



Prince William County, Virginia Internal Audit Report – Purchasing

May 31, 2017



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TRANSMITTAL LETTER

May 31, 2017

The Audit Committee of
Prince William County, Virginia
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Pursuant to the internal audit plan for fiscal year (“FY”) 2016-17 for Prince William County, Virginia (“County” / “PWC”), approved by the Board of County Supervisors (“BoCS”), we hereby present the internal audit of the County’s purchasing function. We will be presenting this report to the Audit Committee of Prince William County at the next scheduled meeting on June 20, 2017.

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 purchasing function.
Background	This provides an overview of the Purchasing Division and process 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 and recommended actions, as well as Management’s response including responsible party, and estimated completion date.
Process Maps	This section illustrates process maps, which identifies data flow, key control points and any identified gaps.

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

Respectfully Submitted,

RSM US LLP

Internal Auditors



EXECUTIVE SUMMARY

Background

The County's Purchasing Division within the Finance Department ("Purchasing Division"), is the central division responsible for managing the acquisition process for all materials and services. To facilitate this objective, the Purchasing Division leverages purchasing management responsibilities to nine (9) employees called "Contract Specialists." The Purchasing Division works with the varying County departments for facilitating the proper request and authorization of a purchase. This includes compliance with the *Code of Virginia, Virginia Public Procurement Act*, and the County's Purchasing Regulations approved by the BoCS.

Purchases are typically bifurcated into two (2) primary categories; those that require formal advertisement >\$30,000 ("formal procurements"), and those that require minimum quotations >\$5,000 and less than \$30,000 ("informal procurements"). Contract Specialists are responsible for working with the Using Department to facilitate that adequate supplier quotations are received, advertisement duration requirements are met, and appropriate approvals are obtained prior to executing a purchase order for goods or services. Purchases <\$5,000 are made directly by the Using Department.

July 1, 2016, the County implemented a new financial management system, named Ascend, which replaced Performance. The procurement module was implemented December 2016.

Overall Summary / Highlights

No observations were identified during our assessment, and therefore no relative risk or value factors were assigned. 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

This audit begins with the scope write-up from the requesting department and ends when the contract is awarded. It does not include contract compliance or management of the vendor.

The objectives of this internal audit were as follows:

- Evaluate the design and control structure including adherence to policies and procedures for operating effectiveness.
- Evaluate if there are adequate controls to prevent/detect related party transactions.
- Evaluate access controls and segregation of duties within the purchasing function.
- Evaluate whether there are adequate records and documentation for competitive bid contracts to establish an audit trail and that policies and procedures are appropriately followed.
- To identify, during the course of the procedures designed to meet the stated objectives, process improvement opportunities and recommend internal control enhancements to improve the overall purchasing process.

The scope of our audit was limited to purchases made by the County between July 2016 and February 2017.

Fieldwork was performed March 2017 through May 2017

Summary of Observation Ratings

	High	Moderate	Low
Purchasing Internal Audit	-	-	-

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



EXECUTIVE SUMMARY – CONTINUED

Observation Summary

We identified no observations during walkthrough and transactional testing within the scope of this internal audit.



BACKGROUND

The Purchasing Division is committed to promoting excellence and efficiency by maximizing effective public procurement methods that provide fair and open competition, while obtaining quality goods and services that support the mission of the County, in compliance with applicable laws and regulations.

Purchasing Overview

The purchasing function involves the procurement of materials, supplies, equipment, and/or services, with the appropriate quality that are available at the appropriate time to meet the required standards established and approved by the County. The process includes the proper request and authorization of a purchase, evaluation and selection of vendors and suppliers, execution of contracts, and overall recordkeeping. Adequately documented policies and procedures, a robust control environment, including appropriate segregation of duties, and transparent selection of vendors, are key to the overall success of the function.

The centralized purchasing process begins when the Purchasing Division receives a request from an individual department. The Purchasing Division is responsible for facilitating the proper request and authorization of a purchase. This includes preparing and managing the Invitation for Bid (“IFB”), Request for Proposal (“RFP”) and Request for Qualification (“RFQ”) documents. The process ends once the purchase order has been activated and vendor approval and setup complete.

July 2016, the County replaced its financial management software, Performance, with an Enterprise Resource Planning (“ERP”) financial management system named Ascend. The implementation of Ascend was rolled out in the following phases.

- 1st Phase – July 2016, basic accounting and procurement functions
- 2nd Phase – August 2016, budget module
- 3rd Phase – December 2016, advanced procurement module

The implementation of the Ascend procurement module has streamlined the purchasing process by allowing all functions to be performed within one online portal. The main enhancements include the following:

- Dashboard customization for buyers and vendors
- Automation of vendor notifications
- Automation of posting solicitations to the County’s website
- Contract specialist can assign roles to the appropriate scoring/review committees
- Assignment of collaboration teams to the appropriate purchase and review
- Online solicitation approvals by County Attorney and Purchasing Division Chief
- ITBs can be submitted by vendor via email
- System can generate recommendation for contract award
- Electronic documentation storage fully integrated into financial management system



BACKGROUND – CONTINUED

Financial

From fiscal year 2015 through February 28, 2017 the Purchasing Division processed the following:

Statistics	FY 2014-15	FY 2015-16	FY 2016-17*
Number of purchases orders < \$5,000	3,404	3,256	10,287
Number of purchase orders between \$5,000 - \$30,000	1,930	2,029	1,626
Number of purchase orders between \$30,000 - \$100,000	534	573	449
Number of purchase orders greater than \$100,000	290	308	255
Total purchase orders	6,158	6,166	12,617
Total purchase order value	\$183,217,597	\$202,567,404	\$203,368,167
Number of Vendors			1,158

*In FY 2017 "blanket" POs re no longer allowed; POs are needed for each purchase.

Compliance

Laws relative to the procurement process, in general, are found in the *Code of Virginia, Virginia Public Procurement Act*. The County also maintains Purchasing Regulations in order to provide clear direction to all County employees regarding purchasing policies. Adoption and revision of purchasing policies may be authorized by the BoCS.

Procurements are separated into two categories within the County's Purchasing Regulations as follows:

- Formal procurements – purchases greater than \$100,000; and
- Informal procurements – purchases less than \$100,000, but greater than \$5,000 (less than \$5,000 purchased directly by Using Department).

The below table outlines the County's required quotation thresholds based on dollar amount of the purchase, in accordance with the Purchasing Regulations section 300.01 – 05 *Methods of Procurement Thresholds*:

Dollar Threshold	Procedure Required
	Formal Procurement
\$100,000 or more	Procurements of goods and services estimated to cost \$100,000 or more shall be made directly by the Purchasing Division by competitive sealed bidding (Invitation For Bid) or competitive negotiation (Request For Proposal) methods of procurement, except as otherwise provided in these regulations. The requirements for these procurements are as follows: <ul style="list-style-type: none"> • Invitations for Bid and Requests for Proposal shall be made public at least ten (10) days prior to the due date set for receiving bids and proposals • Public notices should be designed to connect with as many potential bidders who can meet the required specifications and scope of work • Using Departments shall submit a list of known bidders/offerors to the Purchasing Division in order to increase competition • Formal procurements shall be posted on the County's website



BACKGROUND – CONTINUED

Compliance – continued

Dollar Threshold	Procedure Required
<i>Informal Procurement</i>	
\$30,000 or more and less than \$100,000	<p>Procurements of goods and services estimated to cost \$30,000 or more and less than \$100,000 shall be made directly by the Purchasing Division in the open market by written Request for Quotation. The requirements for these procurements are as follows:</p> <ul style="list-style-type: none"> • A minimum of four (4) sources shall be solicited and posted on the County’s website • Public record shall be kept of all solicitations and quotes received • Accepted quote should also be indicated within the public record
\$5,000 or more and less than \$30,000	<p>Procurements of goods and services estimated to cost \$5,000 or more and less than \$30,000 (for a single procurement or accumulation of similar commodities in a fiscal year) shall be made directly by the Using Department in the open market by written Request for Quotations. The requirements for these procurements are as follows:</p> <ul style="list-style-type: none"> • A minimum of three (3) sources can be solicited by mail, by telephone, electronically, or by other public notice • Solicited sources shall be provided the same scope of work and specifications • Received quotations shall not be released until after due date and time for receipt of quotations • All solicitations and quotes received shall be kept as public record • Public record should indicate which quote was accepted
Less than \$5,000	<p>Procurements of goods and services estimated to cost less than \$5,000 (for a single procurement or accumulation of similar commodities in a fiscal year) shall be made directly by the Using Department in the open market.</p> <p>The vendor can be paid via Purchase Card or direct payment. The Director of Finance and the employees of the Purchasing Division shall not be held liable for any error or omission in procurements within this dollar threshold</p>

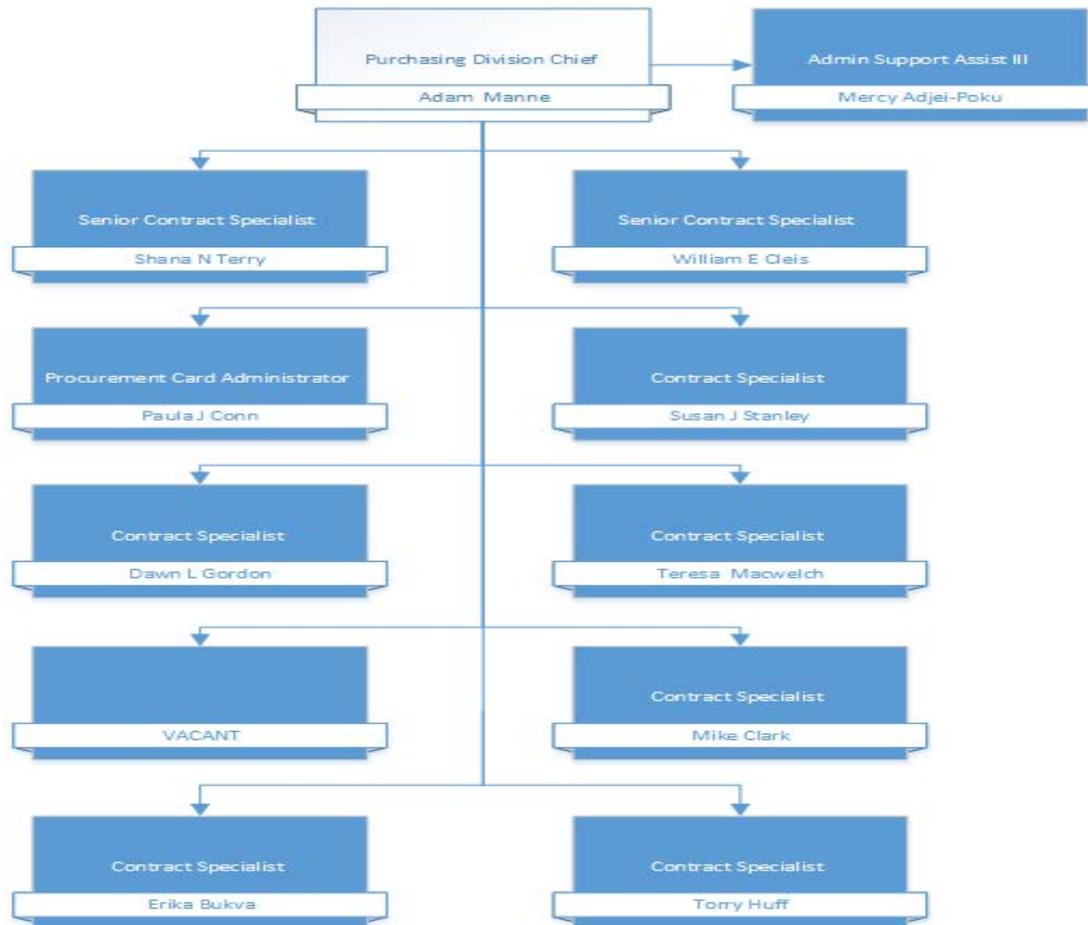


BACKGROUND – CONTINUED

Purchasing Overview – contued

Organizational Chart

The Purchasing Division consists of twelve (12) positions, with one (1) vacant position.





OBJECTIVES AND APPROACH

Objectives

This audit begins with the scope write-up from the requesting department and ends when the contract is awarded. It does not include contract compliance or management of the vendor. We have previously performed audits over contract compliance/management; reports accepted by the BoCS on July 23, 2013, August 4, 2015 and May 10, 2016.

The primary objectives for this internal audit were to:

- Evaluate the design and control structure including adherence to policies and procedures for operating effectiveness.
- Evaluate if there are adequate controls to prevent/detect related party transactions.
- Evaluate access controls and segregation of duties within the purchasing function.
- Evaluate whether there are adequate records and documentation for competitive bid contracts to establish an audit trail and that policies and procedures are appropriately followed.
- To identify, during the course of the procedures designed to meet the stated objectives, process improvement opportunities and recommend internal control enhancements to improve the overall purchasing process.

Approach

Our audit approach consisted of the following three phases:

Understanding and Documentation of the Process

The first phase of this audit consisted primarily of inquiry and walkthroughs, in an effort to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objectives outlined above. The following procedures were completed as a part of this phase:

- Collaborated with the Purchasing Division Chief, Director of Finance, and Deputy Finance Director to discuss the scope and objectives of the audit work and obtain preliminary data.
- Reviewed *Code of Virginia*, *Virginia Public Procurement Act* and the County's Purchasing Regulations.
- Conducted interviews with key personnel to obtain a detailed understanding of the purchasing and procurement processes.
- Documented process maps depicting the current state of the purchasing processes.
- Performed walkthroughs of key purchasing processes to gain an understanding of the function and assess the design of internal controls.
- Based on the information obtained through our inquiry and walkthrough procedures, we developed a risk-based work plan for the evaluation of the design and operating effectiveness of processes and controls.



OBJECTIVES AND APPROACH – CONTINUED

Approach – continued

Evaluation of the Design and Effectiveness of Process and Controls

The purpose of this phase was to test compliance and internal controls based on our understanding of the processes obtained during the first phase. The following procedures were conducted as a part of this phase of our review:

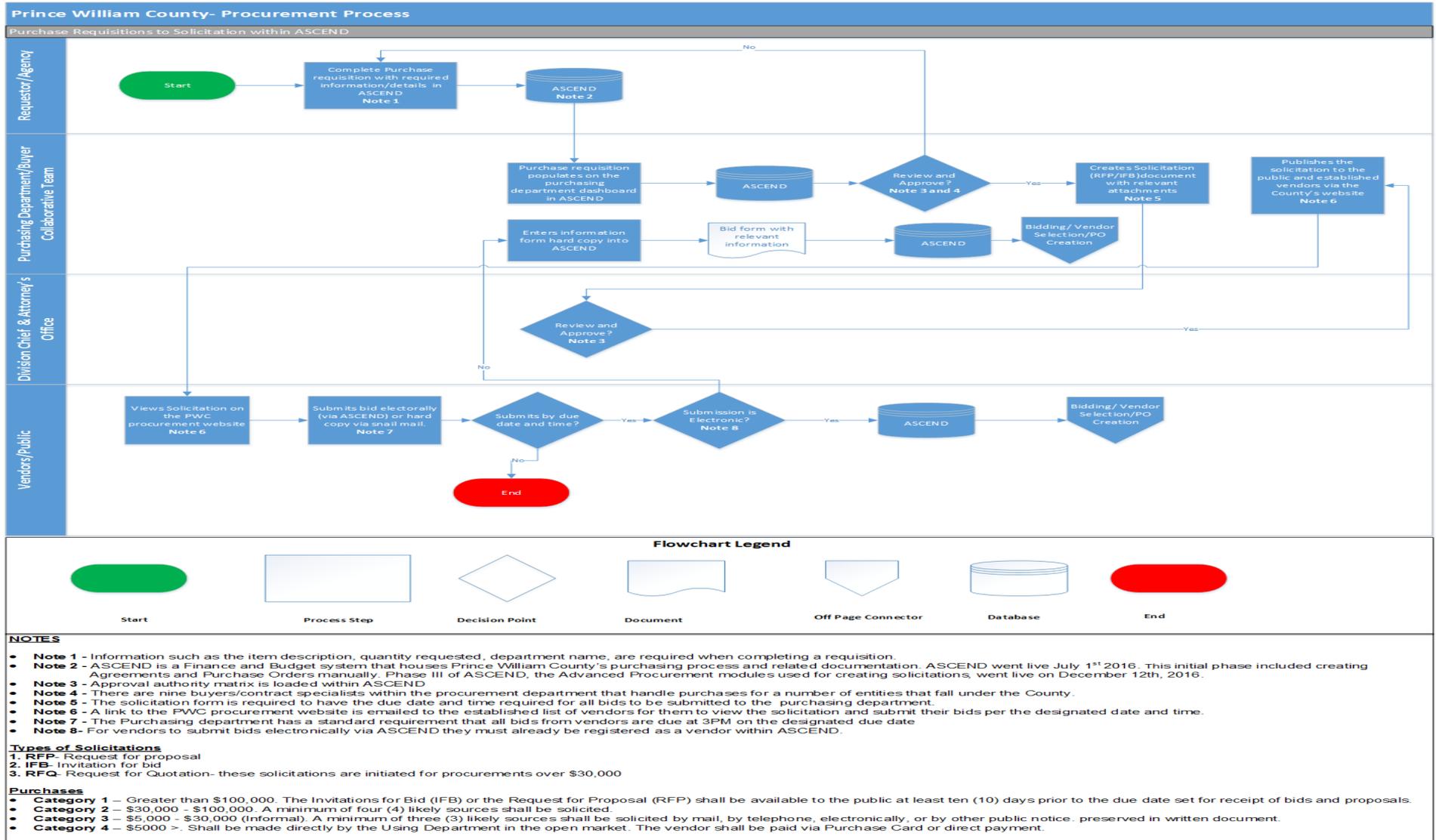
- We selected a sample of transactions between July 2016 and February 2017 and tested for compliance with the County's Purchasing Regulations and *Code of Virginia, Virginia Public Procurement Act*;
- For a sample of purchase orders (within six (6) departments), the following audit procedures were performed:
 - Verified that the requisition order was properly approved;
 - Verified that solicitations were reviewed and properly approved;
 - Reviewed for compliance with competitive solicitation requirements, if appropriate;
 - Inspected bid packages to verify evidence of review was completed by Selection/Scoring Committee Members, if appropriate;
 - Reviewed for the completion of conflicts of interest documents by the Selection/Scoring Committee Members, if appropriate; and
 - Reviewed utilized piggy-back contracts for the completion of contract administration forms, if appropriate.
- Tested for adequacy of segregation of duties within the Ascend financial management system as it relates to purchasing.

Reporting

At the conclusion of our audit, we summarized our findings into a written report. We conducted an exit conference with the appropriate persons in Management.

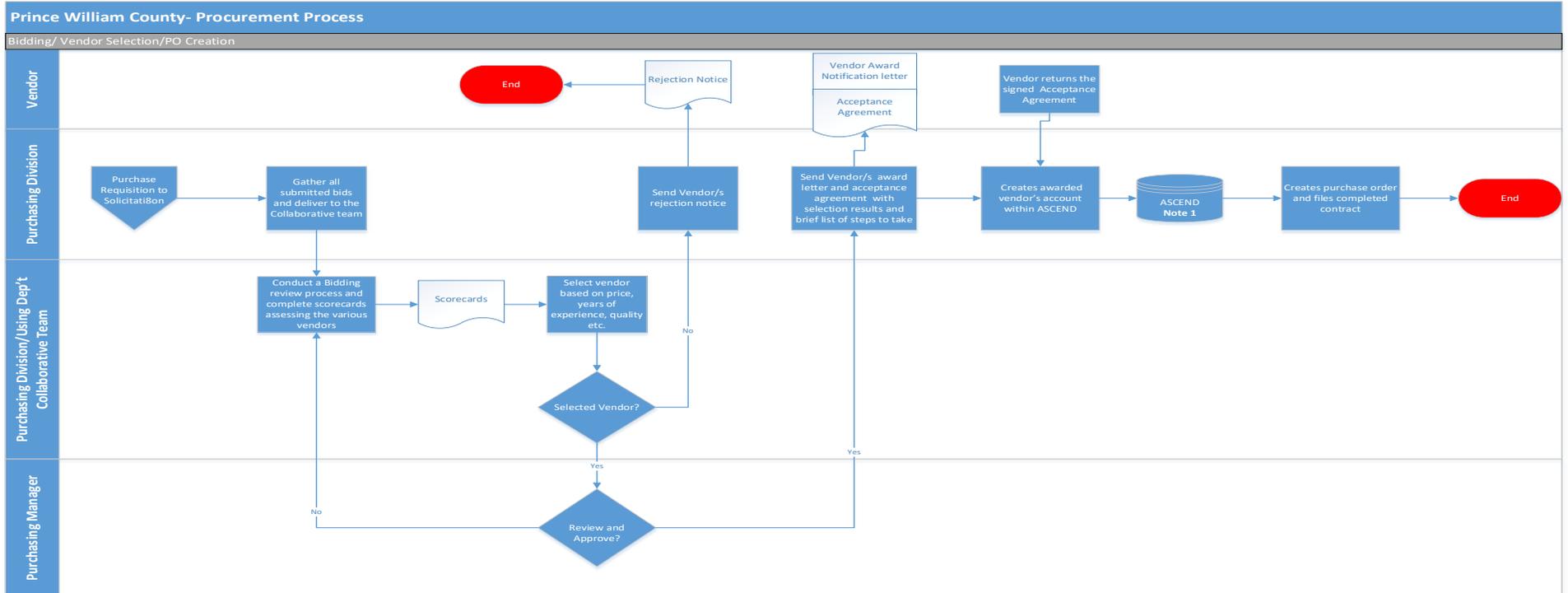


PROCESS MAPS





PROCESS MAPS – CONTINUED



Flowchart Legend



NOTES

- **Note 1** - ASCEND is a Finance and Budget system that houses Prince William County's purchasing process and related documentation. ASCEND went live December 12th 2016.

Types of Solicitations

1. **RFP**- Request for proposal
2. **IFB** - Invitation for bid
3. **RFQ**- Request for Quotation- these solicitations are initiated for procurements over \$30,000

Purchases

- **Category 1** – Greater than \$100,000. The Invitations for Bid (IFB) or the Request for Proposal (RFP) shall be available to the public at least ten (10) days prior to the due date set for receipt of bids and proposals.-
- **Category 2** – \$30,000 - \$100,000. A minimum of four (4) likely sources shall be solicited.
- **Category 3** – \$5,000 - \$30,000 (Informal). A minimum of three (3) likely sources shall be solicited by mail, by telephone, electronically, or by other public notice. preserved in written document.
- **Category 4** – \$5000 >. Shall be made directly by the Using Department in the open market. The vendor shall be paid via Purchase Card or direct payment.



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