

MOTION: CADDIGAN

**July 23, 2013
Regular Meeting
Res. No. 13-459**

SECOND: PRINCIPI

RE: ACCEPT FINAL AUDIT REPORT – CONTRACT ADMINISTRATION

ACTION: APPROVED

WHEREAS, performance standard – 2440, Disseminating Results, of the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors (IIA) along with best practices requires audit organizations to communicate the results of engagements to the appropriate parties including those who can ensure that the results are given due consideration; and

WHEREAS, a report of an internal audit has been submitted to the Audit Committee of the Board of County Supervisors, and the Audit Committee recommends that the Board determine that the work in this matter is complete and the report should be accepted;

NOW, THEREFORE, BE IT RESOLVED that the Prince William Board of County Supervisors does hereby accept the work of the audit of Contract Administration as complete, accepts the Audit Report, and approves the release of the document prepared for public disclosure which describes the audit and its outcome.

Votes:

Ayes: Caddigan, Candland, Covington, Jenkins, May, Nohe, Principi, Stewart

Nays: None

Absent from Vote: None

Absent from Meeting: None

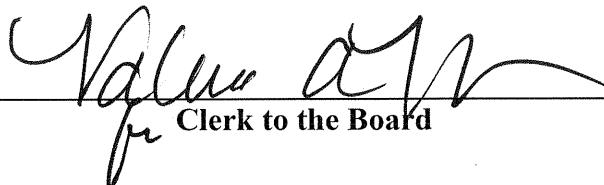
For Information

Audit Services Administrator

County Executive

County Attorney

ATTEST: _____


Clerk to the Board



PRINCE WILLIAM COUNTY, VIRGINIA

Prince William County, Virginia

Public Disclosure Document of the Internal Audit of Contract Administration FY2012/2013

Prepared By:



INTRODUCTION

As part of its fiscal year 2013 audit plan, Internal Audit performed an audit of the internal controls over Contract Administration. Our audit fieldwork and testing was conducted between March 2013 and May 2013. Authority for the audit was provided by the Board of County Supervisors through the Board Audit Committee. In addition to evaluating the County's overall contract administration approach and policies, the internal audit and testing focused on the following departments:

- Area Agency on Aging
- Department of Fire and Rescue
- Department of Information Technology (DoIT)
- Department of Public Works (excluding Fleet, which is being included in a separate audit)
- Department of Social Services
- Police Department

BACKGROUND

There are over 500 active contracts written by Prince William County across all departments. The County is also riding over 300 contracts written by other jurisdictions. The contract administration process is part of the overall procurement process, but it is decentralized to the user agencies once the contracts have been issued.

Once a contract is executed, the contract performance must be monitored to ensure the goods or services received are in compliance with the contract terms and pricing schedules. This monitoring includes the following activities:

- Day to day delivery coordination for the goods or services;
- Inspection and any applicable testing of goods or services to ensure they meet contract terms and specifications;
- Verification of labor hours and classifications where applicable;
- Certification of receipt of goods or services;
- Certification of billing documents related to goods or services received;
- Prompt communication of contract performance discrepancies to the Purchasing Office; and
- Monitor overall contractor performance.

In Prince William County, Purchasing Regulations over Contract Administration (§100.10) state that the using department is responsible for directing, inspecting, approving or disapproving all deliveries and performance under County contracts. The using department is also responsible for the initial follow-up with the contractor to resolve contract performance discrepancies. If a contract deficiency cannot be resolved by the using department, the Contract Administrator should contact the Purchasing Office to begin formal contract resolution procedures. The Purchasing Regulations designate the "Contract Administrator" as the using department representative responsible for the inspection and approval or disapproval of all deliverables under County contracts (§100.04).

AUDIT OBJECTIVE

The objective of this audit was to assess whether the system of internal controls over contract administration is adequate and appropriate for promoting and encouraging the achievement of management's objectives for effective contract monitoring and administration. Our audit work was conducted to achieve this objective and accordingly included testing, analysis and other audit procedures.

AUDIT SCOPE

The scope of this audit included gaining an understanding of Contract Administration by conducting interviews and gathering documentation from the parties involved, including the Purchasing Division Chief, Purchasing Contract Specialists, and various contract administrators and project managers at the departments selected for testing. Based on the records obtained, we performed detailed testing of expenditures against the requirements of each contract selected, evaluated whether there were procedures for monitoring contract compliance and adequate delivery of goods and services, and determined whether contract payments were made in accordance with the contract provisions. At the conclusion of our work, we summarized our findings and reviewed the results of the testing with the each department tested, as well as with the Purchasing Division Chief, the Deputy Finance Director, the Finance Director, and the Office of the County Executive.

SUMMARY OF ISSUES IDENTIFIED AND RELATIVE RISK RATINGS

The following section provides a summary of each issue identified during our procedures as well as the relative risk rating assigned to the issue. We have assigned relative risk factors to each observation identified. A summary of issues identified and their relative risk rating is provided below. This is the evaluation of the severity of the concern and the potential impact on operations. There are many areas of risk to consider including financial, operational, and/or compliance as well as public perception or ‘brand’ risk when determining the relative risk rating. Items are rated as High, Moderate, or Low.

- High Risk Items are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner.
- Moderate Risk Items may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible.
- Low Risk Items could escalate into operational issues, but can be addressed through the normal course of conducting business.

Following is a high level summary of the issues identified during our internal audit, along with their relative risk rating.

Observations	Risk Rating
County-Wide Contract Administration	
<p>1. Contract Administration for “Piggyback” Rider Contracts.</p> <p>Departments utilize “piggyback” or riding contracts between vendors and other governmental entities in order to leverage negotiations that have already been performed and reduce the purchasing cycle time. This practice is common amongst government agencies and is allowed, as long as the original contract includes a rider provision and the proper approvals are obtained.</p> <p>We noted that these Rider contracts are not available on the County’s eProcurement website (due to it being a vendor-updated website) and may not be included in Performance. We were unable to locate two contracts in Performance, and there were no links on the website. We also noted that the roles and responsibilities, as well as the key provisions of the contracts are not as well-defined as those where procurement has been performed through the County’s Purchasing Regulations.</p> <p>We recommend that the contract management form be made a requirement for “piggyback” rider contracts, at a minimum, and used consistently. The form should become an internal contract between purchasing and the user agency, used to document the responsibilities of the contract administrator and an acknowledgment of the key provisions and deliverables of the contract.</p>	Moderate
Area Agency on Aging	
No department-specific observations noted.	
Department of Fire and Rescue	
No department-specific observations noted.	

Observations	Risk Rating
Department of Information Technology (DoIT)	
<p>2. Prompt Payment of Invoices.</p> <p>We noted that one of the invoices in our sample was paid 74 days after the date the invoice was received. Per discussion with DoIT's business services division, the staff responsible for the payment processing was on medical leave, and while there is cross-training, it became a challenge to maintain for such an extended period. The staff person has returned to duty.</p> <p>We recommend that all invoices be processed for payment within 30 days of receipt, or as otherwise noted on the invoice in accordance with the Virginia Public Procurement Act. We also recommend that all invoices are stamped with the date received. This will ensure documentation of timely payment under the County's adopted prompt payment policy.</p>	Low
Department of Public Works	
<p>3. Monitoring Rotational Vendor Arrangements.</p> <p>The County may use continuing contracts that approve a selection of vendors and require rotational use of the approved vendors based on the order of purchase orders (PO) initiated. Currently, this type of arrangement is only used for architectural and engineering services, and the resulting contracts are managed by either Public Works or the County Architect, depending on the specific project.</p> <p>We reviewed a listing of purchase orders issued to the approved vendors, noting a general adherence to the rotation by checking the dates of PO issuance. Because there are many types of architects, and vendors that would qualify for more than one type of project, the rotation was not always clearly identified. We also compared the listing of PO's issued to the approved vendors against the spreadsheet provided by the County Architect and noted that not all PO's were listed. Per discussion with the County Architect, monitoring and reconciliation of the rotation was delayed due to a vacant position that the department was only recently able to fill.</p> <p>We recommend the County implement a formal monitoring process for the rotation of professional service purchase orders issued to the architectural and engineering firms under contract, as required by the contract.</p>	Low
Department of Social Services	
<p>4. Payment Amount Varies From Contract Terms.</p> <p>There was an underpayment of \$267.50 for the 2nd quarter Good Shepherd Housing Foundation services agreement due to an invoicing error by the vendor. The amount invoiced by the vendor and paid by the department was based upon the previous agreement; neither party noted the error. The erroneous invoice amount was lower than the actual amount due under the current agreement.</p> <p>We recommend that the department reinforce the importance of reviewing invoice pricing for consistency with contract terms and payment schedules</p>	Low
Police Department	
No department-specific observations noted.	

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