts may not be increased by more than twenty-five percent of the contract amount, or \$50,000, whichever is greater, without the advance written approval of the Board of County Supervisors (BOCS). The Chief Procurement Officer is authorized to approve contract modifications or may delegate that authority to an appropriate individual as outlined in section 300.04 of the *Procurement Regulations*.

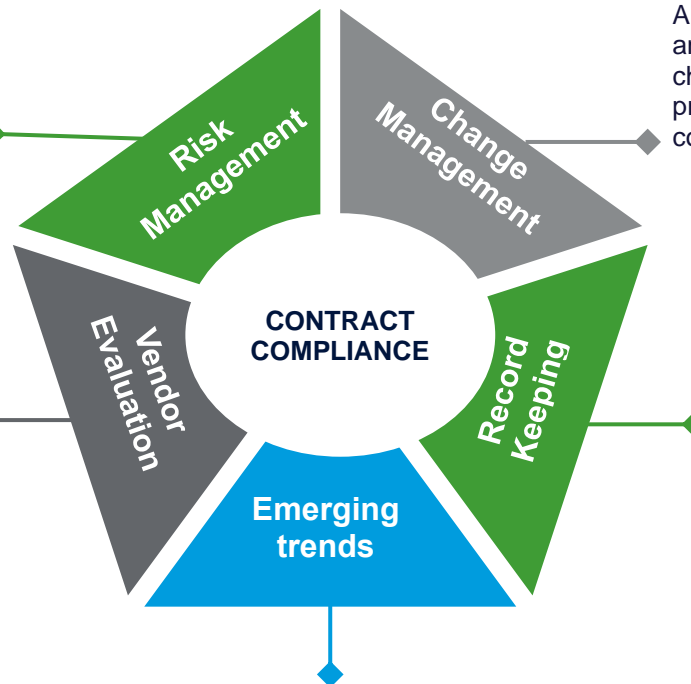
BACKGROUND (CONTINUED)

Contract Administration

The contract administration process involves managing and overseeing contracts' ongoing performance and compliance once executed. Contract administrators manage their assigned contracts in collaboration with end-users and procurement officers, including monitoring compliance and vendor performance. The contract administration process aims to confirm that the amounts paid to vendors are accurate and allowable, confirm work is performed as expected, and reduce the County's exposure to contractual risk. Specific contract administration tasks include:

Vendors may be required to provide insurance documentation to evidence that certain liabilities would be financially covered in the event of an incident. If a contract requires a Certificate of Insurance to be provided, the County shall be listed as an "additional insured", which extends coverage to PWC.

Measured by the vendor's ability to meet the requirements of the contract and fulfill its obligations. Specific knowledge of the contract, including the terms and conditions, is often required to effectively monitor vendor performance.



Any changes to contracts, including amendments, modifications, scope changes, and executions, must be properly documented, approved, and communicated to relevant stakeholders.

Obtaining, organizing, and maintaining executed agreements, addendums, and pricing for on-demand access and referral is essential to maintaining a strong contractual control environment.

Prior to payment, the end-user, with collaboration from the contract administrator, must validate the accuracy of vendor invoices and confirm compliance with the underlying agreement. As part of the invoice review process, end users and contract administrators must:

- Confirm that invoices are properly calculated, mathematically accurate, and are supported by sufficient documentation to evidence costs are legitimate.
- Confirm that invoiced quantities have been received, invoiced rates/unit prices agree to the rates outlined in the contract and/or task order, goods and/or services satisfy agreed specifications, and the invoice is made in accordance with the contract.
- If complex goods or services were procured, the County must gain comfort that the good/service is acceptable, and work has been performed as claimed by the vendor.



BACKGROUND (CONTINUED)

In-Scope Contracts: Planning Services

Contract Number 5044429



Planning Services

Requested services include, but are not limited to, community outreach, meeting facilitation, comprehensive planning, land use planning, cultural resource management, economic and market analysis, environmental assessment, geographic mapping, and master planning.

Key Takeaways:

This is an open-ended planning services contract, which serves as a vehicle for future, more specific task orders to be executed. As County projects become known, the County shall provide a project task request to the vendor in the competitive pool for the required area(s) of expertise.

Contract Type:

Fixed rates for a specified period.

Original Award Date:

January 2019

Number of Vendors Awarded:

10

Total Spend To-Date

\$1,015,315

As of May 2024

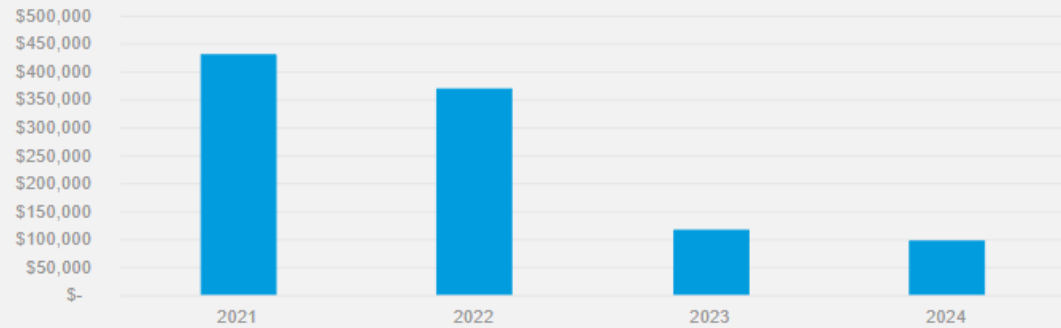
Contract Extensions

5 renewal options, with maximum extension through December 2024. Although the contract was only formally renewed through January 2023, Task Order Modifications (TOD) extended the period of performance through December 2024.

Contract/Task Order Modifications

This contract has **10 total Task and Contract modifications** as of the date of this report. A detailed breakdown of each modification can be found in the following graphic.

Annual Spend To-Date



BACKGROUND (CONTINUED)

In-Scope Contracts: Planning Services (Continued)

Throughout the duration of this contract’s lifespan, five (5) contract modifications and five (5) task order (“TO”) modifications were executed. The contract was allowed to expire in January, 2023, although, as outlined below, the period of performance was extended via task order modifications to allow for the completion of work on the County’s comprehensive plan. The current task order expires in December 2024 and, per Management, will not be extended.

Contract Modifications		Task Order Modifications	
Contract Mod. 1	<p>Executed: March 28, 2019 Change: Updated the contract number Change Amount: \$0 Renewal: No</p>	<p>Executed: September 9, 2021 Change: Removal of scope areas Change Amount: \$390,000 Renewal: No</p>	TO Mod. 1
Contract Mod. 2	<p>Executed: December 9, 2019 Change: Period of performance Change Amount: \$0 Renewal: Yes, through January 16, 2021</p>	<p>Executed: June 7, 2022 Change: Period of performance Change Amount: \$0 Renewal: Yes; through June 30, 2023</p>	TO Mod. 2
Contract Mod. 3	<p>Executed: April 12, 2021 Change: Period of performance Change Amount: \$0 Renewal: Yes; through January 16, 2022</p>	<p>Executed: August 1, 2022 Change: Modification of scope Change Amount: \$0 Renewal: No</p>	TO Mod. 3
Contract Mod. 4	<p>Executed: August 18, 2021 Change: Added sub-consultant positions Change Amount: \$0 Renewal: No</p>	<p>Executed: June 1, 2023 Change: Period of performance Change Amount: \$215,070 Renewal: Yes; through June 30, 2024</p>	TO Mod. 4
Contract Mod. 5	<p>Executed: April 22, 2022 Change: Updated contract administrator, rates Change Amount: \$0 Renewal: Yes; through January 16, 2023</p>	<p>Executed: March 28, 2024 Change: Period of performance Change Amount: \$0 Renewal: Yes; through December 31, 2024</p>	TO Mod. 5



BACKGROUND (CONTINUED)

In-Scope Contracts: Crisis Receiving Stabilization Unit

Contract Number 900248-23



Crisis Receiving Stabilization Unit

Requested services include highly intensive psychiatric crisis services in a Crisis Receiving Center (“CRC”). Work includes delivery of therapeutic, trauma informed, evidence-based practices, in a recovery context for two different facilities, Chantilly Regional and PWC Woodbridge.

Key Takeaways:

The contract will be available for use by PWC, Manassas, Manassas Park and Virginia Department of Behavioral Health and Developmental Services Region 2 (which includes Alexandria, Arlington, Fairfax-Falls Church, Loudoun, and the greater PWC area).

Contract Type:

Fixed Price

Original Award Date:

November 2022

Number of Vendors Awarded:

1

Total Spend To-Date

\$2,382,881

As of May 2024

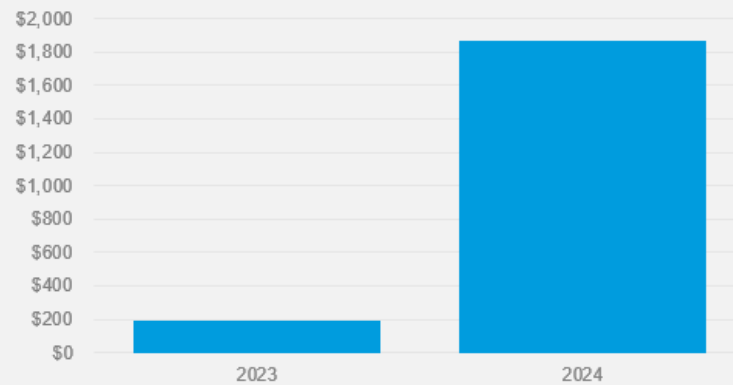
Contract Extensions

6 renewal options, with maximum extension through November 2033. As of the date of this report, only 1 extension has been exercised through November 2024).

Contract Modifications

This contract has **5 total modifications** as of the date of this report. 1 was an extension, and 4 added ongoing services.

Annual Spend To-Date



It is important to note that, prior to the execution of this contract, no service center of this kind was present in the state of Virginia. Once operational, this type of facility enables individuals who are experiencing an acute behavioral health crisis with or without a co-occurring substance use disorder to avoid inpatient psychiatric hospitalization or rehospitalization and maintain their community living status. Furthermore, one (1) of the two (2) facilities included, the Chantilly Regional facility, is managed through a collaborative effort between Prince William County, neighboring county partners, and the state of Virginia’s Department of Behavioral Health and Development Services. As such, there were several different funding streams contributing to this location. The contract consists of two (2) parts: building renovation and service operations:

- **Renovation:** The renovation of the site included expanding existing spaces and upgrading infrastructure to meet state security and standards codes. While this contract was not utilized for the actual renovation and updating work, the vendor did provide key design input as work progressed.
- **Operation:** Once operational, the Crisis Stabilization Unit (“CSU”) aims to provide 24/7 care, offering a safe and therapeutic environment for individuals in crisis. Services included immediate intervention, assessments, medication management, therapy, and peer support. The goal is to stabilize patients within a brief period, usually up to 24 hours, and connect them with ongoing care and support services. The facility is designed to reduce the burden on emergency rooms and law enforcement by providing a more appropriate setting for mental health crises. With the decreased capacity of emergency rooms and hospitals due to the COVID 19 crisis, the need for a facility like this was paramount to the County.

BACKGROUND (CONTINUED)

In-Scope Contracts: Crisis Receiving Stabilization Unit (continued)

The contract underwent several modifications and adjustments to the scope of work. As shown below, significant amounts of additional funding were appropriated for design and renovation work, as the existing facilities needed to be brought into compliance with current building codes for psychiatric healthcare provision. Change orders were also related to start-up funding for the Chantilly facility, as changes in project partnership (i.e., contributions from the State Department of Behavioral Health and Development Services) widened the scope and type of services.

Contract Modifications	
Contract Mod. 1	<p>Executed: June 29, 2023 Facilities Impacted: Chantilly Regional Change: Inclusion of Chantilly CRC Change Amount: \$0 Renewal: No</p>
Contract Mod. 2	<p>Executed: September 21, 2023 Facilities Impacted: PWC Woodbridge Change: Added building renovations and design; outreach/engagement (connecting with relevant organizations and authorities – local/state) Change Amount: \$125,981 (design and renovation); \$167,832 (outreach/engagement) Renewal: Yes; through 11/2/2024</p>
Contract Mod. 3	<p>Executed: October 13, 2023 Facilities Impacted: PWC Woodbridge Change: N/A – modified design/renovation costs Change Amount: \$275,169 (design and renovation). Renewal: No</p>
Contract Mod. 4	<p>Executed: November 3, 2023 Facilities Impacted: Chantilly Regional Change: Added operational startup services for a 6-month period Change Amount: \$4,240,002 Renewal: No</p>
Contract Mod. 5	<p>Executed: June 27, 2024 Facilities Impacted: Chantilly Regional Change: Added ongoing services for building design and renovations; outreach and engagement work Change Amount: \$401,150 annually (design and renovation) and \$167,832 annually (operating expenses) Renewal: No</p>

OBJECTIVES AND APPROACH

Objectives

The objective of this internal audit was to assess whether the system of internal controls over contract compliance is adequate and appropriate for promoting and encouraging the achievement of management's objectives for effective contract monitoring and administration. We reviewed a sample of two (2) contracts, one (1) managed by the Department of Community Services and one (1) managed by the Planning Office. The scope of our work included the following: contract execution and administration process analysis; vendor monitoring procedures; invoice review and approval procedures, including the adequacy of documentation provided by vendors/suppliers; analysis of high-risk terms and conditions; and testing of compliance and internal controls. Our audit scope and period included the full lifecycle of two executed County contracts, which were originally executed in 2019 (Planning Office) and 2022 (Department of Community Services), including expenditures through September 2024.

Approach

Our audit approach consisted of the following phases:

Understanding and Documentation of the Process

This phase consisted primarily of inquiry and walkthroughs to obtain an understanding of the current operating policies and procedures, monitoring functions, and control structures as they relate to the processes within our scope. The following were performed as part of this phase:

- Obtained and reviewed any documented policies and procedures related to the function, as well as relevant state and County regulations, reporting, and any other relevant information.
- Conducted interviews and walkthroughs with key personnel to obtain a detailed understanding of the County's operating policies and procedures, and roles/responsibilities related to the processes within our scope. This included walkthroughs with contract administrators for each of the two (2) sampled contracts.
- Gained an understanding of the procedures related to the processes within scope.
- Developed a work plan to evaluate the operating effectiveness of processes and controls based on the information obtained through our interviews, walkthroughs, and preliminary review of documentation.

Evaluation of the Process and Controls Design and Testing of Operating Effectiveness

The purpose of this phase was to evaluate the design of key processes and controls and test compliance and internal controls for operating effectiveness based on our understanding of the processes obtained during the first phase. We utilized sampling and other auditing techniques to meet our audit objectives outlined above. Our testing procedures included, but were not limited to:

- Obtained applicable contract documents, contract administrator information, and details of expenditures for each of the two (2) sampled contracts:
 - Contract 5044429 (formally 5042487): Planning Services
 - Contract 900248-23: Crisis Receiving Stabilization Unit
- Reviewed each contract to identify areas of heightened risk and developed testing procedures specific to each sampled contract;
- Assessed the County's process and controls relevant to identifying unique contract risks and ability to develop procedures to mitigate identified risks;
- Assessed adequacy and compliance with select terms of each contract, such as insurance requirements, performance, service level agreements ("SLAs"), PWC responsibilities, etc.; and
- Assessed controls related to vendor monitoring and performance assessments:
 - Contract documentation was sufficient and appropriate;
 - Contract modifications and addendums were adequately reviewed and approved;
 - Appropriate approvals were obtained and comply with policy;
 - Certificate of insurance was obtained at the time of contract execution; and
 - Subsequent certificates of insurance have been obtained timely and in compliance with contract terms.

OBJECTIVES AND APPROACH (CONTINUED)

Approach (Continued)

Evaluation of the Process and Controls Design and Testing of Operating Effectiveness (continued)

- Tested a sample of invoices for each of the selected contracts to determine:
 - Supporting documentation agreed to the payment amount and was mathematically accurate;
 - Payment was made promptly and in accordance with the pricing terms of the contract; and
 - Performance (goods/services received) under the contract was properly verified or monitored before invoice payment.
- As it relates to contract 5044429 (formally 5042487): Planning Services, we also assessed:
 - Completion of contract documentation, including RFPs, vendor responses, award agreements, and modifications;
 - The completeness and adequacy of task order documentation, including adherence to task order requirements as defined in the contract; and
 - The timeline in which task order and contract extensions were executed.
- As it relates to contract 900248-23: Crisis Receiving Stabilization Unit, we also assessed:
 - Completeness of contract documentation, including RFPs, vendor responses, award agreements, and modifications;
 - Both operational and renovation/design-related invoices, including the mathematical accuracy and presence of supporting documentation;
 - Adherence to contract language regarding medical licensing; and
 - Adherence to contract language regarding vendor reporting (i.e., the Adult Residential Crisis Stabilization Weekly Activity Report, the DBHDS Region 2 Utilization Management Report, etc.).

Reporting

At the conclusion of this internal audit, we summarized our findings into this report. We have reviewed the results with the appropriate Management personnel and have incorporated Management responses into this report.

OBSERVATIONS MATRIX

Observation	1. Invoice Review Procedures
High	<p>The invoice review process confirms that vendor charges are reasonable and comply with contract terms, charges are related to goods or services received, and total fees are mathematically accurate. Effective, risk-mitigating internal controls require contract administrators to confirm that invoiced costs match the agreed rates for labor, material, and services and must confirm that any allowable expenses are properly supported. Invoice approval signifies that the invoice has been reviewed, found accurate, and is ready for payment.</p> <p>As part of our review, we selected a sample of eleven (11) invoices made through the two (2) in-scope contracts for detailed testing. The following issues were identified:</p> <p><u>Contract 900248-23: Community Services</u></p> <ul style="list-style-type: none"> • <i>Invoice Support:</i> One (1) of the six (6) invoices reviewed from 2022, 2023, and 2024 contained a lump sum charge of \$69,710, which was approved without supporting documentation. After reviewing this line item with Management, support was obtained from the vendor evidencing it was an allowable cost related to professional liability. However, supporting documentation was not provided or requested at the time of original invoice submission, which would have allowed for an adequate review. The contract states that the vendor “must provide an itemized invoice... along with the back-up documentation.” • <i>Invoice Pre-Payment:</i> In reviewing the September 2024 invoice for \$142,246, we noted the County made advanced payments for work to be completed in October, November, and December. This work was related to community engagement and oversight of design and renovation activities. While the payments made adhered to costs agreed upon in a previously approved contract modification, the work had not yet been performed. The contract requires invoices to be submitted by the 15th of each month following the month the Contractor provided services. Additionally, by pre-paying invoices, the County is unable to verify that work has been completed satisfactory prior to issuing payment, which may increase the risk of legal and financial disputes. • <i>Invoice Detail:</i> One (1) of the sampled invoices included a description that differed from that on the corresponding purchase order. In addition, one (1) invoice did not contain the agreement number, as required by contract. Although the costs were confirmed to be accurate and adequately supported, inconsistencies in aligning invoice and purchase order details may reduce the effectiveness of contract and billing oversight. • <i>Expense Reimbursement:</i> Three (3) of the six (6) sampled invoices included lump sum charges without supporting documentation attached. These charges were related to monthly services, and although the invoice agreed to contract rates, documentation confirming that services were performed or completed was not provided. The contract requires invoices to be itemized and submitted electronically with backup documentation attached. However, it does not specify the level of supporting documentation required. Complex agreements (like the Community Services contract) that include goods, services, and reimbursable expenses may require a higher level of support. Based on discussion with Management and a review of vendor communications, the level of detail required in the invoice packages was undefined. <p><u>Contract 5044429: Planning Services</u></p> <ul style="list-style-type: none"> • <i>Incorrect Labor Rates:</i> One (1) of the five (5) invoices reviewed contained labor charges with incorrect hourly rates as compared to the agreed-upon rate schedule. The resulting overpayment was \$110. • <i>Missing invoice requirements:</i> The contract states that invoices shall include the contract number, PO number, and task/work order number. One (1) of the five (5) Planning invoices did not include the contract or PO number. Accepting vendor invoices that lack the required data fields may limit the contract administrator’s ability to match invoices to the correct contract, PO, and task order, especially when multiple contracts and projects may be in process, and may reduce the clarity of an audit trail.

OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Invoice Review Procedures (Continued)
	<p>Contract 5044429: Planning Services (continued)</p> <ul style="list-style-type: none"> <i>Timely approval of invoices:</i> We noted both in-scope contracts included stipulations related to timely invoice payment. “The County will make payment to the Contractor, net 30 calendar days or in accordance with discount terms”. Through our testing, we identified one (1) Planning invoice that was paid outside of the 30-day window. Specifically, the invoice was settled 90 days after the County received it. Through inquiry with the contract administrator, we noted the delay in payment may result from increased staff turnover. It is important to note that our sampled invoices were related to current and previous task orders dated 2019 and 2021; the contract administrator responsible for reviewing invoices has since turned over. <p>Without consistent execution of the invoice review and approval process, the County’s ability to verify expenditure accuracy and process prompt payment may be impacted. This creates inefficiencies in the contract administration process, potential for financial loss, and risk of non-compliance with contract obligations.</p>
<p>Recommendation</p>	<p>The following is recommended:</p> <ul style="list-style-type: none"> Create and enforce detailed, step-by-step invoice review procedures to assist the contract administrators in enforcing contract requirements. Guidance should include requirements for rate verification, invoice accuracy, and monitoring of invoice payment. We understand Management is in the process of implementing a contract administrator training program, as previously recommended in the <i>Contract Compliance</i> Internal Audit report dated April 5, 2024. Define expectations for invoice support. Documentation should be provided to the County to confirm charges are appropriate and services have been provided as expected.
<p>Management Action Plan</p>	<p>Response – Office of Procurement Services and Community Services: The Office of Procurement Services (OPS) has developed a Contract Administration Toolkit that includes an Invoice Review and Approval Checklist and a Contract Administration Plan that includes a section for the CA administrator to identify deliverables, payment schedule, and invoice tracking. The Toolkit is available on the internal OPS Contract Administration Toolkit webpage and incorporated in the contract administration training. OPS implemented the Contract Administration 101 Training. This two-part training series is required for all current contract administrators and those who will be assigned contract administration duties, including reviewing and approving invoices. Part 1 of the training is a self-paced module that covers the contract administration process, roles, and responsibilities. Part 2 of the training is an in-person classroom training that provides a walkthrough of the Contract Administration Toolkit, how and when to use the forms and checklists, and hands-on exercises to practice contract administration duties. There are multiple practices related to invoice review and approval scenarios incorporated in the training. Staff from the Planning Office and Community Services staff have completed the required training course. When the next series of Contract administration training courses are offered special emphasis will be placed on these requirements.</p> <p>In reference to the recommendation to create and enforce a step-by-step invoice review procedure, OPS, as mentioned above has developed an Invoice Review Checklist and provided training on the invoice review process. Fiscal monitoring practices are also included in training and reference materials. The Contract Administrator is responsible for enforcing the adherence to the Invoice Review and approval process. OPS staff do not receive or review invoices. If it is recommended that OPS take on the responsibility of enforcing the invoice review and approval activities of the Contract Administrator, additional compliance staff is needed in OPS. When the next series of Contract administration training courses are offered special emphasis will be placed on these requirements.</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Invoice Review Procedures (Continued)
<p>Management Action Plan</p>	<p>Response – Planning Services: Incorrect Labor Rates: This invoice was submitted during process of changing the invoicing methods based on a lump sum amount vs. by specific titles and hours. This should be done by Contract Modification or by rejecting the invoice to correct the rates before the changes were approved. The current invoice approval process follows the procedures and check list provided during Contract Administration training to ensure that any missing or incorrect information are adequately addressed prior to approving the invoice, as applicable to the specific contract.</p> <p>Missing invoice requirements: Invoice with missing information should be rejected and updated invoice requested from the vendor. The current invoice approval process follows the procedures and check list provided during Contract Administration training to ensure that any missing or incorrect information are adequately addressed prior to approving the invoice, as applicable to the specific contract.</p> <p>Timely approval of invoices: Since increase staff turnover additional back up person should have been included in the approval process. The current invoice approval process follows the procedures and check list provided during Contract Administration training to ensure that any missing or incorrect information are adequately addressed prior to approving the invoice, as applicable to the specific contract.</p> <p>Responsible Party: OPS related to training and process requirements.</p> <p>Estimated Completion Date: January, 2025</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	2. BOCS Approval of Contract Modifications
<p>Moderate</p>	<p>Section 100.14 of the County's Procurement Regulations states that a contract may include provisions for modification, but no fixed-price contract may be increased by more than twenty-five percent of the total amount of the contract, or \$50,000, whichever is greater, without the advanced written approval of the Board of County Supervisors ("BOCS").</p> <p>Our review of executed contract modifications revealed that Community Services Contract Modification #4 increased the contract value by \$4,240,002, covering lease, insurance, utilities, repair, maintenance, and security expenses for the Chantilly Regional Crisis Center. This modification exceeded the 25% threshold set by Section 100.14 and was executed without prior approval from the BOCS, despite the contract being designated as fixed-price.</p> <p>Discussions with Management indicate that, although the contract is labeled as fixed-price, certain components are managed as unit-priced items. This classification may have contributed to the oversight, as Management did not perceive the modification as requiring BOCS approval under the fixed-price contract guidelines.</p> <p>Without prior BOCS approval for significant contract modifications, the County risks diminished oversight of large-scale fiscal impacts, especially on high-profile community projects like the Chantilly Regional Crisis Center. As the County is primarily responsible for contract adherence and project oversight, lack of Board awareness regarding substantial financial commitments can lead to accountability gaps, potentially impacting budgetary control and public trust in County governance.</p>
<p>Recommendation</p>	<p>The following is recommended:</p> <ul style="list-style-type: none"> As recommended in observation #1, create detailed, step-by-step procedures for contract administrators to follow, including procedures related to contract modifications and extensions. We understand Management is in the process of implementing a contract administrator training program, as previously recommended in the <i>Contract Compliance</i> Internal Audit report dated April 5, 2024. Implement a systematic control to identify any Purchase Orders whose total balance is increased by \$50,000, or twenty-five percent of its original value. While contracts may utilize multiple POs, such a control may assist management in identifying instances where BOCS approval may be required.
<p>Management Action Plan</p>	<p>Response: Contract Modification process is included in the Contract Administration training and reference materials. OPS will work with Mobius Financials to determine if an alert or warning notification can be obtained when a buyer generates a PO or Agreement Change that increases the contract by 25% or \$50,000. OPS will ensure the appropriate contract type is assigned to contracts. When the next series of Contract administration training courses are offered special emphasis will be placed on these requirements.</p> <p>Responsible Party: OPS related to training and process requirements.</p> <p>Estimated Completion Date: January, 2025</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	3. System and Organization Controls Report
<p>Moderate</p>	<p>A System and Organization Control (“SOC”) report captures internal controls at third parties (i.e., vendors) around safeguarding customer (i.e., County) data and how well those controls are operating. SOC reports also identify specific customer-level controls that vendors assume are in place when designing control structures. Knowing that vendor key controls are designed and operating effectively, and knowing which controls a vendor may rely on the County to have, is an important factor of risk management and data protection. During our review, we noted the following:</p> <ul style="list-style-type: none"> • The Community Services contract requires vendors to handle restricted client data but does not require vendors to provide SOC reports to verify their data security practices; • There is no process in place to obtain and review annual SOC reports from the vendor; and • An analysis of entity-level controls has not been performed to confirm that controls the vendor may rely on are in place. <p>By not requesting and reviewing these reports, the County increases its exposure to unmitigated risk derived from a poor control environment at the respective service organization. Implementing a contractual SOC report requirement and a tracking mechanism for SOC report submissions would enhance oversight, support continuous monitoring of vendors' data security controls, and allow the County to promptly identify and address any control deficiencies, thereby strengthening protections for sensitive information.</p>
<p>Recommendation</p>	<p>The following is recommended:</p> <ul style="list-style-type: none"> • Determine which contract(s) should require SOC reports from awarded vendors based on the type of goods procured or services performed. • Implement a process to obtain vendor SOC reports on an annual basis. Depending on the time of year, a bridge letter may be necessary from the service providers that states there were no material changes in the internal control environment. • Review SOC reports to identify if any control deficiencies or material weaknesses were identified within the service organization’s SOC report. If any deficiencies or weaknesses are identified, the County will need to determine what, if any, impact this has on their reliance on these vendors as their service organizations. • Document evidence of review.
<p>Management Action Plan</p>	<p>Response: The Chief Procurement Officer will work with the Chief Information Officer, and Mobius Financial Systems to determine requirements for System and Organization Control Report requirements. Once the requirements are developed, requirements will be incorporated in the Risk Management Section of the Contract Administration Best Practices Guide, Contract Administration Plan, and training.</p> <p>Responsible Party: OPS related to training and process requirements.</p> <p>Estimated Completion Date: September, 2025</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	4. Vendor Insurance Documentation
<p>Moderate</p>	<p>The County's Procurement Regulations require contractors to provide evidence of active insurance coverage that meets the minimum insurance requirements before work commences. Leading practices further recommend that Certificates of Insurance ("COI") be monitored continuously throughout the contract to prevent any gaps in coverage. Procurement Services is responsible for tracking COI expiration dates, securing updated COIs, and confirming coverage complies with contract specifications.</p> <p>Our review of County contracts found that COI renewals were not consistently obtained for active contracts:</p> <ul style="list-style-type: none"> Contract 900248-23 (Community Services): The initial COI was obtained, but no renewals were collected, leaving the County without evidence of active insurance coverage. Contract 5044429 (Planning Services): COI renewals were not provided until June 2024, leaving a potential gap in coverage from July 2019 to June 2024. <p>Without regular monitoring and collection of renewed COIs, the County risks gaps in vendor insurance coverage, which could expose it to financial liabilities and reputational damage if an incident occurs without active insurance. Failure to verify that the County is named as an additional insured on COIs may result in inadequate protection for the County and its employees under vendor policies.</p>
<p>Recommendation</p>	<p>The following is recommended:</p> <ul style="list-style-type: none"> A similar observation was previously reported as part of the April 5, 2024 <i>Contract Compliance</i> Internal Audit report. Based on discussions with management, we understand that remediation of that observation is in process. Procurement Services shared a standard operating procedure created in January 2024, which is currently undoing minor revisions before being enforced Countywide. Our recommendation is to continue those efforts. If an automated solution is not feasible or immediately practicable, the County should strengthen the existing manual COI review procedures by developing documented procedures. The procedure should formally assign review tasks to a given role, establish a process for tracking the receipt of COIs and their expiration dates, dictate a protocol to request updated COIs and define the process in which coverages are examined.
<p>Management Action Plan</p>	<p>Response: OPS will explore using existing functionality within the Supplier Qualifications Module in the system that will achieve sending notifications and reminders to vendors automatically through the system. Additionally, in the interim OPS will leverage current reports for insurance and retainage within the system with insurance type and expiration dates to reach out to vendors before expiration date on documents.</p> <p>Responsible Party: OPS related to training and process requirements.</p> <p>Estimated Completion Date: January 2025 for interim process revisions</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	5. Contract Modifications
<p style="text-align: center;">Moderate</p>	<p>Contract modifications or amendments may be made for various reasons. Changes to scope, pricing, procedures, contract length, or contract terms may be warranted. Per best practices in contract management, any contractual change should be clearly defined, documented, and authorized via signatures from all bound parties. These practices encourage clarity and mutual agreement, transparency, and provide recourse in the event a dispute should occur. During our review, we noted the following:</p> <p><u>Contract 5044429: Planning Services: Modification of Billing Procedures</u> The original Planning Services acceptance agreement (dated January 16, 2019) specified hourly rates for each position, which were to be applied to future task orders. However, during our review of invoice documentation, we identified that the Planning Department had permitted the vendor to submit invoices on a task-completion basis instead of unit rates for actual hours worked. This change, initiated through email communication in June 2019, was not documented through a formal contract modification or associated executed statement of work/task order.</p> <p>The lack of a formal contract modification documenting the shift from hourly to fixed-fee billing limits the County’s ability to resolve billing disputes and verify work performed. Inconsistent billing methods complicate invoice verification, making it challenging to reconcile invoiced amounts with actual services. This lack of standardization restricts financial oversight and could lead to budget overruns and inaccurate financial reporting, affecting transparency and accountability in managing public funds.</p> <p><u>Contract 900248-23: Community Services: Contract Modification Language</u> During our analysis of the Community Services contract, we noted that the Scope of Services was expanded with the adoption of Modification 1. Initially, the contract focused solely on managing services at the Woodbridge facility; however, Modification 1 introduced responsibilities related to the Chantilly facility's renovation, operation, leasing, and associated costs. For context, the Chantilly facility, located outside the County’s boundaries, had previously been managed by a separate vendor unsuccessfully. After contract 900248-23 was executed for the Woodbridge facility, several regional and state partners requested a modification to include the Chantilly facility to achieve potential cost efficiencies.</p> <p>However, discussions with the Community Services Department and Procurement Services indicated that, while the Chantilly facility is ostensibly subject to the same clauses and requirements as outlined in the RFP for Woodbridge, variations in funding sources, lease arrangements, and service expectations result in notable differences in how County personnel manage the two (2) facilities. Due to its primary funding from state and regional partners, many billing rates specified in the original contract do not apply to the Chantilly facility. Consequently, a flat-rate agreement was established with the contractor, which does not incorporate the bed occupancy rate pricing schedules outlined in the original contract. This agreement is not formally documented in the contract modifications but was instead conveyed through discussions with involved staff. While we acknowledge that the County has no authority to direct state spending, more explicit language in contract modification documents distinguishing these expectations would support the County’s role as fiscal manager of the contract and regional funds.</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	5. Contract Modifications (Continued)
<p>Recommendation</p>	<p>The following is recommended:</p> <ul style="list-style-type: none"> Any changes to the billing arrangement should be formally documented through a contract modification or subsequent executed statement of work/task order to update the original terms of the agreement. The contract administrator procedures and training recommended in <i>Observation #1</i> and <i>#2</i> should also include language regarding contract modification protocols and review of billing arrangements. Contract modifications (those related to contract 900248-23 and all future contracts) should be enhanced to clearly stipulate which original contract terms are impacted by the changes, and which remain the same.
<p>Management Action Plan</p>	<p>Response – Office of Procurement Services: Contract Modification process is included in the Contract Administration training and reference materials. When the next series of Contract administration training courses are offered special emphasis will be placed on these requirements.</p> <p>Response – Planning Services: Contract Modification with any changes should be submitted to Procurement for approval before Purchase order was updated. Planning Office Staff completed Contract Administration training provided by Procurement Office.</p> <p>Response – Community Services: Contract Modification process is included in the Contract Administration training and reference materials. When the next series of Contract administration training courses are offered special emphasis will be placed on these requirements. Agree with Process Improvement Opportunity related to Direct Purchase Material. Will explore process improvements such as cost benefit analysis to determine cost benefits to the County. A contract modification will be issued no later than February 28.</p> <p>Responsible Party: OPS related to training and process requirements.</p> <p>Estimated Completion Date: January, 2025</p>

PROCESS IMPROVEMENT OPPORTUNITY

1. Direct Purchase Material

Our review of invoicing for the Community Services contract revealed that several invoices included reimbursable expenses for IT hardware, networking services, ID badges, and human restraint installations, all of which were allocated to line items in the original contract budget. Since these materials were purchased directly by the vendor, the County did not benefit from potential savings available through its purchasing system. In our sample of six invoices, \$6,682 in sales tax was charged, which could have been avoided if the County had made these purchases directly.

We recommend that the County explore opportunities for Direct Purchase Materials (“DPM”) programs. Incorporating DPM language into relevant vendor contracts, especially for projects where material costs significantly impact overall expenses, could provide financial advantages. A DPM clause may enable the County to procure materials directly, reducing tax costs and enhancing transparency in pricing. This approach may offer greater cost efficiency and accountability in material-related expenses.



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