



ARLINGTON  
VIRGINIA

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# Internal Audit Report - Contract Compliance Cycle Audit

Department of Human Services:  
Arlington VOA ALR Operating, Inc. - Contract Agreement  
No. 17-183-SS

Report Date: August 17, 2020

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# TRANSMITTAL LETTER

August 17, 2020

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Pursuant to the contract and related statement of work for Arlington County, Virginia (“the County”), we hereby present the contract compliance cycle audit: Department of Human Services (“DHS”) – Arlington VOA ALR Operating, Inc. (“Volunteers of America”, “VOA”) Contract Agreement No. 17-183-SS. Our report is organized in the following sections:

<b>Executive Summary</b>	This section includes a background summary of the function, the objectives and approach, and a detailed description of the observation(s) noted during this cycle audit. Identified with each observation is the recommended action(s), and management’s corrective action plan, including the responsible party and estimated completion date.
<b>Background</b>	This section provides an overview of the function within the process and pertinent operational control points and related compliance requirements.
<b>Objectives and Approach</b>	The cycle audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
<b>Process Maps</b>	This section illustrates process maps, which depict data flow, key control points and any identified gaps.

As described in our objectives and procedures outlined on pages 13 and 14 of this report, the observations noted are based on our analysis of the processes, documents, records and information provided to us by the County. This cycle audit focused on evaluating the soundness of internal control policies to safeguard assets and on reviewing compliance with County policies. We offer no assurances that schemes or fraudulent activities have not been, or are not currently being perpetrated by any person within the areas reviewed.

We would like to thank the staff and all those involved in assisting RSM US LLP with this contract compliance cycle audit.

Respectfully Submitted,

**RSM US LLP**

## EXECUTIVE SUMMARY

### Background

Contract compliance monitoring is an integral piece of the County’s control environment. Contract compliance encompasses all contractual agreements entered into by the County. The focus of this cycle audit was the contract requirements responsibilities, and the related invoicing process. Although certain aspects of the purchasing function are centralized within the Department of Management and Finance (“DMF”), some of the high risk areas like contract compliance and monitoring are the responsibility of the individual departments / divisions / bureaus.

Effective January 1, 2017, the County implemented a *Contract Administration Policy* for all contracts, regardless of their procurement methodology or dollar value. The purpose was to define and implement a standard policy and process for the administration of contracts and define roles and responsibilities for County personnel that monitor and manage contractual relationships.

The Arlington VOA ALR, Inc. (“VOA”) contract that was selected for this cycle audit is primarily managed by the Project Officer in the Department of Human Services (“DHS”) Adult and Disability Services Division (“ADSD”). Contract Agreement No. 17-183-SS is a services contract to manage the Mary Marshall Assisted Living Residence (“MMALR”). The contract was signed for a monthly contribution from the County to cover operating expenses in excess of compensation VOA receives through grants, housing vouchers, and client contributions, with a “not to exceed” annual total of \$2,533,752. Subsequent amendments were executed to raise the not to exceed amount to \$2,571,383 in year two of the agreement, and \$2,648,524 in year three. Total dollars spent on the contract during the audit period (July 1, 2019 to February 29, 2020) was \$1,550,811.

In partnership with Arlington County Department of Health and Human Services, the MMALR facility offers assisted living personal care and services for adults aged 55 and older with cognitive disabilities and special needs who also qualify as low income individuals. The MMALR facility has capacity to support 52 residents and is operated by VOA with funding from Arlington County.

Fieldwork was performed March 2020 through July 2020.

### Objective and Scope

The scope of this cycle audit encompassed one (1) contract from the Department of Human Services: Agreement No. 17-183-SS with Arlington VOA ALR, Inc., and two subsequent amendments dated June 29, 2018 and July 25, 2019 that were in effect during the review period. The objective of this internal audit was designed to assess whether the system of internal controls is adequate and appropriate, for effective contract compliance, with selected provisions of the selected contract as it relates to payment and identified terms.

Seven pay applications were submitted for payment during the audit period of July 1, 2019 to February 29, 2020. We selected four invoices (August, October, and December 2019, and January, 2020) for detailed testing. Additionally, we reviewed documentation corresponding to the contractual requirements of the agreement.

### 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.

#### Number of Observations by Risk Rating

(See page 15 for rating definitions)

	High	Moderate	Low
Contract Compliance Cycle Audit: Arlington VOA ALR, Inc.	2	3	-

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

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations

Observation	1. Contractual Insurance Requirements
High	<p>Per agreement 17-183-SS, between the County and VOA, <i>“Before beginning work under the Contract or any extension, the Contractor must provide to the County Purchasing Agent a Certificate of Insurance indicating that the Contractor has in force at a minimum the coverage below.</i></p> <p><i>“A. <u>Workers Compensation</u> - Virginia statutory workers compensation (W/C) coverage, including Virginia benefits and employer's liability with limits of \$100,000/100,000/500,000 The County will not accept W/C coverage issued by the Injured Worker's Insurance Fund, Towson, MD.</i></p> <p><i>B. <u>Commercial General Liability</u> - \$3,000,000 per occurrence, with \$10,000,000 general aggregate covering all premises and operations and including personal injury, completed operations, contractual liability, independent contractors, and products liability. The general aggregate limit must apply to this Contract. Evidence of contractual liability coverage must be typed on the certificate.</i></p> <p><i>C. <u>Business Automobile Liability</u> - \$1,000,000 combined single-limit (owned, non-owned and hired).</i></p> <p><i>D. <u>Professional Liability</u> - \$1,000,000 per occurrence/claim, \$2,000,000 annual aggregate.</i></p> <p><i>E. <u>Umbrella Liability</u> - \$5,000,000 combined single limit.</i></p> <p><i>F. <u>ADDITIONAL Insured</u>- The County and its officers, elected and appointed officials, employees and agents must be named as additional insureds on all policies except workers compensation and automotive and professional liability; and the additional Insured endorsement must be typed on the certificate.</i></p> <p><i>I. <u>Contract Identification</u> - All insurance certificates must state this Contract's number and title.”</i></p> <p>Based on our testing we noted:</p> <ul style="list-style-type: none"> <li>• The County was not in possession of the certificate of insurance (“COI”) effective during the review period. The County subsequently requested and received the COI from the vendor.</li> <li>• The COI effective during the review period did not reflect all of the specific coverage types, coverage amounts, and information specified in the Agreement. Specifically:             <ul style="list-style-type: none"> <li>A. <u>Workers Compensation</u>: The COI did not include workers compensation coverage.</li> <li>B. <u>Commercial General Liability</u>: The COI notes \$1M per occurrence and \$3M general aggregate, which does not meet the required limits of \$3M and \$10M, respectively.</li> <li>E. <u>Umbrella Liability</u>: The COI does not include umbrella liability coverage. The COI provided notes Excess Liability coverage, but not Umbrella Liability coverage. Umbrella Liability policies not only offer higher liability limits, but also broadens coverage for things that the underlying policy might not cover. Excess Liability policies only provide coverage above the limits of the underlying coverage.</li> <li>F. <u>Additional Insured</u>: The COI provided specifies the ACG Office of the Purchasing Agent as additional insured, and does not specify the above-noted required additional insured.</li> <li>I. <u>Contract Identification</u>: COI includes the contract number, but not the title.</li> </ul> </li> </ul> <p>Failure to maintain the proper insurance coverage, in alignment with the County’s Risk Management Office, can create significant financial and legal risks. Verifying that the vendor maintains each of the contractually-required coverages not only promotes compliance with contract requirements, it also reduces the potential risks to the vendor, and to the County.</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	1. Contractual Insurance Requirements (continued)
<b>Recommendation</b>	We recommend that the applicable VOA insurance be updated and provided to the County to meet the contract required specifications. As part of each agreement renewal, the applicable Certificate of Insurance (COI) should be reviewed by the Project Officer to validate the required amounts for each coverage type. Evidence of COI review via sign-off, email, or meeting minutes should be maintained.
<b>Management's Action Plan</b>	<p><b>Response:</b> Management agrees with the auditor's recommendation and has requested an updated COI from VOA with the contractually required insurance coverage. We received a copy of the COI for all the coverage requirements for the agreement. A full copy of the COI will be saved yearly along with the contract documents, and a copy of the email from the Project Officer demonstrating receipt and review of the COI.</p> <p><b>Responsible Party:</b> Project Officer and ADSD Administrative Officer</p> <p><b>Target Date:</b> Complete</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	2. Incident Reporting
High	<p>Per Attachment A of agreement 17-183-SS, between the County and VOA: <i>“The Contractor must submit to the Project Officer monthly reports summarizing performance and detailing the following information (format to be determined with Project Officer):</i></p> <ol style="list-style-type: none"> <li>1. Admissions</li> <li>2. Denials (with Reasons)</li> <li>3. Discharges (with Reasons)</li> <li>4. Hospitalizations (with Reasons)</li> <li>5. Staffing Updates (Hiring, Separations, Training, Etc.)</li> <li>6. <b>Incidents (All reportable incidents in Exhibit B)</b></li> <li>7. Facility Concerns and Issues</li> <li>8. Quality Assurance activities, findings, and corrections related to resident care and nursing</li> <li>9. Performance measure data detailed in Section B below...”</li> </ol> <p><i>Incident reports will be completed...sent via secure email to the DHS Aging and Disability Services Division within one business day after the incident took place. Incident reports are required by DHS for all incidents listed in Exhibit C. If an incident occurred on a Friday, it will be sent to DHS by the following Monday.”</i></p> <p>Various incidents related to the health and safety of residents occur at MMALR. Reportable incidents are listed in Exhibit B of agreement 17-183-SS and include physical attacks, accidents/falls, medication errors, etc. These events are documented by VOA staff through incident reports that are required to be communicated to the County Project Officer via secure email within 24 business hours. The County Project Officer maintains an Excel-based Incident Log on which information related to each incident (e.g.: date of incident, date report received, type of incident) is captured.</p> <p>VOA summarizes the incident reports on the Monthly Operations Report, which provides information related to topics such as admissions, discharges, incidents, and performance relative to established metrics. The Monthly Operations Report is discussed at monthly meetings attended by the County Project Officer, VOA management, and other applicable personnel. Based on our testing of four months we noted:</p> <ul style="list-style-type: none"> <li>• Two months (Aug 2019 and Oct 2019) in which the incident reports noted on the Monthly Operations Report did not agree with the Project Officer's Incident Log (two incidents were missing in both Incident Logs). Neither the Incident Log nor the Monthly Operations Report included evidence of follow-up regarding the discrepancy.</li> <li>• Three months (Aug 19, Oct 19, and Jan 20) in which the Project Officer's Incident Log noted "late" incident reports (not received within 24 hours). The late incident reports were received within two to three business days, which is outside of the required 24-hour timeframe. Neither the Incident Log nor the Monthly Operations Report included evidence of follow-up regarding the timeliness of incident report submission and non-compliance with the terms of the Agreement.</li> </ul> <p>Failure to properly track all resident incident reports can increase the risk of injury to residents and create financial and legal risks for the County. Maintaining evidence of communications regarding the investigation and resolution of any variances in incident reports not only promotes compliance with contract requirements, it also reduces the risk that resident incidents are not being properly monitored.</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	2. Incident Reporting (continued)
<b>Recommendation</b>	We recommend a re-emphasis be provided to VOA and the contract team pertaining to incident reporting. Additionally, The Project Officer should review the Monthly Operations Report against the Project Officer’s Incident Log to validate completeness and timeliness of incident reporting. Evidence of discrepancy resolution should be maintained.
<b>Management’s Action Plan</b>	<p><b>Response:</b> Management agrees with the auditor’s recommendation and will dedicate a section on the Monthly Operations Report for incident report comparison against the Project Officer’s Incident Log. The Arlington/Mary Marshall Monthly Rounds agenda has been revised to include a section for Reconciliation of Incident Reports, Review of Late Incident Reports, and Late Incident Reports Remedied. Additionally, the Project Officer’s Incident Log has been revised to include Incident Report (Y/N), Reason Late, and Remedy.</p> <p><b>Responsible Party:</b> Project Officer</p> <p><b>Target Date:</b> Immediately – new format implemented at the July 2020 meeting.</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	3. Living Wage Requirement
<p><b>Moderate</b></p>	<p>Per Attachment A of agreement 17-183-SS, between the County and VOA, <i>“The Contractor shall ensure that all staff are paid a living wage, currently \$14.50/hour, per the County’s Living Wage Policy...”</i></p> <p><i>Note:</i> Effective July 1, 2018 the County Board increased the living wage from \$14.50 per hour to \$15.00 per hour.</p> <p>Based on our testing we noted:</p> <ul style="list-style-type: none"> <li>• The County was unable to provide evidence that the vendor complied with the County’s Living Wage requirement during our testing period.</li> <li>• As a result of our audit, the vendor subsequently provided DHS with reporting indicating compliance with the Living Wage requirement. Reporting provided by the vendor did not include any subcontractors that may also be subject to the County’s Living Wage requirement</li> </ul> <p>Failure to adhere to the County’s Living Wage requirement—including the reporting requirements—indicates the vendor’s non-compliance with County regulations. Non-compliance could create reputational risk for the County if vendor personnel are not paid at least the required Living Wage.</p>
<p><b>Recommendation</b></p>	<p>We recommend that the vendor provide Living Wage reporting each quarter as required by the County in §4-103 of the Arlington County Purchasing Resolution. Further, the County should review the reporting to verify completeness, and to validate that at least the Living Wage is being paid to each covered employee and all covered subcontractor personnel. Obtaining, reviewing, and retaining all required vendor Living Wage quarterly reports not only promotes compliance with contract requirements, it also validates that the wages paid to vendor personnel and applicable subcontractors adhere to County regulations.</p>
<p><b>Management’s Action Plan</b></p>	<p><b>Response:</b> Management agrees with the auditor’s recommendation and will collaborate with DMF to verify completeness and submission of the Living Wage quarterly reports. VOA will also send a copy of the quarterly living wage report to the Project Officer for consistent record keeping.</p> <p>Purchasing will update the procedure document for this requirement and include the process for compliance in Project Officer Training, while ensuring the purchasing team is reviewing and contacting vendors for compliance according to the schedule listed in the procedure documentation.</p> <p><b>Responsible Party:</b> DMF Purchasing and Project Officer</p> <p><b>Target Date:</b> March 31, 2021</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	4. Invoice Review & Supporting Documentation
<p><b>Moderate</b></p>	<p>Per agreement 17-183-SS, between the County and VOA:</p> <p><i>“All invoices will be accompanied by agreed-upon schedules showing all monthly actual, allowable operating expenses for the project. All reimbursement payment requests are subject to approval by the County Project Officer, who will validate that the expenses are allocable to the contract and are sufficiently documented”</i></p> <p>Based on our testing we noted that VOA does not include supporting documentation with each invoice to allow for an effective invoice review. We validated that each selected invoice was mathematically accurate, and verified that invoice review and approval was evidenced. However, VOA invoices are not accompanied by sufficient documentation to allow for a thorough, effective review of all amounts included on the VOA invoice (i.e.: grants, housing vouchers, resident contribution payments). To validate invoice accuracy, we selected one of the invoices and agreed auxiliary grant and housing choice voucher amounts per the invoice to information provided by the County, without exception. We also traced resident contribution payment amounts per the invoice to source documents.</p> <p>Failure to properly support the charges included on each invoice could increase the risk that unallowable charges or amounts are inappropriately approved and paid by the County. Obtaining and retaining all related source documentation evidences the validation of invoiced charges, and increases invoice accuracy.</p>
<p><b>Recommendation</b></p>	<p>We recommend that the Project Officer enforce the Agreement requirement that each invoice is supported by sufficient source documentation to evidence the accuracy and appropriateness of all invoiced amounts. Further, we recommend that Project Officer retain all related documentation with the invoice as part of the invoice support to evidence the review that was performed as part of the approval process.</p>
<p><b>Management’s Action Plan</b></p>	<p><b>Response:</b> Management agrees with the auditor’s recommendation for obtaining sufficient source documentation to support invoices. The monthly fee is verified through the contract amount for the pertaining fiscal year. Administrative Officer has identified reports through the Economic Independence Division that will be requested monthly to verify the Auxiliary Grant and Housing Choice Voucher amounts listed on the invoice for each client. The project officer will work with VOA to ascertain the appropriate supporting documentation evidencing the client contributions and obtain this on a monthly basis.</p> <p><b>Responsible Party:</b> Project Office and ADSD Administrative Officer</p> <p><b>Target Date:</b> Complete.</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	5. Data Security Policy/ Disaster Recovery Plans
<p><b>Moderate</b></p>	<p>Per agreement 17-183-SS, between the County and VOA:</p> <p><i>“The Contractor must provide to the County a copy of its data security policy and procedures for securing County Information and a copy of its disaster recovery plan(s).”</i></p> <p>Based on our testing we noted:</p> <ul style="list-style-type: none"> <li>• At the time of our review, the vendor had not provided the County with a copy of its data security policy and procedures for securing County Information.</li> <li>• At the time of our review, the vendor had not provided the County with a copy of its disaster recovery plan(s) for securing County Information.</li> </ul> <p>Note: As a result of our review, the County requested and received an email detailing, at a high level, some aspects of their IT data center and PC security.</p> <p>Failure to maintain a current, comprehensive data security policy can increase the risk of unauthorized access to resident and/or County data. Failure to maintain a current, comprehensive disaster recovery plan can increase the risk that the vendor will be unable to resume operations timely, and without the loss of critical data and information, in the event that a negative event occurs.</p> <p>Validating that vendors provide the required data security and disaster recovery plans not only promotes compliance with contract requirements, it also reduces the risk of inappropriate access to data and information and increases the ability for operations to be restored timely, if needed.</p>
<p><b>Recommendation</b></p>	<p>We recommend that the Project Officer enforce the Agreement requirement that the vendor provides current, comprehensive copies of their a) data security policy, and b) disaster recovery plan(s). Further, the Project Officer should review each plan with County’s Department of Technology Services to validate completeness and appropriateness.</p>
<p><b>Management’s Action Plan</b></p>	<p><b>Response:</b> Management agrees with the auditor’s recommendation for the Data Security and Disaster Recovery Plans. Management will connect with DTS to identify and define industry standard elements of a data security plan. We will request a copy of a draft plan from VOA by October 31, 2020 for review. DHS and DTS will review the plan for completeness by November 30,2020.</p> <p><b>Responsible Party:</b> Project Officer and ADSD Administrative Officer</p> <p><b>Target Date:</b> Complete</p>

## BACKGROUND, OBJECTIVES AND APPROACH

### Background

#### Overview

Contract compliance encompasses all contractual agreements entered into by the County. Although certain aspects of the purchasing function are centralized within the Department of Management and Finance, and vendor selection is performed in conjunction with Purchasing, some of the high-risk areas like contract administration, compliance and monitoring are the responsibility of the individual departments / divisions / bureaus. These monitoring responsibilities specifically include:

- Understanding the scope of work and terms and conditions of the contract;
- Management of contract billings to avoid cost overruns;
- Validation of complete and satisfactory performance of work through physical walkthroughs and site visits, when appropriate;
- Ensuring timely performance of contracted work;
- Providing updates to the Department Director, Division Chief and Department of Management and Finance related to progress and budget, as necessary;
- Maintaining appropriate documentation, in compliance with the County level document retention policy and respective contract; and
- Review and approval of invoices for payment to the Contractor in line with the payment terms and conditions outlined in the agreement.

Effective January 1, 2017, the County Implemented a *Contract Administration Policy* for all contracts, regardless of their procurement methodology or dollar value. The purpose was to define and implement a standard policy and process for the administration of contracts and define roles and responsibilities for County personnel that monitor and manage contractual relationships. Specifically, the policy establishes Project Officer and Task Officer Responsibilities, defines internal controls surrounding contract payment, quality assurance and recordkeeping, and outlines all applicable regulations to which the contract administration process must adhere.

As part of an effort to monitor contract performance, an ADSD monitoring team conducted a site visit at MMALR and reviewed VOA MMALR policies and procedures, issuing the VOA-MMALR Monitoring Report May, 2019. The review was compiled by personnel that included the Project Officer, the DHS ADSD Administrative Officer, the ADSD Division Chief, the DHS Procurement Coordinator, the ADSD Quality Assurance Supervisor, and the ADSD Budget Analyst. As a result of the review, VOA received a 96% compliance rating. Specific recommendations were made that were related to a) training course titles, b) employee driver's license records, an annual review of admission criteria, resident unit repairs, and creating Purchasing/P-card SOPs.

#### Arlington VOA ALR, Inc.

The Arlington VOA ALR Operating, Inc. ("VOA") contract that was selected for this cycle audit is primarily managed by the Project Officer in the Adult and Disability Services Division ("ADSD"). Contract Agreement No. 17-183-SS is a services contract to manage the Mary Marshall Assisted Living Residence ("MMALR"). The term of the Agreement is April 1, 2017 through June 30, 2022, and includes the option for five additional 12-month extensions through 2027. The contract was signed for a monthly contribution from the County to cover operating expenses in excess of compensation VOA receives through grants, housing vouchers, and client contributions, with a "not to exceed" annual total of \$2,533,752. Subsequent amendments were executed to raise the not to exceed amount to \$2,571,383 in year two of the agreement, and \$2,648,524 in year three. Arlington County paid seven pay applications during the audit period (July 1, 2019 to February 29, 2020); see below for total dollars spent on the contract.

#### Agreement No. 17-183-SS

Contractor	Contract Title	Execution Date	Total Dollars Spent on Contract <sup>1</sup>	Contract Type	County Division
Arlington VOA ALR Operating, Inc.	Arlington County Agreement 17-183-SS	March 31, 2017	\$7,407,913	Cost Reimbursement	ADSD

<sup>1</sup>Total dollars spent since contract execution (April 1, 2017 through March 30, 2020)

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### ***Background and MMALR Operations***

In partnership with Arlington County Department of Health and Human Services (“DHS”), the MMALR facility offers assisted living, personal care, and services for adults aged 55 and older with cognitive disabilities and special needs, who also qualify as low income individuals. The MMALR facility is designed to support 52 residents and is consistently at capacity, with variances only during the periods of time between one resident leaving, and another resident moving in. The MMALR facility is operated by VOA with funding from Arlington County. The County has contracted with VOA to provide these services on a 24 hours/7 days per week basis and to tailor the services to meet the scheduled and unscheduled needs of the residents.

#### ***Annual Budget and Expenses of Operations***

The Arlington VOA ALR Operating, Inc. contract agreement No. 17-183-SS is a cost-reimbursement contract. VOA is paid based on agreed-upon rates for unit rental and associated services, up to a contracted not-to-exceed maximum amount. The amount owed by the County reflects the application of auxiliary grants, housing choice vouchers, and income-based client contributions against the total amount charged by VOA. The amount charged by VOA is inclusive of all costs. Additional expenses are not reimbursable by the County.

Prior to the contract renewal each year, VOA can submit a written price adjustment request. To request a price adjustment, the Contractor or the County must submit a written request to the other party not less than 60 days before the Price Adjustment Date. Adjustments to the Contract Amount/unit price(s) will not exceed the percentage of change in the U.S. Department of Labor Consumer Price Index, All Items, Unadjusted, Urban Areas (“CPI-U”) for the twelve-month period ending April 30th of each contract year. Price adjustments are subject to Board approval as part of the County’s annual budget process. During the review period there were two amendments that were executed. Both amendments included increases in the not-to-exceed maximum amount, and were properly approved.

#### ***Roles and Responsibilities***

The following departments play key roles in the contract compliance process:

##### *Department of Human Services – Adult and Disability Services Division*

DHS – ADSD emphasizes aging in place through care coordination, and supportive services to ensure older adults and persons with disabilities can live at home and in their community. Services provided by the County and community partners through DHS – ADSD include: Adult Social Services, Adult Protective Services, Developmental Disability Services, Senior Adult Mental Health Services, and the Mary Marshall Assisted Living Residence, which is administered by VOA. The DHS – ADSD is also responsible for completing all Project Officer functions as outlined in the 17-183-SS contract, overall contract compliance, and reviewing and approving vendor invoices for accuracy prior to payment.

##### *Department of Management and Finance*

DMF oversees the Purchasing and Accounts Payable divisions that act as support functions for departments managing vendor contracts. Specifically, Purchasing administers the competitive solicitation process for the purchase of goods and services by the County above certain thresholds; executes contracts and approves POs for purchase. Accounts Payable is responsible for processing payments to contractors based on invoices approved by the respective departments.

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### **Timeline**

Below is a timeline of contractual events for the contracted project.

Date	Event Description
March 31, 2017	Arlington County executes Contract Agreement No. 17-183-SS with Arlington VOA ALR, Inc.
June 29, 2018	Arlington County executes Amendment No. 2, effective July 1, 2018, which increased the not-to-exceed amount for year two of the agreement to \$2,571,383, and defined performance measures monitored for an annual performance bonus.
July 25, 2019	Arlington County executes Amendment No. 3, effective July 1, 2019, which increased the not-to-exceed amount for year three of the agreement to \$2,648,524, and updated performance measures monitored for an annual performance bonus. Amendment No. 3 also a) amended wording in the Agreement regarding VOA's responsibilities for conducting background checks and reporting issues to the County, and b) revised wording in the Agreement's Scope of Work related to financial responsibility for facility vacancies, and the ratio of direct care staff to residents.

Below is a timeline of invoices that were paid during the audit period.

Date	Invoice Payment Description
September 24, 2019	The Mary Marshall August 2019 invoice was paid in the amount of \$227,213
October 23, 2019	The Mary Marshall September 2019 invoice was paid in the amount of \$223,669
November 19, 2019	The Mary Marshall October 2019 invoice was paid in the amount of \$220,360
December 30, 2019	The Mary Marshall November 2019 invoice was paid in the amount of \$222,566
January 27, 2020	The Mary Marshall December 2019 invoice was paid in the amount of \$217,495
February 24, 2020	The Mary Marshall January 2020 invoice was paid in the amount of \$221,289

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach

#### **Objectives**

Contract compliance encompasses all contractual agreements for the purchase of goods and services including, but not limited to, vendor agreements. Although certain aspects of the purchasing function are centralized within the Department of Management and Finance, some of the high-risk areas like contract administration and monitoring are decentralized to the individual departments.

The scope of this internal audit encompassed one (1) contract from the Department of Human Services: Agreement No. 17-183-SS with Arlington VOA ALR, Inc., and two subsequent amendments dated June 29, 2018 and July 25, 2019 that were in effect during the review period. The audit period was July 1, 2019 to February 29, 2020.

The objective of this internal audit was designed to assess whether the system of internal controls is adequate and appropriate, for effective contract compliance, with selected provisions of the selected contract as it relates to payment and identified terms.

Seven pay applications were submitted for payment during the audit period of July 1, 2019 to February 29, 2020. We selected four invoices (August, October, and December 2019, and January, 2020) for detailed testing. Additionally, we reviewed the documentation corresponding to the contractual requirements related to a selection of contract requirements.

#### **Approach**

Our approach to the audit execution consisted of the following phases:

##### Understanding and Documentation of the Process

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

- Conducted interviews with the appropriate representatives to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements;
- Conducted interviews with key personnel to obtain a detailed understanding of the contract compliance process(es);
- Documented flowcharts of the process(es);
- Reviewed the applicable policies and procedures and agreements related to this project;
- Performed walkthroughs to gain an understanding of the function and assess the design of internal controls; and
- Developed a risk-based work plan for the evaluation of the design and operating effectiveness of processes and controls, based on the information obtained through our review, inquiry and walkthrough procedures.

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

The purpose of this phase was to test compliance and internal controls. Our fieldwork testing was conducted utilizing sampling and other auditing techniques to meet our audit objectives outlined above. Specific procedures performed included:

- Gathered background information on the County's contract compliance and monitoring procedures and any required controls or documentation, including County Board authorization, if necessary;
- Determined whether the selected department/division had related contract compliance procedures outside of County-level procedures;

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach (continued)

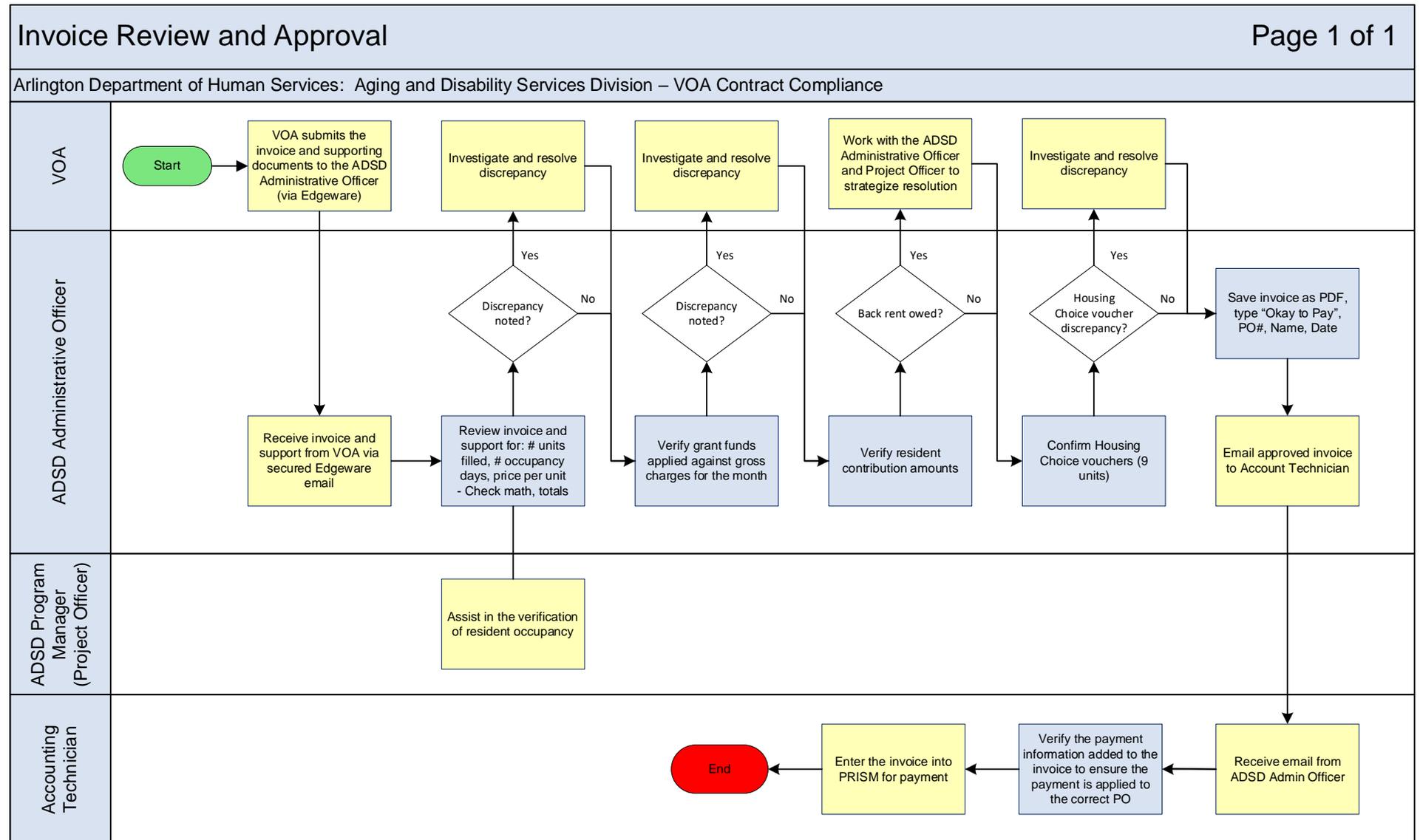
- Obtained background information on the selected contract, including a copy of the contract, contract administrator information, and detail of expenditures under each contract during our audit period;
- Testing of key controls mitigating risks, such as:
  - Invoices billed and paid in accordance with the requirements of the contract;
  - Appropriate funding sources were utilized for associated costs; and
  - Accuracy and timeliness of vendor invoices, reporting, and compliance with the requirements of the contract;
- Determining whether goods and services received under the contract were properly verified or monitored prior to payment of the invoice;
- Assessing adequacy and compliance with select terms of the contract such as, certificate of insurance, right to audit, etc.; and
- Assessing the overall contract compliance process and controls to determine effectiveness.

### Reporting

At the conclusion of this audit, we vetted the facts and exceptions noted during the audit with the appropriate Stakeholder(s) and then prepared a draft report based on our findings. The draft report was submitted to the appropriate Stakeholder(s) for review. An exit meeting was held with the Stakeholder(s) and County Management to formally review and discuss the draft report and modify accordingly. The Stakeholder(s) provided their corrective action plan with estimated completion dates. In conjunction with County Management, we reviewed the Stakeholder's corrective action plans to determine if a rebuttal was warranted. If a rebuttal was warranted, we documented and included after the Stakeholder's corrective action plan. The report was finalized upon authorization from the Department of Management and Finance.

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

## APPENDIX A - PROCESS MAP:





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