



PRINCE WILLIAM COUNTY

Prince William County, Virginia Internal Audit Report: Contract Compliance

April 5, 2024





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TRANSMITTAL LETTER

April 5, 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") 2023 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 May 14, 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 activities related to contract compliance, details related to the contracts included in this review, and other 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

Internal Audit



EXECUTIVE SUMMARY

Background

Contract compliance processes include all activities performed from the time a contract has been executed until the contracted work has been completed and accepted, payment has been made, and any disputes have been resolved. Maintaining effective contract compliance and administration processes is critical to encouraging the efficient use of County financial resources, confirming that services are delivered in accordance with contractual stipulations, and facilitating compliance with applicable laws, regulations, and policies.

The County operates within a complex framework of contractual agreements with various vendors, service providers, and other external parties. These contracts encompass a wide range of services, and can be found in any operational and administrative facet of the County, including construction, facility maintenance, transportation, technology, security, custodial services, emergency services, etc. As part of this internal audit, we reviewed one (1) contract related to County-wide facility maintenance and renovations (spend as of April 4, 2024 totaled \$16,026,492), and one (1) contract related to building design, planning, and construction within the Department of Parks & Recreation (spend as of April 4, 2024 totaled \$8,418,084).

Although certain aspects of the contracting process are centralized within the Office of Procurement Services, many of the high-risk activities related to the daily contract administration and monitoring are decentralized to the individual end-users and an assigned contract administrator. These 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. While these duties are assigned to the contract administrator, effective contract compliance requires collaboration between end-users, procurement officers, accounts payable personnel, and legal personnel. The level of effort required to effectively manage contracts is contingent on the nature of the goods and/or services being delivered, the type of contract, and the experience of the personnel involved.

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 sampled contracts. Procedures performed included the following:

- Interviewed and performed walkthroughs with key stakeholders, including contract administrators within the Department of Parks & Recreation, Buildings & Grounds Division (within the Department of Facilities & Fleet Management), and the Office of Procurement Services.
- Sampled two contracts to assess controls related to:
 - Completeness and accuracy of contract documents retained, including original contract documents and any subsequent contract extensions;
 - Vendor invoice reviews, including processes for confirming the mathematical accuracy of invoices and confirming goods/services were received/performed in accordance with contractual requirements;
 - Timeliness of invoice payment;
 - Fulfilment of third-party insurance requirements at the time of contract execution and throughout the contract's lifespan;
 - Vendor evaluation processes; and
 - Management and monitoring of rotating agreements, including the method in which work is distributed to multiple awarded vendors.

Our audit scope and period included the full lifecycle of two executed County contracts, which were originally executed in 2017 and renewed through 2023. Fieldwork was performed from December 2023 through March 2024.

Summary of Observation Ratings

(See page 3 for definitions)

	High	Moderate	Low
Contract Compliance	2	5	-

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.

Summary of Observations	
Observations	Rating
1. Contractual Oversight and Monitoring Procedures	High
2. Invoice Review Procedures	High
3. Contract Extensions and Usage	Moderate
4. Task Order Utilization	Moderate
5. Vendor Insurance Coverage and Documentation	Moderate
6. Vendor Rotation Procedures	Moderate
7. Vendor Performance Monitoring and Evaluation	Moderate

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

The County, like virtually all entities, enters into contractual agreements with third parties to accomplish daily operational objectives and achieve strategic goals. Contracts formally document a legally binding relationship between at least 2 parties: the County, and the third party capable of providing the desired good or service. Contract terms are required to state expected behaviors and responsibilities for both parties clearly and to provide a decisive course of action in the event 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 are compliant with all applicable policies, procedures, and regulations, including federal requirements associated with federally awarded funds. Procurement Officers suggest the procurement method to be utilized prior to 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 and 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. In many instances, 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 to be used during Procurement’s solicitation creation process. The County Attorney’s Office also reviews all final solicitation documents before public advertising and is available to review contract documents if changes to standard language are requested.

BACKGROUND (CONTINUED)

Contract Administration

The contract administration process involves managing and overseeing the ongoing performance and compliance of contracts once they have been executed. This process involves activities such as the inspection and testing of goods and/or services to confirm they meet contract terms and specifications; detailed review of invoices for mathematical accuracy, including review of supporting documentation to substantiate invoiced labor hours and reimbursable costs; and prompt communication and resolution of vendor performance issues. In collaboration with end-users and procurement officers, contract administrators are responsible for managing their assigned contracts, 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 compliance and management activities may include:

- ❖ **Vendor Evaluation** – Vendor performance is measured by the vendor's ability to meet the requirements of the contract and fulfill its obligations. The level of effort required to effectively monitor vendor performance is contingent on the nature of the goods and/or services being delivered, the type of contract, and the experience of the personnel involved. Specific knowledge of the contract, including the terms and conditions, is often required to effectively monitor vendor performance.
- ❖ **Risk Management** – When applicable, the County requires vendors 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 the County.
- ❖ **Invoice Review** – 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.
- ❖ **Change Management** – Any changes to contracts, including amendments, modifications, scope changes, and executions, must be properly documented, approved, and communicated to relevant stakeholders.
- ❖ **Record-Keeping** – Obtaining, organizing, and maintaining executed agreements, addendums, and pricing for on-demand access and referral is essential to maintaining a strong contractual control environment.



BACKGROUND (CONTINUED)

Vendor Rotation

In many instances, contracts may be awarded to multiple vendors. For example, architectural/engineering contracts are often awarded to multiple vendors to promote competition, foster innovation, and diversify expertise, thereby enhancing the quality of services provided in instances where a wider range of skills are required (i.e., construction, consulting, engineering, design, and architectural projects). Similarly, multiple vendors may be awarded through a continuing contract – an agreement that does not fully define project scope at the beginning but instead establishes terms and conditions under which the County can request goods or services as needed over the contract’s lifespan. This allows the County to procure the underlying contract once, instead of creating new solicitations each time an individual project is needed. Whether a contract is awarded to multiple vendors or an organization procures vendors individually, rotating vendors is essential for fostering competition, innovation, and cost-efficiency. Diversifying vendor reliance also reduces the risk of favoritism and facilitates access to a range of expertise, improving project quality while minimizing biases.

In-Scope Contracts

As part of our internal audit, we sampled 2 separate contracts, each with differing methods of vendor rotation.

Architectural and Engineering Services for the Department of Parks & Recreation (“Parks contract”)

- ❖ Contract Scope: Building design services, recreational sports design and planning, and construction administration/management services.
- ❖ Number of Awarded Vendors: 11
- ❖ Rotation Method: Vendors are rotated using the Rotation Management System, a homegrown PWC tool in which end-users enter basic project details (project name, project manager, contract type, department, anticipated start date), and the next vendor in the listing is generated.
- ❖ Original Award Date: August 2017
- ❖ Number of Extensions: 5 (through December 2022)
- ❖ Total Contract Spend (all vendors): \$8,418,084¹

Recreation Facility Maintenance and Renovations (“Facilities contract”)

- ❖ Contract Scope: Repairs, preventative maintenance, and alterations to facilities for all agencies and activities throughout the County.
- ❖ Number of Awarded Vendors: 3
- ❖ Rotation Method: Vendors are assigned as "Primary," "Secondary," and "Tertiary." The contract stipulates that the Secondary and Tertiary Contracts may be utilized in the event the Primary Contractor cannot perform its contractual obligations and/or cannot provide goods in a reasonable period as County projects dictate. Otherwise, all work is given to the Primary vendor.
- ❖ Original Award Date: November 2017
- ❖ Number of Extensions: 9 (through December 2023)
- ❖ Total Contract Spend (all vendors): \$16,026,492¹

¹ In July 2021, the County migrated ERP systems from Ascend to Mobius. Total contract spend is based on total PO value housed in Mobius plus the approx. value of POs from historical Ascend data.

OBJECTIVES AND APPROACH

Objectives

The objective of this internal audit was to evaluate the design, control structure, and operating effectiveness of County controls related to managing and administering sampled contracts. This internal audit included the evaluation of the following areas for the contracts sampled: completeness and accuracy of contract documents retained at the County, the design and operating effectiveness of key controls related to contract administration, monitoring of contract spend, equitable use of on-contract vendors, monitoring of vendor performance, and invoice review procedures. Our audit scope and audit period included the full lifecycle of two (2) executed County contracts, which were originally executed in 2017 and renewed through 2023.

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 was 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 as they relate to the processes within our scope. This included live walkthroughs of Mobius and the Rotation Management System and interviews with multiple contract administrators across the two (2) sampled contracts.
- Gained an understanding of procedures as they relate to the processes within scope.
- Developed a work plan for the evaluation of 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:

- Assessed whether contract documentation is sufficient and appropriate and whether required approvals were obtained prior to work commencing.
- Evaluated the County's process for reviewing invoices, verifying work was completed and the invoice(s) received were mathematically accurate for a sample of 26 vendor invoices.
- Evaluated the timeliness in which invoices are paid.
- Assessed whether insurance documentation was obtained prior to work commencing and whether it was maintained throughout the contract's lifecycle from 2017 through the last date of requested vendor work.
- Assessed procedures related to vendor performance monitoring and contract renewal.
- Evaluated the process for managing and monitoring two sampled contractual agreements that rotate vendors, including the use of objective algorithms and equitable distribution of available work.

Reporting

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

OBSERVATIONS MATRIX

Observation	1. Contractual Oversight and Monitoring Procedures
<p style="text-align: center;">High</p>	<p>To enhance the County’s process for contract management, Procurement Services established a Contract Administrator Designation (“CAD”) form to document contract administrators’ acknowledgment of their responsibilities, which encompass various tasks such as coordinating delivery, confirming compliance with contract terms, and reporting performance issues. The County has defined this role by using CAD forms and including specific contract language, which states that invoices shall be submitted to the designated contract administrator.</p> <p>As part of our procedures, the following issues were identified:</p> <ul style="list-style-type: none"> • <i>Missing CAD forms:</i> While there are 4 known contract administrators assigned to the two (2) in-scope contracts, only one (1) CAD form was provided. • <i>Lack of procedures and training:</i> No established procedures or comprehensive training materials are available to effectively support contract administrators in their tasks. While the CAD form outlines the required responsibilities, written guidance informing administrators how to execute their responsibilities does not exist. This lack of guidance was evident in discussions with contract administrators, who expressed confusion about their duties and how they should fulfill them. Moreover, the diverse backgrounds and skill sets of individuals appointed as contract administrators further compound the challenge, as some may lack familiarity with the intricacies of contract monitoring tasks, such as invoice verification and navigation within the Mobius system. <p>The absence of documented role assignments and comprehensive training hinders contract administrators’ ability to fulfill their responsibilities effectively, increasing the risk of contract compliance issues and financial inefficiencies.</p>
<p>Recommendation</p>	<p>The following is recommended:</p> <ul style="list-style-type: none"> • <i>Document Role Assignments:</i> Completed CAD forms should be retained in a central location, and expectations related to document retention should be reinforced. For larger contracts that are utilized by departments and divisions across the County, Procurement Services may also consider assigning CAD responsibilities to the project manager assigned to each task order. • <i>Develop Comprehensive Training Materials:</i> Create detailed, step-by-step procedures for contract administrators to follow for each of the listed responsibilities on the CAD form. • <i>Implement a Formal Training Program:</i> Once procedural materials have been created, conduct training sessions upon role assignment and periodically thereafter to maintain proficiency. Prioritize the creation of a formal contract administrator training program when staff availability allows. Other key personnel who have invoice review responsibilities, but may not be a contract administrator, should be included in the training program.

OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Contractual Oversight and Monitoring Procedures (Continued)
Management Action Plan	<p>Response: The Office of Procurement Services (OPS) will retain Contract Administrator Designation Forms in the electronic file (MFiles). In accordance with Section 100.10 OPS will ensure that using departments assigns a Contract Administrator for each contract in use by the department. Any county employees who complete contract administration tasks will be required to attend Contract Administration training prior to being designated as a Contract Administrator. Training will also be required for any county employees who inspect and accept deliveries of goods and services performed under county contracts.</p> <ul style="list-style-type: none">The County has developed a Contract Administration Training Manual and Contract Administration Training Modules. The training will include two sessions. Session 1 is an online-self paced training module. Session 2 is a classroom training with hands on exercises to reinforce comprehension and application of contract administration competencies. Annual refresher training will be required. The training will be rolled out in May 2024. <p>Responsible Party: Chief Procurement Officer (CPO), Deputy Director of Procurement</p> <p>Estimated Completion Date: May 2024</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Invoice Review
<p style="text-align: center; background-color: red; color: white; font-weight: bold; padding: 5px;">High</p>	<p>Invoice review is a critical aspect of contract management, validating that payments made to vendors are accurate and justified. The process involves verifying that the invoiced costs align with the terms of the contract, including agreed-upon rates for labor, materials, and equipment. It also includes checking the mathematical accuracy of the invoice and validating that all billed costs are supported by appropriate documentation, such as supplier or subcontractor invoices. Approval of the invoice, typically evidenced by a signature or stamp from the user department, indicates that the invoice has been reviewed and deemed accurate. Approvals are also documented within the Mobius system prior to invoice payment. This process is essential for maintaining financial integrity, adhering to contractual obligations, and safeguarding against overpayments, fraud, or misuse of funds.</p> <p>As part of our procedures, we selected a sample of 26 expenditures made through the two (2) sampled contracts and reviewed the supporting purchase orders and invoices. As part of our procedures, the following issues were identified:</p> <ul style="list-style-type: none"> • <i>Unsupported Invoiced Costs:</i> The Facilities contract states that “<i>Invoices which include material, equipment rental, or subcontractor charges shall be accompanied by suppliers/subcontractor’s invoices to substantiate cost to Contractor</i>” and “<i>... invoices are required to include, at minimum.... Proof of price for materials and reimbursable costs.</i>” However, 11 of the 13 sampled invoices related to the Facilities contract included unsupported materials and equipment costs totaling \$286,529. <ul style="list-style-type: none"> ○ 11 invoices lacked supporting documentation for \$249,769 in costs of materials billed. ○ 9 invoices lacked supporting documentation for \$36,760 in costs of equipment billed. • <i>Incorrect labor rate:</i> 1 of the 13 invoices sampled related to the Facilities contract contained labor charges, which used incorrect hourly rates resulting in an overpayment of \$16,424. <ul style="list-style-type: none"> ○ During discussions with contract administrators, we noted that when the invoices noted above were received, attempts were made to obtain detailed support for the claimed costs included on the vendor invoices. However, none was obtained. • <i>Timely Approval of Invoices:</i> We also noted that of the 13 Facilities contract invoices examined, 3 were paid beyond the stipulated 30-day period from the date of issuance, despite featuring "Net 30" terms on the invoice. Specifically, 1 invoice was settled 32 days post-issuance, another after 68 days, and the third after 76 days. <p>Without a clear understanding and consistent execution of invoice review and approval processes, the County's ability to verify expenditure accuracy and legitimacy is impacted. This creates potential for financial loss, non-compliance with contractual obligations, and heightened susceptibility to fraud or misuse of funds.</p>
<p style="font-weight: bold;">Recommendation</p>	<p>The following is recommended:</p> <ul style="list-style-type: none"> • Reference recommendations in Observation #1, we recommend the County create detailed, step-by-step procedures to assist contract administrators in fulfilling their assigned tasks, including those related to invoice review. • The County may also consider creating an invoice review checklist to streamline the thorough examination of invoices. Such checklists may include: confirming rates used in the invoice agree to the underlying contract, verifying that invoices reference the correct purchase order (“PO”) and/or task order, and confirming that materials and equipment costs are substantiated by receipts.



OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Invoice Review Procedures (Continued)
Management Action Plan	Response: OPS has developed an Invoice Review Checklist that will be incorporated into the Contract Administration Training and Manual. Responsible Party: Chief Procurement Officer, Deputy Director for Procurement Estimated Completion Date: May 2024

OBSERVATIONS MATRIX (CONTINUED)

Observation	3. Contract Extensions and Usage
<p>Moderate</p>	<p>Contract extensions are official documents used to memorialize mutual agreement on extending the duration of a contract. Both parties must sign extensions, specifying any alterations beyond the end date. Contracts typically outline a set number of extensions allowed. (i.e., a one-year base period with four (4), one-year renewal options). However, the Virginia Public Procurement Act and the County's Procurement Regulations permit PWC to extend contracts beyond this limit to fulfill pending work or prevent disruption in County functions¹. While the VPPA and the PWC regulations authorize additional extensions, leading practice suggests re-soliciting work after exhausting the original number of allotted extensions to explore competitive vendor options.</p> <p>During our review, the following issues were identified:</p> <ul style="list-style-type: none"> • <i>Improper Purchase Order</i>: One purchase order valued at \$22,764 was executed after the conclusion of the fifth and final extension of the Parks contract. • <i>Contract Extensions</i>: <ul style="list-style-type: none"> ○ The original Facilities contract allowed for 4 renewal options beyond its one-year base period, which would extend the contract through November 2022. However, the County executed a total of 9 extensions to the Primary and Secondary vendors, extending the contract's lifespan through December 2023. During this time, 6 POs, amounting to \$498,102, were executed. As of the time of this audit, the Facilities contract has not been re-bid to identify competitive offerings, if they exist. ○ The original Parks contract provided for 4 renewal options beyond its one-year base period, which would extend the contract through August 2022. However, the County executed a total of 5 extensions, lengthening the contract through December 2022. During this time, 1 PO, amounting to \$279,687, was executed. <p>While the above contract extensions were permissible, leading practice suggests that the County re-bid work at the end of the last renewal period. Discussions with Procurement Services indicated that the need for additional contract extensions resulted from short staffing and turnover, as procurement officers did not have the capacity to create new solicitations.</p> <p>By issuing purchase orders outside of the contract's active lifespan (including all extensions) the County loses the protections offered through the agreed-upon terms and conditions. Should a dispute or incident occur, methods of termination, resolution, and assignment of liability are uncertain.</p>

¹ VPPA Section 2.2-4309: "Any public body may extend the term of an existing contract for services to allow completion of any work undertaken but not completed during the original term of the contract."
 PWC Procurement Regulations: "The Chief Procurement Officer may extend the term of an existing contract to prevent disruption in County functions."

OBSERVATIONS MATRIX (CONTINUED)

Observation	3. Contract Extensions and Usage (Continued)
<p>Recommendation</p>	<p>The following is recommended:</p> <ul style="list-style-type: none"> • <i>Implement Contract Management Software:</i> Consider implementing contract management software to centralize contract documentation and track relevant data, including contract expiration dates. Digital workflows could be developed to automatically prioritize and route contracts nearing expiration for review and approval by the pertinent County team, providing adequate time to create new solicitation packages. We understand that implementing contract management software will require an in-depth cost-benefit analysis and, if feasible, time to procure. Therefore, in the immediate term, if extenuating circumstances render the County unable to issue new solicitations at the time of contract expiration and an additional contract extension is needed, consider documenting the extension in accordance with the applicable Virginia Public Procurement Act code. • <i>Reinforce Purchase Order Approval:</i> Reinforce expectations related to PO approval, confirming that POs are not endorsed until the validity of any underlying contract has been confirmed.
<p>Management Action Plan</p>	<p>Response: OPS agrees that Contract Management Software is necessary to automate and centralize the contract management process from cradle to grave (pre-award, award, and post-award). Contract Management Software will provide a seamless connection between active/non-active Contracts and Purchase Orders to prevent PO approval against a non-active Contract. OPS is working with the Financial Systems team to determine if there is functionality within Mobius that allows OPS to efficiently manage the award, pre-award, and post-award process. We have identified software solutions that can potentially integrate with Mobius. Estimated completion date is August 2024.</p> <p>When it becomes necessary to extend a contract to avoid a disruption in County functions, the Procurement Officer will prepare a Determination and Finding (D&F) document for CPO approval. The D&F will include the rationale and justification for contract extension. Justification may include:</p> <ul style="list-style-type: none"> • To allow completion of any work undertaken but not completed during the term of the contract. • To allow time to complete the award process for resolicited goods or services. <p>Responsible Party: Chief Procurement Officer, Deputy Director for Procurement</p> <p>Estimated Completion Date: August 2024 (analysis of contract management software), May 2024 (D&F document implementation)</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	4. Utilization of Task Orders
<p>Moderate</p>	<p>While the sampled contract agreements establish foundational terms and conditions, the County must negotiate individual projects with awarded vendors as needs arise. The Facilities contract states that <i>“As County projects become known, the County shall provide a task request to the Contractor. The Contractor shall submit a task proposal to the County for each project based on the Contractor’s Schedule of Rates.... The Contractor’s task proposal shall include... the detailed scope of work... estimated staffing by position title... estimated number of hours... a list of any materials, and... proposed dates of work.”</i> Similarly, the Parks contract states that <i>“Services shall be performed under written Task Order...”</i> To meet this objective, the County created a standard task order form in December 2021, which requires signatory approval from the end user, the vendor, and if the contract exceeds \$200,000², Procurement Services.</p> <p>As part of our procedures, we determined that seven (7) invoices sampled, totaling \$349,231, did not have a corresponding task order. Five (5) of these seven (7) contained a basic level of detail related to project scope and contained a reference to a “plan,” “task order number,” or “project number,” which indicates that a task order form or similar document may have been created but was not retained.</p> <p>Lack of clarity and inconsistency in executing and retaining task orders impact the County’s ability to effectively document project specifics and obtain vendor acknowledgment of fees, schedule, and scope. This increases the likelihood of disputes, uncertainties in vendor expectations, operational inefficiencies, and potential project delays.</p>
<p>Recommendation</p>	<p>The following is recommended:</p> <ul style="list-style-type: none"> • <i>Reiterate Task Order Expectations:</i> The County should reiterate expectations related to task order creation and approval, confirming that all project specifics are clearly defined and documented. • <i>Integrate Task Order Review into Invoice Process:</i> Task orders should be routinely reviewed during the invoice review process (see Observation #2) so that end users can confirm that the invoice received adheres to the agreed-upon project specifics.
<p>Management Action Plan</p>	<p>Response: To reiterate Task Order expectations, OPS will incorporate Task Order Training in the Contract Administration Training. The Invoice Review Checklist also includes the requirement to confirm Invoice charges are in accordance with the Contract and approved Task Order.</p> <p>Responsible Party: Chief Procurement Officer, Deputy Director for Procurement</p> <p>Estimated Completion Date: May 2024</p>

² Transportation-related task orders require approval from Procurement Services only if the sum exceeds \$500,000.

OBSERVATIONS MATRIX (CONTINUED)

Observation	5. Vendor Insurance Coverage and Documentation
<p>Moderate</p>	<p>Certificates of Insurance (“COI”) are evidence that vendors have an active insurance policy through a legitimate agency and that the policy limits meet the specifications as required in the contract. The Facilities contract states that <i>“The Contractor will provide an original, signed Certificate of Insurance.... before a contract is executed and any work is started. The Contractor will provide, on demand, certified copies of all insurance coverages in relation to the Contract within 10 days of demand by the County”</i>. While the Parks contract does not contain similar verbiage, insurance specifications are documented on all County Purchase Orders: <i>“The Contractor shall maintain insurance acceptable to the County in full force and in effect throughout the performance period of the Purchase Order. Proof of insurance shall be provided to the County upon request.”</i> It is a leading practice to require COIs before contract execution and continuously throughout the contract lifespan to verify that no gaps in insurance coverage exist.</p> <p>Procurement Services is tasked with monitoring COI expiration dates, obtaining renewed insurance documents from vendors, and reviewing coverages for appropriateness and compliance with contract specifications. However, no defined methodology (systematic or manual) is in place to describe how these tasks are to be fulfilled.</p> <p>As part of our procedures, the following issues were identified:</p> <ul style="list-style-type: none"> • <i>Obtaining Original COIs:</i> Documentation of the original COI was not collected and/or retained for seven (7) of the 13 vendors originally awarded between both contracts. These COIs would have documented the vendor’s insurance coverages at the time of the original contract award and should have been provided to adequately evaluate vendors for selection. • <i>Renewal of COIs:</i> COIs commonly list insurance policies that are active for only one (1) year, therefore, entities requiring vendor insurance documentation should obtain updated COIs to evidence continued coverage throughout the contract’s lifetime. The County did not obtain or retain 48 of the 60 expected COI renewals. 12 of the 13 vendors that renewed their contract with the County beyond the initial contract term were missing at least one (1) renewed COI. • <i>Coverages and Additional Insured:</i> Of the 18 COIs provided for our review, 11 did not contain the minimum coverage required by the corresponding contract. Insufficient coverages included Comprehensive Automobile Liability and Environmental Damage coverage. Further, four (4) of the 18 samples did not correctly list the County of Prince William as an additional insured on the COI. <p>Without regularly monitoring expiration dates, obtaining renewed COIs, and performing a technical review of policy limits, there is an increased risk of gaps in vendor insurance coverage that may expose the County to damages and fines should an incident occur. Further, without properly identifying the County as an additional insured, existing vendor insurance coverages may not be extended to protect the County and its employees.</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	5. Vendor Insurance Coverage and Documentation (Continued)
<p>Recommendation</p>	<p>The following is recommended:</p> <ul style="list-style-type: none"> • <i>Contract Management Software:</i> Consider implementing contract management software to centralize contract documentation and track relevant data, including COI expiration dates. Digital workflows could be developed to automatically route COIs for review and approval from the relevant County team. We understand that implementing contract management software will require an in-depth cost-benefit analysis and, if feasible, time to procure. In the immediate future, we recommend that the county define step-by-step procedures for tracking, obtaining, and reviewing COIs. These procedures should also dictate where COI documentation is housed (i.e., in vendor file folders and/or contract file folders). • <i>Enhance Contract Language:</i> We also recommend the County enhance the existing contract template to include COI language as a standard, routine clause. If COI language is inappropriate for smaller or less complex agreements, Procurement Services should have the ability to remove it as-needed.
<p>Management Action Plan</p>	<p>Response: OPS agrees that implementing Contract Management Software is necessary to automate and centralize the contract management process from cradle to grave (pre-award, award, and post-award). The Certificate of Insurance process is currently being managed manually. Implementing a Contract Management Software will allow OPS to automate this process.</p> <ul style="list-style-type: none"> • OPS is working with the Financial Systems team to determine if there is functionality within Mobius that allows OPS to efficiently manage the award, pre-award, and post-award process. We have identified software solutions that can potentially integrate with Mobius. Estimated Completion Date is August 2024. • Solicitation Templates will include a standard COI clause. The clause will be modified based on the specific contract requirements. • The Award Process will be updated to ensure verification of insurance limits prior to contract award. Estimate Completion Date is May 2024. <p>Responsible Party: Chief Procurement Officer, Deputy Director for Procurement</p> <p>Estimated Completion Date: May 2024 (verification of insurance limits), August 2024 (analysis of contract management software)</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	6. Vendor Rotation Procedures
<p>Moderate</p>	<p>In multi-vendor contracts, such as the Parks and Facilities contracts sampled for this internal audit, vendor rotation is a critical practice to promote competition, foster innovation, diversify expertise, and enhance the quality of services. The County employs different methods of vendor rotation to facilitate fair and efficient procurement practices, including the following demonstrated in our samples:</p> <ul style="list-style-type: none"> • Parks contract: Utilizes the Rotation Management System, an in-house developed system where vendors are rotated based on a predefined list, with end-users entering basic project details to generate the next vendor in the queue. • Facilities contract: Vendors are assigned as "Primary," "Secondary," and "Tertiary," with the Secondary and Tertiary vendors utilized when the Primary Contractor cannot meet the project's requirements or timelines. <p>As part of our procedures, the following issues were identified:</p> <ul style="list-style-type: none"> • <i>Parks contract: Rotation Management System Design:</i> <ul style="list-style-type: none"> ○ Users have the option to retract project requests without justification, potentially circumventing the vendor rotation process. ○ The system lacks an audit trail for retracted project requests, limiting the Procurement Services' ability to monitor and facilitate the legitimacy of cancellations. • <i>Facilities contract: Documentation of Secondary Vendor Utilization:</i> <ul style="list-style-type: none"> ○ The contract does not explicitly mandate written justification for the utilization of secondary or tertiary vendors, although Management expects such documentation. ○ Out of five (5) sampled instances where the secondary vendor was used, only one (1) documented justification was provided. This justification was conveyed via email and written in response to our inquiry. <p>Effective vendor rotation requires clear documentation, justification for deviations from the rotation order, and adequate controls to monitor and validate compliance with established processes. Without adequate controls and documentation related to vendor rotation, there is an increased risk of favoritism, circumvention of established processes, and potential disputes, diminishing the County's ability to maintain fair and efficient procurement practices.</p>
<p>Recommendation</p>	<p>The following is recommended:</p> <ul style="list-style-type: none"> • <i>Reconfigure Rotation Management System (Parks contract):</i> <ul style="list-style-type: none"> ○ Mandate written justifications for every retracted request to prevent circumvention of the vendor rotation process. ○ Implement an audit trail for all retracted project requests, allowing Procurement Services to monitor and review the legitimacy of cancellations. • <i>Establish Standard Justification Form (Facilities contract):</i> <ul style="list-style-type: none"> ○ Create a standard form to document the justification for the use of secondary or tertiary vendors when the primary vendor cannot meet project requirements or timelines. ○ Procurement Services should review this form for appropriateness before approving any purchase orders related to the project to facilitate compliance with contract terms.

OBSERVATIONS MATRIX (CONTINUED)

Observation	6. Vendor Rotation Procedures (Continued)
<p>Management Action Plan</p>	<p>Response: DOIT representative has confirmed that it is possible to reconfigure the A/E Rotation Management System to provide an audit trail for retracted project requests. OPS is working with DOIT on modifications to the A/E Rotation Management System. Estimated Completion Date is July 2024.</p> <p>To establish standard justification documentation for use of secondary or tertiary vendors, OPS recommends that a written justification is included in the PO or Notes field. When the PO is routed for approval the Procurement Officer will review the justification and confirm the justification is in accordance with the contract language specifying how and when secondary or tertiary vendors will be utilized. This will reduce the administrative burden on Contract Administrators, eliminate a paper driven process, and ensure the documentation is within Mobius. Each contract specific language related to secondary or tertiary vendor usage based on the work being performed. Training on this process will be incorporated into the contract administration training. Estimated Completion Date is May 2024.</p> <p>Responsible Party: Chief Procurement Officer, Deputy Director for Procurement</p> <p>Estimated Completion Date: July 2024 (reconfiguration of A/E Rotation Management System), May 2024 (implementation of secondary and tertiary vendor justification process)</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	7. Vendor Performance Monitoring and Evaluation
<p>Moderate</p>	<p>In contract management, evaluating vendor performance is crucial for assessing whether the quality of goods and services meets the County's standards and contractual obligations. Procurement Services has established a standard Contractor Performance Evaluation form to assess various aspects of vendor performance, including overall performance, delivery punctuality, and responsiveness to corrective actions. This evaluation process is intended to inform decisions on contract renewals, communicate expectations, and identify areas for improvement. Proper documentation and utilization of these evaluations are essential for maintaining accountability and making informed decisions regarding vendor relationships. Once completed, these evaluation forms may be housed in various locations: contract-specific file folders, vendor-specific file folders, Procurement Services, and/or the contract administrator's office.</p> <p>As part of our procedures, we determined that only five (5) of 13 sampled vendors had an evaluation on file, with at most two (2) documented evaluations, despite having up to nine (9) contract renewals.</p> <p>Insufficient performance evaluations for vendors pose risks to the County's contract management, including the potential for continued engagement with underperforming vendors, resulting in subpar services or goods. This situation may lead to increased oversight costs. Furthermore, decentralized storage of evaluation forms can impede effective decision-making for vendor renewals, affecting procurement efficiency and quality.</p>
<p>Recommendation</p>	<p>The following is recommended:</p> <ul style="list-style-type: none"> • <i>Contract Management Software:</i> As Observations #3 and #5 recommended, consider implementing contract management software to support the vendor evaluation processes. Digital workflows could be configured to block renewal options without completing evaluation forms and notify users when renewals are due. • <i>Centralize Evaluation Documentation:</i> Consider centralizing evaluation documentation to enable easy access and review during contract renewal decisions. This could be achieved through the implementation of contract management software. • <i>Reiterate Performance Evaluation Expectations:</i> The County should reiterate the importance of completing and documenting vendor performance evaluations, especially when contracts are eligible for renewal. • <i>Include Evaluation Procedures in Training:</i> Incorporate procedures related to vendor performance evaluation into the enhanced contract administrator training recommended in Observation #1.
<p>Management Action Plan</p>	<p>Response: OPS agrees that implementing Contract Management Software is necessary to automate and centralize the contract management process from cradle to grave (pre-award, award, and post-award). A Contract Management System will allow automatic routing of vendor performance evaluations to the vendor and maintain performance evaluations in the vendor profile.</p> <p>The requirement for vendor performance evaluation to be completed prior to contract renewal and after completion of each Task Order will be incorporated in the Contract Administration Training.</p> <p>Responsible Party: Chief Procurement Officer, Deputy Director for Procurement</p> <p>Estimated Completion Date: May 2024</p>



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