



ARLINGTON COUNTY GOVERNMENT

INTERNAL AUDIT REPORT

CONTRACT COMPLIANCE

DEPARTMENT OF ENVIRONMENTAL SERVICES ARLINGTON COUNTY COMMUTER SERVICES CONTRACTS

Destinations Sales and Marketing Contract No. 18-082
The Convention Store Contract No. 17-063
Pulsar Advertising Contract No. 16-111-E - A
NeoNiche Strategies Contract No. 16-111-E-B

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Our 2021 Risk-Based Internal Audit Work Plan identified contract administration as a potential risk area warranting audit coverage. We selected the following Department of Environmental Services (DES) contracts supporting the Arlington County Commuter Services Program for contract compliance review:

- Destinations Sales and Marketing Contract No. 18-082
- The Convention Store Contract No. 17-063
- Pulsar Advertising 16-111-E - A
- NeoNiche Strategies Contract 16-111-E-B

The objective of the contract compliance audit was to evaluate the contract administration processes in place to ensure the County and those who have entered into these contracts with the County execute such contracts in accordance with its terms and conditions.

These contracts support the Arlington County Commuter Services (ACCS) organization. The Destination Sales and Marketing Contract was originally awarded in December 2018 and the Convention Store Contract was originally awarded in November 2016. Both contracts have been extended to June 30, 2022. The Pulsar Advertising and NeoNiche Strategies Contracts ended in October 2021 and new contracts were awarded that have a base period to June 30, 2023. Several of the issues identified during this audit were considered by the Project Officer in awarding the new Pulsar and NeoNiche contracts.

This report is organized as follows:

Executive Summary	This section provides a summary of the issues noted during this audit.
Details of Findings, Recommendations and Management Actions	This section gives a detailed description of the issues noted during this audit, recommended actions, and management’s corrective action plan, including the responsible party and estimated completion date.
Scope and Objective	The review objectives and focus are expanded upon in this section.

We would like to express our appreciation to the DES staff and all others involved with this review.

Respectfully Submitted,
Internal Audit
Department of Management and Finance

EXECUTIVE SUMMARY

In accordance with the FY 2021 Arlington County annual internal audit plan, we selected the following DES Commuter Services contracts for a contract compliance audit.

- Destinations Sales and Marketing Contract No. 18-082
- The Convention Store Contract No. 17-063
- Pulsar Advertising 16-111-E - A
- NeoNiche Strategies Contract 16-111-E-B

Background: The subject contracts support the Arlington County Commuter Services (ACCS) organization. ACCS is the Transportation Demand Management (TDM) agency of Arlington County. ACCS was established in 1989 to enhance Arlington's economic vitality. Its mission involves reducing traffic congestion, decreasing parking demand, promoting maximum use of High Occupancy Vehicle (HOV) infrastructure, and improving air quality and mobility in and around Arlington. ACCS provides information and services to increase the use of alternative transportation through programs including WalkArlington, BikeArlington, Arlington Transportation Partners, The Commuter Store, CommuterDirect.com, TDM for Site Plan Development, Research, and Mobility Lab. A summary of the subject contracts' scope of work and the FY 2022 funding is detailed below:

Contract No.	Vendor	FY 2022 Funded Amount (000)	Scope of Work
18-082	Destinations Sales and Marketing	\$5,100	Operation and administration of the ACCS Transportation Demand Management (TDM) programs that coordinates the design and implementation of transportation elements across the County, including Shared Use Mobility and BikeArlington.
17-063	The Convention Store	\$4,316	Selling of fare media for all major transit agencies throughout Arlington.
16-111-E-A	Pulsar Advertising	\$380	Marketing communications, advertising, and public relations supporting ACCS
16-111-E-B	NeoNiche Strategies Contract	\$703	Outreach and grass root marketing services supporting ACCS

The Destination Sales and Marketing and Convention Store contracts have been extended to June 30, 2022. The Pulsar Advertising and NeoNiche Strategies Contracts ended in October 2021 and new contracts were awarded that have a base period to June 30, 2023. As shown above, the total funded amounts through purchase orders for FY 2022 is approximately \$10.5 million.

Objective of Audit: Evaluate the design and operating effectiveness of the internal controls and policies and procedures covering contract compliance to include contract administration/monitoring for compliance with County policy and terms and conditions of the contract.

Scope of Audit: The audit covered the first half of FY 2021 (July - December 2020) and included:

- Evaluating contract administration in accordance with the County's Contract Administration Policy (Purchasing Manual Appendix E). In accordance with this policy, the project officer implements appropriate contractor surveillance to ensure the contractor is meeting the terms and conditions of the contract.
- Evaluating compliance with DES Division of Transportation Policies and Procedures covering contract administration and vendor payments and testing DES DOT polices for compliance with County policy,
- Determining whether policies and procedures are adequate, in place, and operating effectively to ensure contract compliance,
- Obtaining, reviewing and testing key contract administration policies and procedures, including surveillance over contractor billings to ensure they are accurate for the services performed and in accordance with contract terms,
- Identifying the monitoring controls in place over the vendor and accountability for goods and services provided, and assessing the controls to ensure they are adequately designed and operating effectively,
- Identifying control gaps, opportunities for process improvement, and efficiency gains.

The DES Transportation Division is responsible for managing the ACCS Program and contract administration for the supporting contracts.

Our audit disclosed that the overall contract objectives are being achieved; however, our review identified that there are several contract administration practices that need improvement. Our review disclosed noncompliance with existing contract terms and conditions and policies and procedures. During the audit, management was made aware of certain practices needing improvement and they took some immediate actions to remediate those areas. We have identified these actions in our report. For example, the Pulsar Advertising and NeoNiche Strategies Contracts ended in October 2021 and new contracts were awarded. Several of the issues identified during this audit were considered by the Project Officer in soliciting the new contracts. There are additional management actions that are needed to comply with County policies, strengthen internal controls and protect the County's interests as detailed in this report.

A summary of the findings identified, and their relative risk ratings is provided below:

1. Noncompliance with ACCS Contracts Payment Terms and Conditions. Medium Risk Rating.

Generally, we found the DES project officers performed the necessary oversight of contract invoices and complied with County and DES policies and procedures in ensuring the required

documented approval of invoices. However, we did note some noncompliance with contract terms and some weaknesses in internal controls that if corrected would strengthen the controls and protect the County's interests.

2. Noncompliance Found with DES Division of Transportation (DOT) Contract Management and Related Policies and Procedures. Medium Risk Rating

We evaluated DOT's policies on contract management and invoice review for adequacy, compliance with the County Contract Administration and Invoice Review and Approval Policies and also tested DES' compliance with the subject policies. We found that the DES policies generally comply with County policy however, during our testing we noted areas for improvement.

3. Noncompliance with Other ACCS Contracts Terms and Conditions (Except Contract Payments). Low Risk Rating

Our review tested several of the key contract provisions to ensure that they were being effectively monitored in accordance with County Policy on Contract Administration and DES Division of Transportation Contract Administration Policies. (See Finding #1 for the results of our review of compliance with contract payment provisions.) Our review found the majority of the key provisions were adequately monitored by the DES project officers; however, we found some key provisions where DES failed to monitor contract compliance satisfactorily.

Relative risk factors have been assigned to each issue identified. This is the evaluation of the severity of the concern and the potential impact on the options. There are many areas of risk to consider in determining the relative risk rating of an issue, including financial, operational, and/or compliance, as well as public perception or 'brand' risk. Items are rated as High, Moderate, or Low.

✓ 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.

✓ 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.

✓ 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.

Management Response

The management responses (with expected completion dates) to the reported noncompliances can be found in the details of the report.

DETAILED FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSE

1. Noncompliances with ACCS Contracts Payment Terms and Conditions.	Medium Risk
<p>Generally, we found the DES project officers performed oversight of contract invoices and complied with County and DES policy and procedures related to documented approval requirements. However, we did note the following conditions based on our review of invoices:</p> <p>A. Destination Sales and Marketing Contract –</p> <p>1. Contract Clause #6, Contract Amount, requires “each monthly invoice shall include a detailed breakdown of tasks completed for each [key] position.” The contract identifies 7 full time contract staff positions that are dedicated to this contract. We selected 12 invoices for review covering the time period June – December 2020 and found that although all labor costs were billed at the correct contract rate, the invoices did not contain a detailed breakdown of each task completed for each key position. The County is charged an average annual salary of \$165 thousand for each of these key positions.</p> <p>Additionally, the Contract Exhibit A, Section C. – General Responsibilities, #5 -Invoices and Invoices Progress Reports, requires that each invoice include a monthly progress report that must include:</p> <ul style="list-style-type: none"> • Hours worked by the Contractor’s staff on specific tasks and/or programs supported with hourly rates; • Specific tasks and/or programs completed during the prior month; • If applicable, specific tasks or programs delayed and reasons for the delay; • Tasks, programs, projects in-progress; • Reimbursements; • Monthly look-ahead for each task, program, project, and • Detailed information regarding any issues that arose during the reporting period and the specific steps the Contractor is taken or has taken to resolve those issues. <p>Additionally, while not as significant, the invoice generally contained a summary of the monthly activity but did not always include the detail required by this contract provision (e.g., monthly look-ahead for each task, program, project). We recommend that DES assess</p>	

the requirements included in these contract clauses to ascertain what is needed to meet the clauses intended objectives and to revise its processes to ensure compliance. Due to the significance of the contract labor costs being paid under this contract (i.e., approximately \$5 million per year) and the services nature of this contract, it is important for the Project Officer to scrutinize the labor hours being billed to ensure they are commensurate with effort performed. Generally, for this type of contract, the supporting documentation that should accompany an invoice should provide evidence to the project officer that the contractor is successfully completing its contract requirements, work products are being delivered and the performance is commensurate with the labor hours being expended.

2. As stated above, Contract Clause Exhibit A, C- General Requirements, #5 Invoices and Invoice Progress Reports, states that invoices for work completed must be supported by detailed documentation supporting specific project activities to include a monthly progress report. Our review included a review of all invoices for the ART Marketing Specialist portion of the contract that were paid during the time-period from July – December 2020. In contrast to Finding A.1. above, we did not find **any** detail on the work performed on these invoices. The invoice only included the number of hours worked by the DS&MG employee. The County approves payments of approximately \$70 thousand a year for this effort without any details provided on the invoices as required by the contract. The invoices were also supported by timesheets that were not approved by the DS&MG supervisor; the timesheets were approved by an Arlington County employee. We recommend that DES require the contractor to comply with the contract requirement in providing the necessary detail of work performed and provide the supporting timesheet approved by both the employee’s supervisor and the Arlington County employee overseeing the work.
3. Contract Clause #9, Payments, states that payments should be made to the vendor within 45 days of the receipt of a valid invoice. Our review included a review of all monthly invoices for the ART Marketing Specialist paid during the time-period from July – December 2020. We found that 80% of the invoices were processed late. It should be noted that the DES Transit Department was responsible for processing these payments. Some of the invoices were processed over 60 days late without adequate explanation for delays. We recommend the Project Officer review the payment processes associated with the ART Marketing Specialist and improve those processes to ensure compliance with the payment terms of the contract.
4. Contract Clause Exhibit A, E – General Staffing Conditions #10 Reimbursable Expenses, requires all reimbursable expenses be pre-approved by the Project Officer and receipts should be included with invoices. Although we found receipts for all expenses paid, we found significant reimbursable expenses that were not pre-approved by the Project Officer. We found the following examples of “reimbursable” costs billed for the 6-month period under review, but no documented pre-approval:
 - Sam Kitter Photographer - \$67,000
 - LDA Consulting - \$32,000
 - Sensei Enterprises - \$17,000
 - More Visibility - \$60,000

Additionally, we were unable to determine what the expectations are for the Project Officer when they “pre-approve” a reimbursable expense. For example, are they to assess the need for the contract and the fair and reasonable price? It’s important to note, that all these purchases are over \$10,000 – the amount where the County would generally require documented competition to ensure a fair and reasonable price. Additionally, the DPRT grant that covers this effort requires all costs to be reasonable. We were unable to identify any documentation where it was determined these costs were reasonable. We recommend that this contract provision be reviewed and clarified to ensure it is meeting the objective of its intent. We also recommend policy be developed to provide clear direction for the project officer to comply with this provision.

B. The Convention Store Contract –

1. The Convention Store Contract Clause #8 Payments, states that all payments will be approved by the County’s project officer. Additionally, the DES Division of Transportation Policy and Procedures covering contract management and invoice approval require the County project officer monitor the performance of the contract and approve payments. We found that for a portion of the contract effort relate to the ART Bus marketing, DES DoT delegated the project officer’s responsibilities to a DS&MG employee. We do not believe this delegation complies with County policy. We recommend that DES DoT re-evaluate this process to ensure compliance with County policy and to protect the County’s interests.
2. Similar to the DSM&G Contract, The Convention Store Contract contains Attachment A, Clause E, Supplemental Expenses, that requires the project officer to pre-approve any additional expenses incurred during the performance of the contract. During our audit time-period (i.e., June - December 2020), we found additional expense payments but no documented pre-approval for expenses totaling over \$10 thousand for the following vendors:
 - Redmon Commuter Direct Hosting and Transit Display Hosting
 - Connectria and Sensei Enterprises

We understand that the Redmon charges were fixed amounts agreed to by the prior Project Officer, however, there was no documentation evidencing this agreement or receipts supporting the payments. Although we found receipts for the Connectria and Sensei expenses, we found no evidence they were pre-approved by the Project Officer. As discussed in A. 4. above, we were unable to determine what the expectations are for the Project Officer to make approval. We recommend that this contract provision be reviewed and clarified to ensure its meeting the objective of its intent. We also recommend policy be developed to provide clear direction for the project officer to comply with this provision.

3. The Convention Store Contract Attachment A, Clauses E, F & G allow for the vendor to perform or procure supplemental services, capital and/or equipment needed in the

performance of the contract and requires a task order to be issued. Each of these clauses allow the vendor to bill a maximum of 10% for overhead on any subcontract or vendor purchase. From the invoices we sampled, we noted that an average of 15% for overhead was added to several of the billings. The Project Officer stated that the 10% fee was added to the estimates, but actual costs were lower and the fee amount was not adjusted. The contract provision states that the contract will be reimbursed at cost and not to exceed 10% for overhead. The impact of this noncompliance is approximately \$5 thousand for the time period under audit. We recommend DES seek reimbursement to ensure only the contracted rate of 10% is paid and re-assess its processes to ensure the fee paid complies with the contract provisions in the future.

4. Our review of The Convention Store invoices identified payments made to reimburse the company for Red Top Cab tickets that are purchased by the company for use by seniors at a reduced rate. We did not find a contract price line item to support this effort. We acknowledge that it appears to fall within the scope of the contract, but does not appear to be authorized per the contract price schedule. We recommend the contract price schedule be amended so it is clear that these services are included in the contract requirements to include the ticket rate that will be reimbursed to the vendor.

Recommendation

We recommend DES-DOT:

- a. Review the documentation requirements included in the contract clauses for supporting contract invoices and revise its processes accordingly. Generally, for this type of contract, substantively, the supporting documentation that should accompany an invoice should provide evidence to the Project Officer that the contractor is successfully completing its contract requirements, work products are being delivered and the performance is commensurate with the labor hours being expended.
- b. Assess invoice approval procedures to ensure compliance with contract clauses requiring project officer pre-approval of supplemental expenses. Also, develop policy to support compliance with these contract clauses that would clearly delineate the expectations on what the project officer should consider when pre-approving the expenses.
- c. Review the contractors' invoicing and DES' payment processes covering the ART Marketing Specialist (DS&MG contract) and ART Marketing expense (Convention Stores contract) and revise its processes to ensure compliance with contract requirements and County policy. Invoices should be supported by detail of the work performed and a properly approved timesheet. Payments should be timely processed in accordance with contract terms.
- d. Seek reimbursement for the overpayment for the overhead charges paid on the supplemental services and assess its process for reviewing payments under these task orders to ensure the final paid fee complies with the contract provision.
- e. Amend the contract pricing schedule to clearly authorize the expenditures and the applicable rates for the Red Top Cab senior supplement program.

Management Response

1.A.1. Response: ACCS has notified the Contractor to provide more information in their Monthly Status Reports submitted with the invoices which will detail the tasks/activities completed for each staff member as well as any issues that arose during that timeframe to ensure the reports reflect the effort performed. In addition, ACCS has required that the contractor implement a new timesheet format that is divided into various work areas including: program operations, approaches & strategy, education & outreach, marketing, program evaluation reporting, training & education and then total hours which has helped detail the employees' work.

There is one item, the "Monthly Look-ahead", which ACCS does not need to be included in the Monthly Status Reports since the type of work that the contractor performs is ongoing for the program and look-aheads are already provided in other reports submitted by the Contractor. ACCS will remove the bullet point reference to "Monthly Look-ahead" in a Contract Amendment by the end of this fiscal year (when a Contract Amendment is planned to be issued for the next Option Year).

Responsible Party: Project Officer

Estimated Completion Date: 6/30/2022

1.A.2. Response: The ART Marketing Specialist submitted routine reports to Transit detailing the work that she performed for inclusion in the ART Service Reports that are posted on the ART website, however those reports were not attached to the invoices. The ART Marketing Specialist position is currently vacant but when the position is filled, DOT will ensure that the invoices include a summary detailing the work performed for that time period. In addition, the timesheets will be approved by both the employee's supervisor and Arlington County employee overseeing the work.

Responsible Party: Project Officer

Target Date: As soon as possible once the ART Marketing Specialist position is filled.

1.A.3. Response: Transit and ACCS have identified the reasons for the delayed invoice approvals. A consistent process by which invoices will be received and approved is now in place and payment approval timeliness has improved. The new PRISM system invoice approval process has aided in that regard. For example, the following DS&MG invoices were paid by Transit in a timely manner: Invoice #62424 for the ART Marketing Specialist's time in June 2021 was paid in 6 days, Invoice #81102 for the ART Marketing Specialist's time in July 2021 was paid in 12 days and Invoice #82202 for the ART Marketing Specialist's time in August 2021 was paid in 21 days from receiving the invoices.

Responsible Party: Project Officer

Target Date: Complete

1.A.4. Response: ACCS has reminded the contractor of the County's procedures for the pre-approval process for Reimbursable Expenses. These procedures include obtaining a minimum of three quotes for all expenses over \$10,000 or providing a written justification if the low bidder is recommended not to be used. ACCS will formalize these procedures in a Contract Amendment issued to include detailed requirements for the pre-approval process for Reimbursable Expenses.

This Contract Amendment will be issued by the end of this fiscal year when a Contract Amendment is planned to be issued for the next Option Year.

Responsible Party: Project Officer

Target Date: 6/30/2022

1.B.1. Response: It is an accepted practice in DOT to hire contractors to act as Project Officers to manage projects and initiatives when staff bandwidth is an issue. This is a critical tool, that coupled with existing staff, ensures DOT is able to execute high priority projects across our lines of business. The contracted staff are responsible for the day-to-day tasks for the project. They receive and review invoices and recommend them for payment. They then submit the invoice to the County Project Officer for review, approval and payment processing. Please note that the contracted Project Officers do not have PRISM access and are not one of the three approvers in PRISM so DOT believes this is an appropriate check and balance.

Responsible Party: N/A

Target Date: N/A

1.B.2. Response: ACCS will ensure more detailed requirements for the pre-approval process of Supplemental Services are included in the new contract for this work, which is expected to be issued by June 30, 2022. In the new contract's scope of work, web services (which were previously noted as Supplemental Services) will no longer be noted as Supplemental Services and will be incorporated as its own task.

Responsible Party: Project Officer

Target Date: 6/30/2022

1.B.3. Response: ACCS will pursue reimbursement from the contractor. ACCS has notified the Contractor that any overhead costs should be billed as a percentage of the final actual cost (in lieu of a dollar amount based on an estimate).

Responsible Party: Project Officer and Budget Specialist

Target Date: 6/30/2022

1.B.4. Response: The contract's scope of work includes the sale of fare media. ACCS believes the scope includes the sale of Super Senior Taxi coupon booklets to seniors which allows them to ride taxis for reduced fares because this is a form of fare media. This specific type of fare media will be added to the next contract for this work which is expected to be awarded by June 30, 2022. In addition, a general clause will be included for the sale of any type of fare media to the new scope of work.

Responsible Party: Project Officer

Target Date: 6/30/2022

2. Noncompliances with DES Division of Transportation (DOT) Contract Management and Related Policies and Procedures.

Medium Risk

We evaluated the following DES-DOT's policies covering contract administration and invoice review.

- Contract Management, dated June 19, 2017
- Invoice Review and Certification, dated May 18, 2016
- Contract Performance Evaluation dated October 20, 2016
- Project Officer Training and Certification, dated October 20, 2016

We found that the policies generally comply with County policy however, during our testing we noted areas for improvement.

1. The Contract Management and Contract Performance Evaluation policies require contract performance evaluations be performed on all contracts exceeding \$100,000. We did not find any evidence that these evaluations were being performed on any of the ACCS contracts subject to this review, except for one evaluation performed on the DSM&G contract. The policy requires that a performance evaluation be performed at:
 - A) At the 50 percent completion of work
 - B) Within 60 calendar days from final completion of the project and prior to final payment being made to the contractor
 - C) On each order greater than or equal to \$100,000
 - D) Prior to contract/task exercising an option year
 - E) Anytime during the course of the project if the Project Officer deems it necessary to provide feedback as to the performance of the contractor.
 - F) Upon termination of a contractor.

Based on the preliminary audit results, the DSM&G Project Officer completed a performance evaluation in October 2021 – prior to executing the contract option for renewal. The contract option was exercised in January 2022. However, the contract clause and policy as stated above, also requires a performance evaluation at the 50% completion stage of the contract. We did not find any performance evaluation performed in June 2020, - the 50% completion mark for the base year of the contract. Additionally, we did not find any evidence that these evaluations were being performed on any of other ACCS contracts subject to this review. We recommend DES management re-emphasize this requirement to its Project Officers.

2. The contract management and invoice review policies require the Director of DOT or designee to conduct periodic quality assurance reviews to ensure compliance with subject policies. We found no evidence that these reviews were being conducted. Quality assurance reviews are an integral element for maintaining effective policy and procedures. We recommend that DES review its processes to comply with its stated policy.
3. The Contract Management Policy requires the DMF procurement officer to conduct spot checks to ensure the performance evaluations are being performed. We found no evidence that these spot checks were being performed and found no evidence that the performance evaluations were being performed other than the one identified in 1. above. We question if it's appropriate to have a DES policy provide direction to DMF – Procurement. We recommend DES re-assess this policy and include this requirement as a DES responsibility as part of DES QA reviews required as detailed in

the above bullet.

4. The project officer training requires annual refresher training on ethics. Our review disclosed that the project officers for the ACCS contracts did not have ethics training during the period under review. DES-DOT states that this was because there was limited training opportunities during COVID. Subsequently, we have been provided evidence of ethics training completion for the project officers responsible the contracts covered in this report.
5. The DOT Invoice Review and Certification Policy states that invoices should contain a vendor certification that the work was satisfactorily completed and there are no duplicated costs and all costs billed are in compliance with contract terms. The Policy does not provide for any exceptions. DMF Purchasing and DES determined that this clause was not required for the subject contracts and therefore, the clause was not included in the contracts. We recommend that DES revisit this policy and detail the applicability of this provision to certain contracts.
6. Our review disclosed that the subject polices do not reference the current County policies for Contract Administration and Invoice Review and Approval. Departmental policies that supplement County policies should always reference the County policy to provide the complete policy for the selected area. We were informed by DES-DOT that the policy is currently being updated.

Clearly written policies and procedures covering the approval of contract administration and payments are major internal controls especially when dealing with significant dollar amounts and complex billings. Current and applicable written procedures not only protect the County's interests but also demonstrate management's commitment to effectively maintaining accountability over County funds. Establishing written procedures helps ensure consistent compliance and application needed to achieve high levels of integrity and accuracy.

Recommendations

We recommend DES review its current policies and procedures for completeness, currency and accuracy and make the necessary revisions for the issues identified above. Effective policies and procedures will achieve the following objectives:

- Formally document the internal control processes and procedures for invoice payments.
- Provide employees the proper awareness and expectations to execute their roles and responsibilities within these processes, minimize ambiguity, and firmly establish management expectations.
- Facilitate transitioning of roles and responsibilities when staff leave.

Management Response

2.1. Response: DOT will revise its policy on completing Contract Performance Evaluations to follow the pending DMF Policy on Performance Evaluations that is expected to be issued in the next few months. In the meantime, performance evaluations will be completed by the Project Officers on all four contracts discussed in this audit prior to the contracts' next option year renewals. In addition, the DOT Contracts Team will continue to remind Project Officers the importance of completing Contractor Performance Evaluations during DES Project Officer training classes and when procurement actions arise.

Responsible Party: Project Officers and DOT Contracts Team

Target Date: 6/30/2022 and ongoing

2.2 Response: DES is currently piloting performing quality assurance reviews of invoices and contracts to determine the best approach to completing these reviews. Preliminarily we have found through the pilot that any quality assurance review program in DES will be very limited in scope due to staff availability to complete them.

Responsible Party: DES Budget and Finance

Target Date: Ongoing

2.3. Response: DOT will revise the DOT Contract Management Policy to remove this responsibility of having the Procurement Officer perform spot checks to ensure that performance evaluations are being performed.

Responsible Party: Contract Administrator

Target Date: 6/30/2022

2.4. Response: Completed, however DOT will continue to encourage its Project Officers to attend the required training classes, when offered by Purchasing, in order to maintain their Project Officer certifications.

Responsible Party: DOT and Purchasing Office

Target Date: Ongoing

2.5. Response: DOT will revise its Invoice Review and Certification Policy and revise this language on vendor certifications.

Responsible Party: Contract Administrator

Target Date: 6/30/2022

2.6. Response: DOT will revise its policies and update them with references to the County policies. We note that this inconsistency exists because DOT's Invoice Review and Certification Policy (issued on 5/18/2016) was issued prior to the County-wide policy (issued on 8/13/2020).

Responsible Party: Contract Administrator

Target Date: 6/30/2022

3. Noncompliances with Arlington County Commuter Services (ACCS) Contracts Terms and Conditions (except those related to contract payments – see Finding 1)

Low

Our review tested several of the key ACCS contracts' provisions to ensure that they were being effectively monitored in accordance with County policy on Contract Administration (Purchasing Manual Appendix E) and DES Division of Transportation Contract Management, dated June 19, 2017. (See Finding #1 for the results for our review of compliance with contract payment provisions.) Our review found several key provisions were adequately monitored, however we found some key provisions where DES failed to monitor contract compliance, as detailed below:

1. Destination Sales and Marketing Contract Clause #53, Service Wage Requirements, requires that the vendor submit to the Purchasing Agent, within five (5) working days of the end of each quarter, certified copies of quarterly payroll reports for each employee working under the contract during the quarter and a completed Arlington County Contractor Living Wage Quarterly Compliance Report. Our review disclosed that the contractor was not complying with this provision. Based on discussions with the Purchasing Agent and DES personnel, it was determined that this provision should not apply to this contract. The Purchasing Agent took immediate action to issue Contract Amendment #3 to this contract to remove this requirement.

2. Destination Sales and Marketing Contract Clause #57, Contractor Performance Evaluation, requires the County to perform written evaluations of the Contractor's performance at various intervals throughout the life of this Contract. The Performance Evaluation(s) should address the Contractor's work quality, cost controls, schedule and timeliness, and subcontractor management. The contract clause requires the Project Officer to complete an evaluation at the 50% completion mark and to provide a copy to the Contractor and the Procurement Officer. Our review found that the project officer did not complete the performance evaluation at the 50% mark. Since the base period of this contract ran from December 2018 through December 2021, an evaluation should have been performed in June 2020. It should be noted that this is also a requirement of the DES Contract Performance Evaluation Policy dated October 20, 2016. This policy states the contractor performance evaluation reports will be prepared by the project officer at the following points:
 - A) At the 50 percent completion of work
 - B) Within 60 calendar days from final completion of the project and prior to final payment being made to the contractor
 - C) On each contract/task order greater than or equal to \$100,000
 - D) Prior to exercising an option year
 - E) Anytime during the course of the project if the Project Officer deems it necessary to provide feedback as to the performance of the contractor.
 - F) Upon termination of a contractor.

Based on the preliminary audit results, the Project Officer completed a performance evaluation in October 2021 – prior to executing the contract option to renew the contract. The contract option was exercised in January 2022. Contractor performance evaluations are a best practice for this type of contract to clearly document the County's satisfaction with the vendors' performance, to identify areas needing improvement and to document the level of satisfaction to support contract renewal. We recommend DES require the Project Officer prepare these performance evaluations on a timely basis as required by the contract clauses and support effective contract management.

3. The Convention Store, Pulsar Advertising and Neoniche Contract Clauses #15. BACKGROUND CHECK requires that “All employees or sub-contractors whom the Contractor assigns to work on this Contract must pass the County’s standard background check.” Our review found that the Project Officer was not monitoring this provision to ensure the contractors were fulfilling their responsibilities. The Project Officer stated that the contractors request the background checks as part of pre-hire screening process and she does not see the results of the background checks. However, she stated the contractor would supply the results if asked and that if issues arise from background checks, the Contractor does not hire the individual. During this audit, the Project Officer requested and received all current staff background reports. The Project Officer stated that going forward she will be requesting the background checks of all new hires. We concur with this approach.

4. NeoNiche Contract Clause Attachment A, Scope of Work, Clause B. 6. entitled, “Program Elements, Planning”, states that the contractor will develop a multi-year strategic plan for the County as well as program specific plans. Contract clause Attachment A, Scope of Work, Clause B.6 entitled, “Program Components for Grass Roots Marketing” requires the Contractor to develop a plan for grassroots marketing to engage the target audience directly. As part of this audit, we requested from the Project Officer evidence of these work products. The Project Officer responded by stating that there is no multi-year strategic plan as the contractor develops strategic plans on a month-by-month basis; that a multiple year plan is not practical for this Contractor’s work. She also stated that the “monthly” plan allows the team to determine the best outreach events to attend to achieve the program goals as it also allows the County to take into consideration the availability of public events, new County programs or initiatives to promote and budget. Additionally, the Project Officer believes the process allows the team to be able to quickly pivot and be flexible in outreach efforts. The project officer provided evidence of an email exchange as a sample of a recent communication with the Contractor concerning event scheduling. We were unable to ascertain if the strategic and program specific plans were included as part of the original contract consideration included in the fully loaded rates and would therefore require labor rate adjustments since they were not delivered. Nevertheless, proper contract management requires that contracts be amended for significant changes in requirements/scope to ensure clarity in contract requirements and continued fair and equitable contract price. Based on sharing the preliminary audit results with the project officer, she revised this requirement in the new NeoNiche Contract, to only be required if a separate task order is issued clearly directing this effort.

Recommendations

3. We recommend:
 - a. DES require the Project Officer to complete timely contract performance evaluations as required by contract provisions and DES-DOT policy;
 - b. DES-DOT develop a contract monitoring process and worksheet to test contract provisions are being complied with. For example, the worksheet would prompt the periodic check for background checks – especially at the Convention Store where funds are being handled. The worksheet should clearly document where these records are

maintained. For any reports requiring periodic updates, the worksheet should indicate such to ensure effective monitoring.

Management Response

3.1. Response: Completed (Living Wage requirement was removed via Contract Amendment #3).

Responsible Party: N/A

Target Date: N/A

3.2. Response: See Management Response Item 2.1 above.

Responsible Party: DOT Contracts Team and Project Officers

Target Date: 6/30/2022 (policy review) and ongoing

3.3. Response: Completed (background checks for all contracted staff were received and filed). Background checks for new contractor staff are received when contractor staff are hired.

Responsible Party: Project Officer

Target Date: Ongoing

3.4. Response: Completed (issue was corrected in new contract that was awarded in October 2021).

Responsible Party: N/A

Target Date: N/A

IMPROVEMENT OPPORTUNITY (UNRATED)

1. During our audit, we found that the contract files were incomplete. For example, there were no (1) current Certificates of Insurances contained in the file, (2) Living Wage Report for DS&MG, (3) Nondisclosure Agreements and (3) original performance bond and documentation on the decision to not require the annual renewal. (We obtained the original nondisclosure agreements and performance bond from the vendor.) We brought these to the attention of the Purchasing staff during the audit and they were able to obtain current Certificates of Insurance, determined the Living Wage requirements were not applicable and should be deleted from the contract and the annual bond renewal was not needed. We recommend that the Purchasing Staff develop a contract brief checklist identifying the key provisions that require monitoring and a project management tool that prompts the purchasing agent at the applicable times to ensure the vendor is complying or the need to contact the vendor for the documentation.

Management Response:

The Purchasing management team will create a checklist for Procurement Officers to ensure they have all the final documents required for the full execution of the contract. This includes the COI, performance bonds, and non-disclosure agreements. These items are required at the time of execution, except for performance bonds, the Contractor must have time to get those, and the Surety won't issue them without an executed agreement. Generally, they have 7 – 10 days to obtain the bonds. We will add bonds to the checklist, nonetheless.

For the Living wage item, the County has procured software that should eliminate any issues. The Contractors will be required to upload information in the software and it has a verification tool from the County side, with notifications of non-compliance that are issued from the software. The County is in the process of implementing this now and have plans to go live with vendors in July of 2022.

In response to identifying key provisions that require monitoring as a project management tool, that is the responsibility of the department project officers, and are different based on specific agreements. The Purchasing Agent is not prompted to monitor agreements on the department level.

Responsible Party: DMF Purchasing Agent

Target Date: 5/31/2022

2. The DSM&G and the Convention Stores contracts contain a standard Telework Clause which requires the Project Officer to approve any telework. As expected, several contractor employees teleworked during the COVID pandemic. As of the date of this report, several employees continue to telework without any documented agreements in place. We recommend that the Project Officer require the contractors to implement a process for having formal telework agreements in place for the proper control and accountability. The project officers should work with the contractors in deciding the most appropriate amount of telework for the different employee positions.

Management Response: ACCS will amend the DS&MG contract's telework policy in a Contract Amendment issued to include a requirement for telework agreements to be in

place. This Contract Amendment will be issued by the end of this fiscal year when a Contract Amendment is planned to be issued for the next Option Year. ACCS will include revised telework policy language in the new contract with The Convention Store, which is expected to be issued by June 30, 2022.

Responsible Party: Project Officers

Target Date: 6/30/2022

3. During the audit, we noted that there are many contract provisions that have been considered not effective or incorrect, some of which are identified in this report. For example, see Finding #1.6 for the issue relating to the contract requirement for a multi-year strategic plan. We found several other (less significant) provisions that were either noncurrent or incorrect, but the contract was not modified to correct the terms and conditions. New contracts were awarded for NeoNiche and Pulsar in October 2021 and eliminated many of the incorrect or contradictory provisions found throughout the audit. Therefore, no action is required at this point. However, we would recommend as a suggestion to improve that contracts be amended when Project Officers find provisions that are incorrect or no longer needed. Proper contract management requires that contracts be amended for significant changes in terms and conditions to ensure clarity in contract requirements and continued fair and equitable contract price.

Management Response: In the future, Project Officers will ensure that Contract Amendments are issued for significant changes when contract provisions are determined to not be effective or incorrect.

Responsible Party: Project Officers

Target Date: Ongoing