



PRINCE WILLIAM COUNTY

Prince William County, Virginia Internal Audit Report – Contract Administration

December 13, 2018



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TRANSMITTAL LETTER



December 13, 2018

The Board Audit Committee of
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Pursuant to the internal audit plan for calendar year (“CY”) 2018 for Prince William County, Virginia (“County” / “PWC”), approved by the Board of County Supervisors (“BOCS”), we hereby present the contract administration cycle audit. We will be presenting this report to the Board Audit Committee of Prince William County at the next scheduled meeting on February 5, 2019.

Our report is organized into the following sections:

| | |
|--------------------------------|---|
| Executive Summary | This provides a high-level overview and summary of the observations noted in the contract administration cycle audit, as well as the respective risk ratings. |
| Background | This provides an overview of the contract administration process related to our sampled contracts, as well as relevant background information. |
| Objectives and Approach | The objectives of this cycle audit are expanded upon in this section, as well as a review of the various phases of our approach. |
| Observations Matrix | This section gives a description of the observations noted during this 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 cycle audit.

Respectfully Submitted,

RSM US LLP

Internal Auditors



EXECUTIVE SUMMARY

Background

The following two contracts were selected for review in this cycle audit:

Job Order Contracting (“JOC”) Services for General Construction

JOC is a method of procuring construction by establishing a book of unit prices and then obtaining a contractor to perform work as needed using the prices, quantities, and specifications in the book as the basis of its pricing. JOC is used to establish a pool of pre-qualified contractors, through a single procurement process, to be engaged as needs arise throughout the contract period. This allows the County to save time by consolidating the procurement process, rather than advertising and bidding each project individually.

As a result of modifications to the Virginia Public Procurement Act in 2015, Prince William County, along with other entities in Northern Virginia, joined the joint procurement for JOC hosted by Arlington County. Through this joint procurement, the County awarded seven (7) contracts for JOC services.

Construction Services: Adult Detention Center PHII Expansion Project

In May 2017, the County began the bidding process for the second phase of the Adult Detention Center expansion. A contract was awarded in November 2017 for approximately \$39M, with final completion scheduled for March 2020. As of September 2018, approximately \$12M of costs were incurred, with one (1) change order issued for an additional \$201K in costs.

Overall Summary / Highlights

The observations identified during our assessment are detailed within 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.

Fieldwork was performed September 2018 through November 2018.

Objective and Approach

The objective of this cycle audit was to assess whether the system of internal controls is adequate and appropriate, for promoting and encouraging the achievement of management’s objectives for effective contract compliance and administration. The following contracts were selected for this audit:

- Job Order Contracting Services for General Construction
- Construction Services: Adult Detention Center Phase II Expansion Project

Cycle audits are narrower in scope and specific to inherently high-risk, decentralized functions and processes. The purpose of a cycle audit is to test and assess if policies and procedures are being followed within different agencies or that controls continue to be effective once it has been determined that they have been appropriately designed and implemented. Our audit approach consisted of the following three phases:

Understanding and Documentation of the Process

The first phase of this internal audit consisted primarily of inquiry, in an effort to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objectives outlined above.

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. We utilized sampling and other auditing techniques to meet our audit objectives outlined above. We conducted testing of invoices, change orders, and other contractual compliance for both contracts in our sample.

Reporting

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

Summary of Observation Ratings

(See page 3 for risk rating definitions)

| | High | Moderate | Low |
|-------------------------------|------|----------|-----|
| Contract Administration Audit | - | 1 | 2 |

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



EXECUTIVE SUMMARY – CONTINUED

Observations Summary

Following is a summary listing of the observations noted in the areas reviewed. The detailed observations are included in the observations matrix section of the report.

| Summary of Observations | |
|---|----------|
| Observations | Rating |
| 1. JOC - Documented Performance Monitoring of JOC Contractors | Moderate |
| 2. JOC - Incorrect Factor Rate | Low |
| 3. JOC - Policies and Procedures for Job Order Contracting | Low |

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

| Observation Risk Rating Definitions | |
|-------------------------------------|---|
| Rating | Explanation |
| Low | Observation presents a low risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals. |
| Moderate | Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, brand, 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 in the near term. |
| High | Observation presents a high risk (i.e., impact on financial statements, internal control environment, brand, 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. |



BACKGROUND

Job Order Contracting

Job order contracting (“JOC”) is commonly used for public entities to procure several contractors, both general and specialty, for smaller construction projects. This provides the County access to a pool of contractors that have already completed the procurement and prequalification process, and have established negotiated rates with the County. This translates to faster turnaround time from project scoping to commencement of construction activities. The Virginia Public Procurement Act establishes the following key limitations on JOC:

- Original term equals one (1) year, with two (2) additional option years;
- The sum of all jobs performed in a one (1) year contract cannot exceed \$5 million;
- Individual jobs cannot exceed \$500,000; and
- Job splitting to avoid exceeding minimums, and carryforward of unused amounts to future years are both prohibited.

Further, the Virginia Public Procurement Act allows for both joint and cooperative procurement. In joint procurement, a jurisdiction may administer procurement of an agreement on behalf or in conjunction with other public bodies. In cooperative procurement, a public body may purchase from a separate public body’s contract (without being involved in the original procurement), commonly referred to as “piggybacking”. Effective in July 2015 the Virginia Public Procurement Act was modified to prohibit the use of cooperative procurement, specifically for construction (among other exemptions). As a result, public entities in Virginia may at present, utilize joint procurement, but not cooperative procurement for construction.

Prior to the change, Prince William County routinely procured job order contracting services through cooperation with other local public bodies. After the change prohibiting cooperative procurements, the County entered a joint procurement for job order contracting, along with several other public bodies. This joint JOC procurement was administered by Arlington County.

The following table shows total contract spend, by various JOC contractors since the joint procurement in 2016†:

| JOC Contractor | FY 2017* | FY 2018 | FY 2019** (to date) | Total to Date |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|
| HITT Contracting, Inc. | \$ 790,594 | \$ 920,976 | \$ 174,418 | \$ 1,885,988 |
| Sorenson Gross Company | 682,575 | 1,088,332 | 230,592 | 2,001,499 |
| TMG Construction Corporation | 705,519 | 1,765,580 | 157,085 | 2,628,184 |
| FHP Tectonics Corp | 647,929 | 1,593,479 | 58,989 | 2,300,397 |
| Adrian L Merton Inc | - | 16,922 | - | 16,922 |
| Colonial Webb Contractors Company | - | 351,336 | - | 351,336 |
| Paschen Johnson Joint Venture | - | 185,018 | - | 185,018 |
| TOTAL | \$ 2,826,617 | \$ 5,921,643 | \$ 621,084 | \$ 9,369,344 |

Source: Purchasing Department

*beginning 10/16/2016

**through 11/16/18

† Fiscal year totals shown for clarity, although JOC contract limitations based on JOC years beginning 10/16/2016



BACKGROUND – CONTINUED

Construction Services: Adult Detention Center Phase II Expansion Project

In May 2017, the County released an Invitation for Bid (IFB) for the construction of the Adult Detention Center Phase II Expansion Project. The scope included expansion of the existing stormwater management facility, site development, and construction of the three-story (104,816 sq. ft. / 204 bed) building addition and parking lot.

The work was awarded to Branch & Associates, Inc., and the contract was executed November 1, 2017, in the lump-sum amount of \$39,080,000. From the issuance of the Notice to Proceed on December 4, 2017, the contract time spans 825 days to final completion. As of our review, Branch & Associates, Inc. has submitted 10 pay applications, and one change order has been approved.

The table below summarizes the original contract value, contract changes, and contractor payments as of September 30, 2018.

| Contract Value Description | Amount | Schedule Description | Days |
|-----------------------------------|-------------------|--|-----------|
| Original Contract Amount | \$ 39,080,000 | Notice to Proceed | 12/4/2017 |
| Total Change Orders (#1) | <u>200,957</u> | Days per contract (795 to substantial completion, plus 30 to final completion) | 825 |
| Revised Contract Amount | 39,280,957 | Contract Final Completion | 3/6/2020 |
| Total Pay Applications (#1 – #10) | <u>12,145,329</u> | Days Completed (as of Pay Application #10) | 300 |
| Balance to Pay | \$ 27,135,628 | Days Remaining | 525 |



OBJECTIVES AND APPROACH

Objectives

The objective of this cycle audit was designed to assess whether the system of internal controls is adequate and appropriate, for promoting and encouraging the achievement of management's objectives for effective contract compliance and administration. The selection of contracts to be tested during this cycle audit was based upon current existing circumstances and conditions at the County. The following contracts were selected for this cycle audit:

- Job Order Contracting (JOC) Services for General Construction on an As-Needed Basis (Sorensen Gross Company)
- Construction Services: Adult Detention Center Phase II Expansion Project (Branch & Associates, Inc.)

Approach

Our audit approach consisted of the following three phases:

Understanding and Documentation of the Process

The first phase of this cycle audit consisted primarily of inquiry, 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:

- Obtained and reviewed contract documents for each contract noted above;
- Reviewed relevant documented policies and procedures and any other relevant information;
- Conducted interviews with key personnel to identify relevant contract administration processes; and
- Based on the information obtained through our inquiry procedures, we developed a risk-based work plan to validate the ongoing design and operating effectiveness of processes and controls.

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. We utilized sampling and other auditing techniques to meet our audit objectives outlined above. We conducted the following testing, and other procedures as deemed necessary:

- Job Order Contracting sample:
 - Initial procurement in compliance with Virginia Public Procurement Act - Title 2.2, Chapter 43 of the *Code of Virginia*;
 - Job scope approval by user department;
 - Job estimate approval by user department, consultant, and contractor;
 - Job estimate contains appropriate contract multiplier;
 - Job invoices contain user department approval; and
 - Job change orders contain supporting documentation and approval by user department.
- Construction Services sample:
 - Pay applications contain appropriate approvals;
 - Pay applications contain appropriate supporting documentation;
 - Pay application roll forward is mathematically accurate;
 - Change orders contain appropriate approvals;
 - Change orders contain appropriate supporting documentation; and
 - Allowance usage contain appropriate supporting documentation.

Reporting

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



OBSERVATIONS MATRIX

| Observation | 1. Documented Performance Monitoring of JOC Contracts |
|--|--|
| <p>Moderate</p> | <p>Through discussions with County personnel, we noted there is not currently a documented process to monitor or assess the performance of JOC contractors.</p> <p>As the JOC contract allows the County utilize contractors for multiple projects without a separate procurement for each, and further allows the county to execute two additional option years, tracking performance of contractors is necessary for Management to make informed decisions regarding the continuous use of JOC vendors. Further, as multiple user departments utilize JOC contractors, requiring a completed evaluation for each project will allow the County to monitor contractor performance on a variety of project types.</p> <p>Documenting performance evaluations of contractors, on an ongoing basis, is critical for the County to validate that quality services and appropriate value are received for funds expended. Continuous monitoring will also provide the County with an opportunity to intervene and remediate undesirable performance, prior to the next JOC project assignment.</p> |
| <p>Recommendation</p> | <p>We recommend the County utilize the JOC consultant to implement the use of a JOC contractor performance evaluation at the conclusion of each work order/project, or on a recurring (ex. quarterly, semi-annual) basis for larger projects. The Consultant should coordinate with user department(s) to complete the evaluation, which should at a minimum contain the following elements:</p> <ul style="list-style-type: none"> • Communication • Quality of work • Quality of submittals • Timeliness and schedule control • Budget and cost control • Safety • Teamwork and cooperation • Compliance (insurance, bonding) <p>We further recommend that the consultant/County share the results of performance monitoring with contractors. This will allow the contractor to address and remediate any issues prior to the next project assignment.</p> |
| <p>Management's Action Plan</p> | <p>Response: Management agrees with the audit finding and will create an evaluation form to be used at the conclusion of each project and on a quarterly basis for larger projects. Management will add into the new solicitations for JOC the requirement that the consultant will coordinate with end users to complete evaluations, to be turned into Purchasing.</p> <p>Responsible Party: Adam Manne, Purchasing Division Chief</p> <p>Estimated Completion Date: September 30, 2019</p> |



OBSERVATIONS MATRIX – CONTINUED

| Observation | 2. Incorrect JOC Rate |
|---------------------------------|--|
| Low | <p>During our testing of JOC work order/project documentation, we noted an incorrect factor was utilized in the calculation of the total project cost. Each JOC contractor has a contractually established factor that is applied to the original cost estimate received from the consultant. This factor may change depending on the time of day the work is performed, or when an option year is executed.</p> <p>Purchase Order #5030894 (March 2018) utilized an outdated rate of 1.09 (effective 10/19/2016 to 10/17/2017), rather than the rate in effect at the time of 1.1214 (effective 10/18/2017 to 10/17/2018). This resulted in an underpayment to the contractor of \$3,231.</p> |
| Recommendation | <p>In conjunction with Observation #3 regarding policies and procedures, we recommend the County implement a process (such as a JOC proposal checklist) for a review of contractor proposals for contractual compliance. As the review of proposals is decentralized, and managed by the User department and consultant, a check for contractual compliance may not be appropriately performed. As such, we recommend the review process of contractor proposals performed by the User department be fully defined and documented, to mitigate the risk of undiscovered non-compliance.</p> |
| Management's Action Plan | <p>Response: Management agrees with the audit finding and will create an updated process and procedures document for JOC for issuance with the new contract. The document will include a JOC checklist and a check for contractual compliance by the using department.</p> <p>Responsible Party: Adam Manne, Purchasing Division Chief</p> <p>Estimated Completion Date: September 30, 2019</p> |

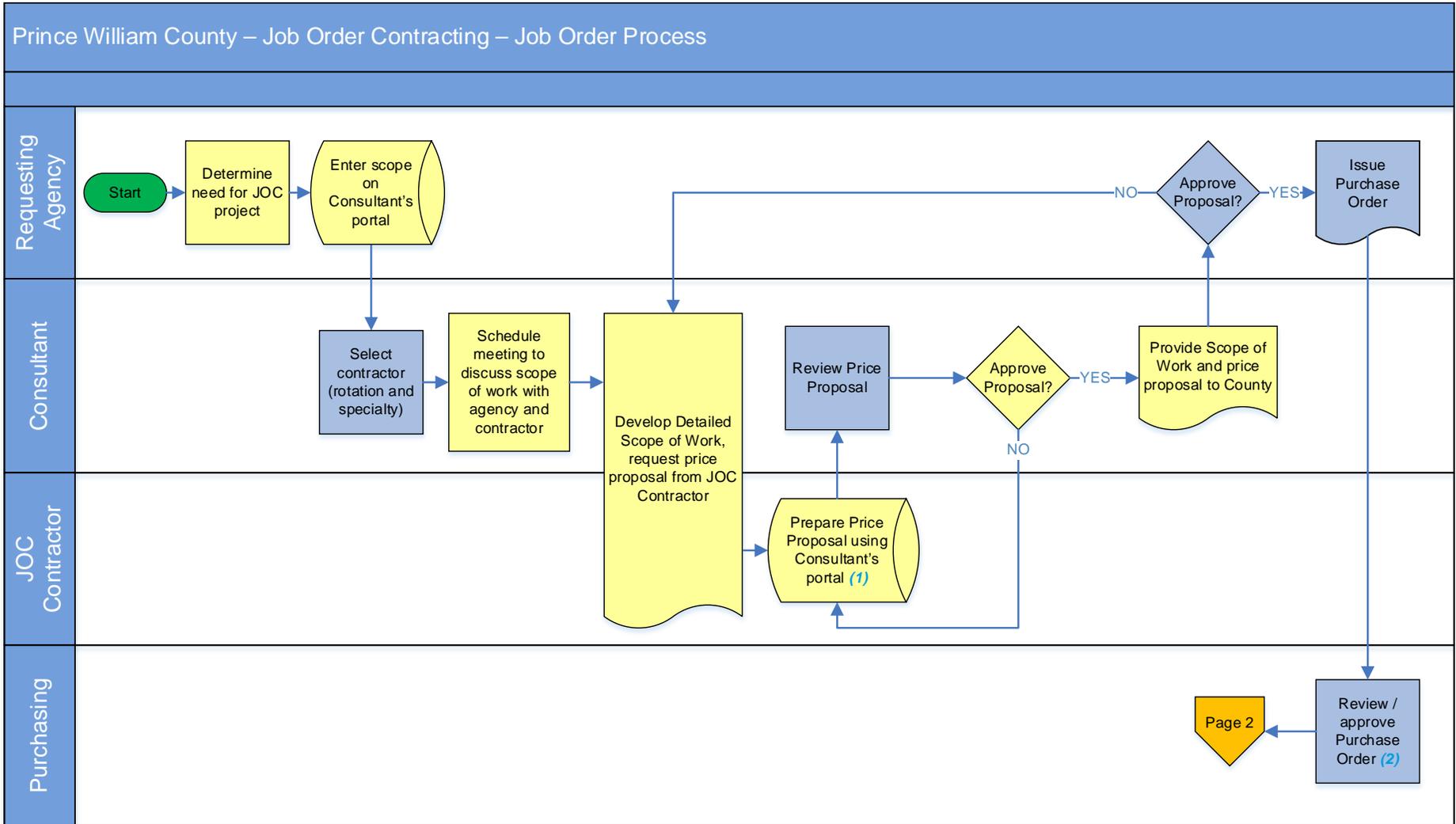


OBSERVATIONS MATRIX – CONTINUED

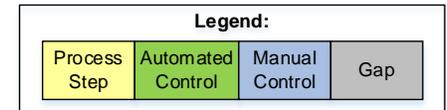
| Observation | 3. Policies and Procedures for Job Order Contracting |
|--|---|
| <p>Low</p> | <p>Through discussions with County personnel, we noted that documented policies and procedures related to user department administration of the JOC contract do not currently exist. Although a documented policy does not currently exist, Purchasing Management indicated that development of a policy and procedures manual is currently planned, in addition to an optional training session that was provided in October 2016. As individual JOC work order/project management is decentralized (managed by the user department), policies and procedures are necessary for consistent management of the contract.</p> <p>Policies and procedures related to JOC work orders/projects should include the following:</p> <ul style="list-style-type: none"> • Scope development • Engaging the consultant • Pre-bid meetings • Estimating and negotiation process • Invoice process review • Change order process and review • Closeout • Document retention • Contractor performance monitoring <p>By developing policies and procedures related to the JOC process, the County can provide clarity to, and help promote consistent management practices by user departments.</p> |
| <p>Recommendation</p> | <p>In addition to the training previously provided, we recommend Purchasing, through the JOC consultant or other resources as available, continue with development of documented policies and procedures related to the management of JOC contracts. These policies should be developed in conjunction with the Facilities Construction Management team, to leverage their experience in managing construction projects. After development of the policies and related procedures, training should be provided to user departments on as a-needed basis.</p> |
| <p>Management's Action Plan</p> | <p>Response: Management agrees with the audit finding and will work with Facilities Construction management, Parks Recreation and Tourism and Volunteer Fire Departments to continue the development of documented policies and procedures, for issuance with the new JOC contract.</p> <p>Responsible Party: Adam Manne, Purchasing Division Chief</p> <p>Estimated Completion Date: September 30, 2019</p> |



PROCESS MAPS

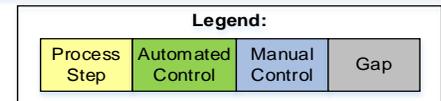
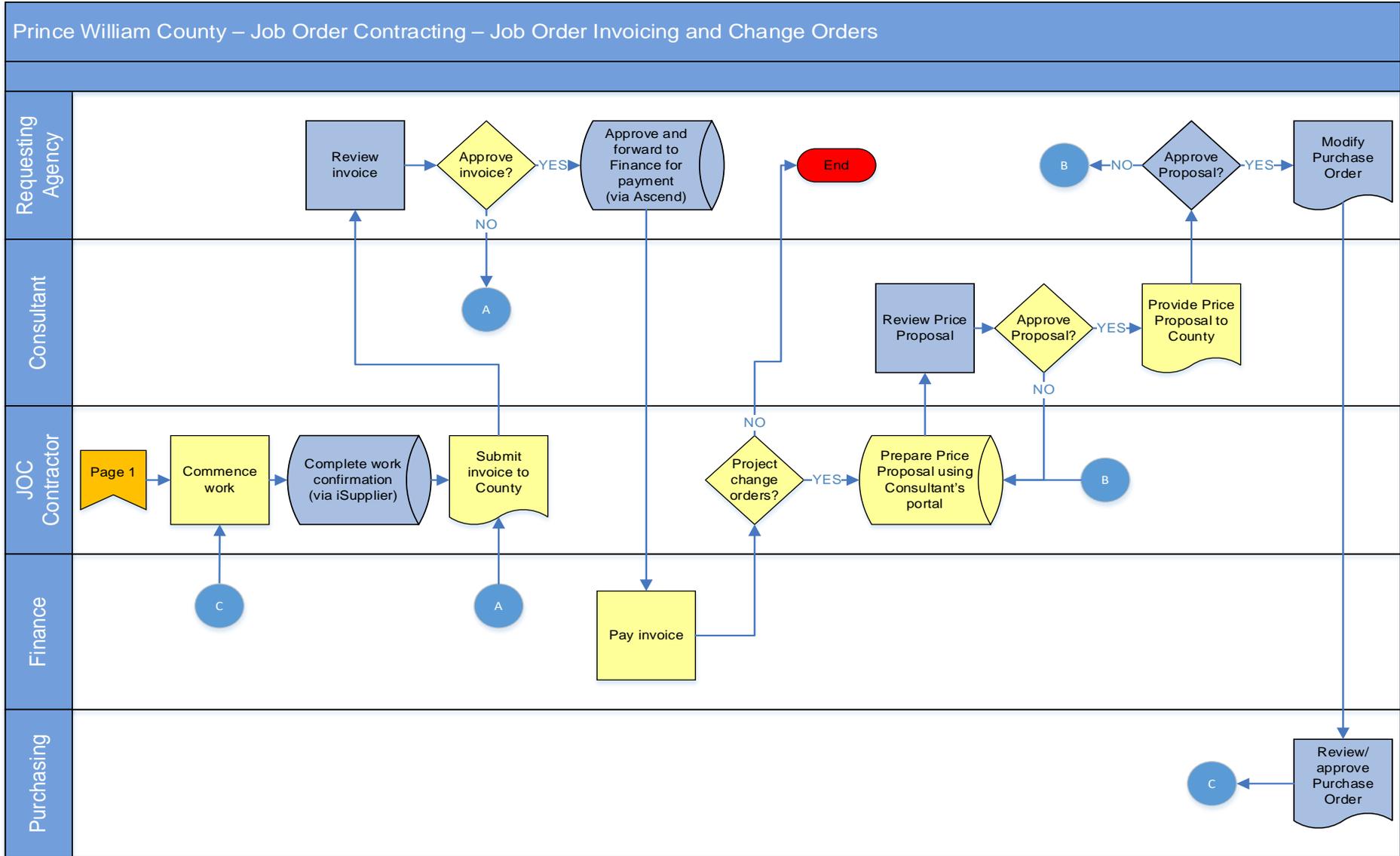


- (1): Includes tasks and quantities, and may include construction schedule and listing of subcontractors
 (2): Purchasing reviews purchase order to verify:
 a) Purchase order agrees to the approved estimate
 b) Includes appropriate task order form and references contract (Arlington County)
 c) If greater than \$100,000, includes performance bonds, and payment bonds





PROCESS MAPS – CONTINUED





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