



**ARLINGTON**  
VIRGINIA

---

# Internal Audit Report: Interdepartmental Purchasing

Department of Management and Finance – Purchasing Division

Report Date: January 31, 2023

## TABLE OF CONTENTS

<b>Transmittal Letter</b> .....	1
<b>Executive Summary</b>	
Background .....	2
Objective and Scope .....	2
Overall Summary / Highlights .....	2
Detailed Observations .....	3
Process Improvement Opportunities .....	8
Areas of Strength .....	13
<b>Background, Objectives and Approach</b>	
Background .....	14
Objectives and Approach .....	16

# TRANSMITTAL LETTER



January 31, 2023

Sharon Lewis  
County Purchasing Agent/Division Chief, Department of Management and Finance

Maria Meredith  
Director & CFO, Department of Management and Finance

Arlington County, Virginia  
2100 Clarendon Blvd  
Arlington, VA 22201

Pursuant to the contract and related statement of work for Arlington County, Virginia (“the County”), we hereby present this internal audit report for the County’s Department of Management and Finance Purchasing Division (“Purchasing”) Interdepartmental Purchasing processes and procedures. 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 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 and pertinent operational control points and related compliance requirements.
<b>Objectives and Approach</b>	The audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.

As described in our objectives and approach outlined on pages 16 and 17 of this report, the observations noted are based on our analysis of the processes, documents, records, and information requested and provided to us by the County. This internal audit focused on evaluating the soundness of internal control policies over the contract management of interdepartmental purchasing, procurement of similar services from multiple vendors, 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 internal audit.

Respectfully Submitted,

*RSM US LLP*

**RSM US LLP**

## EXECUTIVE SUMMARY

### Background

Arlington County serves over 230,000 residents providing various services, public safety, infrastructure, social programs, and community support. Every year, the County purchases millions of dollars in goods and services to maintain these operations, all of which is supported by the Purchasing Division (“Purchasing”) within the Department of Management and Finance (“DMF”).

The purchasing function at the County is partially centralized, as Purchasing and County departments work collaboratively to develop, negotiate and execute purchases and contractual agreements. The *Arlington County Purchasing Manual* (“*Purchasing Manual*,” most recently updated in March 2020) provides guidance for users to follow the requirements in *Appendix A: Arlington County Purchasing Resolution* (most recently updated in July 2022) as well as with federal and state legislations.

Each County department requires goods and services to operate, achieve their mission, and serve the citizens of the County. Purchasing works with departments to understand needs and evaluate whether there is already a vendor contracted with the County to provide the goods or services, or if a new vendor needs to be identified for the procurement. If a solicitation has been issued and a contract awarded to a vendor, it is recommended, but not required, that departments use the contracted vendor. Other factors, such as scope of work and price may impact a department’s decision to utilize a contracted vendor, and departments work with Purchasing to determine the appropriate actions. In fiscal year (“FY”) 2022, the County made approximately \$367M in payments to contracted suppliers.

Effective contract management and processes lead to lower operational costs, increased customer satisfaction, and efficiency in delivering services. The County implemented *Contract Administration Guidelines* (Appendix E of the *Purchasing Manual*), 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 to assure that the Contractor’s and the County’s performance is in accordance with the terms and conditions of the contract. Specifically, the policy establishes Project Officer oversight responsibilities and defines internal controls surrounding contract payment, quality assurance and recordkeeping, as well as outlines all applicable regulations to which the contract administration process must adhere.

### Overall Summary / Highlights

The observations identified during our assessment are detailed within the pages that follow. There are two observations related to objective1, zero observations related to objective 2, and one general observation noted during our review. 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.

### Objective and Scope

The scope of this internal audit included two objectives: 1) to evaluate the contract management and effectiveness of the County’s interdepartmental contracting process, when multiple departments utilize the same contract, and 2) to evaluate the procurement processes when more than one department procures the same goods and services, but from different vendors. The audit evaluated whether unnecessary additional costs and/or other process inefficiencies were incurred by the County in instances where departments used more than one vendor for the same goods and services, if applicable.

The audit period was July 1, 2021 through June 30, 2022; however, the contracts/purchase orders selected for testing may have been effective prior to July 1, 2021. As part of our review, we conducted discussions with the County’s Purchasing Agent, various County contract managers, referred to as Project Officers, about current processes and procedures on monitoring contracts across departments.

The County’s DMF Internal Audit provided purchase order and invoice data for FY 2022 that we utilized in our sample selections and testing. In coordination with DMF Internal Audit, we judgmentally selected a sample of 20 suppliers (both goods and services) for detailed testing. We requested additional supporting documentation, as needed.

Fieldwork was performed July 2022 through December 2022.

### Number of Observations by Risk Rating (See page 17 for rating definitions)

	High	Moderate	Low
Internal Audit: Interdepartmental Purchasing	-	1	1

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations

Observation	1. Project Officer Role and Interdepartmental Oversight
Moderate	<p>Of the 20 contracts selected, there were 13 unique Project Officers (PjOs) listed in the County's Vendor Registry portal. We interviewed 6 PjOs and surveyed 7 PjOs via email. As part of both the interviews and survey, we sought to determine to what extent PjOs are meeting the minimum responsibilities outlined in the <i>Purchasing Manual Appendix E: Contract Administration Guidelines</i>. For the purposes of this internal audit of interdepartmental purchasing, focus was on the issue of coordination across the various departments leveraging a contract.</p> <p>According to the <i>Contract Administration Guidelines</i> (updated in August 2020 and February 2022):</p> <p><i>“The PjO is generally the County employee (end user) that has a vested interest in the outcome of the project, goods or services, and will be responsible for confirming proper adherence to all contract specifications by the Contractor. In some cases, the PjO will assume responsibility for the entirety of a contract. In these cases, the PjO by title or name will be specified in the Notices section of the contract.</i></p> <p><i>In other cases where contract utilization is more dispersed across multiple divisions or departments, the designated PjO’s roles and responsibilities will differ based on the nature of the contract. Effective coordination will be required between the departments using the contract and the designated PjO, however, the level of coordination will be decided on a case-by-case basis to ensure effective contract management. The designated PjO will determine the level of coordination needed at the time of contract award and drafting of the agreement. This will be communicated to the using Departments and the lead department will provide the necessary direction and oversight to support proper contract management.</i></p> <p><i>All contracts must have an assigned PjO. The PjO will generally be assigned during solicitation preparation, prior to Contractor selection and contract award. Individuals assigned by operational Departments as PjOs are responsible for actively managing the contract on a day-to-day basis.”</i></p> <p><b>Note:</b> We noted that this language from the February 2022 <i>Contract Administration Guidelines</i> was an update from the August 2020 version, which stated that: <i>“In some cases, the PjO will assume responsibility for the entirety of a contract. In these cases, the PjO by title or name will be specified in the Notices section of the contract. In other cases where contract utilization is more dispersed across multiple divisions or departments, such as with many task order contracts or agency wide contracts, <b>the PjO roles and responsibilities will relate to more specific projects, tasks, or individual purchase orders</b> [emphasis added]. For this type of contract, the Purchasing Division will assume responsibility for controlling overall contract dollar limits as applicable.”</i> The August 2020 policy was effective for the majority of FY 2022 but has since been updated.</p> <p>It should be noted that the <i>Contract Administration Guidelines</i> do not clearly define the difference between contract wide PjO responsibilities and “operational Department” PjO responsibilities for interdepartmental contracts.</p> <p>With few exceptions (notably, in the Department of Technology Services (“DTS”) where contract management processes have been developed), we found that little coordination took place between the PjO and other departments. In some cases, PjOs provided upfront information, such as contract copies, to other departments who contacted them about using the contracts. However, in other cases, PjOs were not aware other departments were utilizing the contracts. If the intended role of the PjO is to include interdepartmental coordination, it is not clear that this is taking place consistently across the various departments. Further, during our initial efforts to coordinate interviews, we found several cases where the PjO listed in County’s Vendor Registry portal was either out of date or had not been communicated to the individual listed as PjO. In some cases, we found that designated PjOs did not know they were assigned as the PjO.</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	1. Project Officer Role and Interdepartmental Oversight (continued)
	<p>Based on our review, designated contract-level Project Officers (“PjO”) do not have a standard process to determine the level of coordination needed at the time of contract award, nor a standard communication protocol to provide the necessary direction and oversight to support proper contract management, as required by the <i>Contract Administration Guidelines</i>. Further, while the <i>Contract Administration Guidelines</i> discuss coordination with other departments “at the time of contract award and drafting of the agreement,” other departments’ use of the contracts is not always known or anticipated at the time of initial award and are added later.</p> <p>The <i>Purchasing Manual</i> states that the using department should notify the originating department that the contract is being used, and if there is a regular need to use a contract over various departments, the needs of all applicable departments should be considered when new bids are solicited for the contract. Standardized and efficient contract management processes and procedures, including coordination with other users of vendor contracts, would improve the effectiveness of contract oversight and likely reduce the risk of fraud, waste, and abuse.</p> <p><u>Training</u>                      The County currently has contract management training (called Project Officer training) that includes basic contract management procedures and ethics training, provided through Purchasing. The training focuses broadly on contract management concepts. After attending the training, the employees are granted the right to be assigned as a contract PjO to include approving and processing invoices from the various vendors. Based on our discussions with PjOs, the training does not include coverage on interdepartmental contract management. In addition, DMF Internal Audit has provided a training module regarding invoice review processes that has been provided to all departments.</p> <p>According to the <i>Purchasing Manual</i>, Project Officer training is required once a year. During our review, we noted that some PjOs have not had Project Officer training in the past 12 months, although they had received the training at some time in the past.</p> <p>PjOs and contract managers are relied upon to ensure the County receives the goods and services purchased in accordance with the terms and conditions of each contract. Lack of in-depth training and resources around contract management procedures, policies, and expectations may result in inconsistent, ineffective, and inefficient contract management.</p>
<p><b>Recommendation</b></p>	<p>Purchasing should work in conjunction with departments that issue and/or utilize interdepartmental contracts to develop a risk-based set of standard procedures related to: communication pertaining to interdepartmental contracts (and contracts that become interdepartmental); the management of those contracts (including roles and responsibilities for contract-level PjOs and department-level PjOs); and invoice processing/approval requirements.</p> <p>Procedures should be included within the <i>Contract Administration Guidelines</i> and disseminated to all departments for implementation, including appropriate training. In some cases, interdepartmental contracts may involve numerous, relatively small dollar items. Risk-based standard procedures would consider the amount and volume of items purchased, as well as other contract administration internal controls, to improve contract management that involves interdepartmental procedures.</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	1. Project Officer Role and Interdepartmental Oversight (continued)
<p><b>Recommendation (continued)</b></p>	<p>In addition, it is recommended that the County establish and maintain any and all pertinent documents related to contracts, including interdepartmental use of contracts, supplier communications, billing issues/disputes, and other pertinent contract information in a centralized contract administration file that can be accessed and viewed by all departments utilizing services with each vendor to increase transparency and real-time access to pertinent information, as well as to reduce the risk of incorrect billings, inefficiencies and redundancies.</p> <p>PjOs should attend the required training once per year, as required by the <i>Purchasing Manual</i>. A listing of personnel who have completed the appropriate PjO and/or invoice review and approval training should be compared to a listing of personnel who are approving invoices.</p>
<p><b>Management's Action Plan</b></p>	<p><b>Response:</b></p> <p>Purchasing will work to incorporate standard procedures into the Purchasing Manual and Contract Administration Guidelines around the coordinated use of interdepartmental contracts, including the defining characteristics of which contracts should require active coordination. Purchasing does not agree that all interdepartmental contracts should require active control and oversight by a PjO, particularly with contracts that are broadly and evenly used by many different departments, and/or used for purchasing numerous, small dollar items. In these instances, the administrative burden and low financial risk outweigh the benefits of an actively coordinated contract.</p> <p>Purchasing does not currently have a fully adequate technical solution for broadly sharing across the County organization documents pertaining to a contract. Some of this functionality exists within the County's Vendor Registry system, but that system is relatively simplistic and rigid and cannot accommodate all desired functionality. An internal contracts repository is currently included within the stated scope of work for the Oracle Cloud ERP which is slated to go into service on July 1, 2024. Purchasing agrees with sharing documents such as official contract documents, contact information, amendments, pricing schedules, and other documents directly relating to the agreement. On the other hand, sharing all documentation around supplier communications and billing issues seems impractical. Many interdepartmental contracts could have hundreds of emails between County staff and the vendor, and it is not reasonable to expect all agencies who plan to use that contract to fully review and interpret documentation in that manner. Instead, If ambiguity in pricing is determined at any point, Purchasing should be contacted to amend the contract to add clarity.</p> <p>Purchasing maintains a log of staff who attend PjO training, including the date of such training. That log is reviewed at the time a PjO is assigned for a new contract. Purchasing generally pushes back on the department if they are attempting to make an untrained staff person a PjO. On a related note, Purchasing is intending to amend the retraining requirement in the Purchasing Manual this year to reduce the frequency of retraining to every other year (instead of annual). Purchasing will remind the departments to monitor training and retraining of project officers.</p> <p><b>Responsible Party:</b> Purchasing Agent</p> <p><b>Target Date:</b> July 2024 for Oracle Cloud ERP                      July 2023 for Purchasing Manual Changes</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	2. Payment for Services Not Included in Contract
<p style="text-align: center;"><b>Low</b></p>	<p>As part of the procedures performed during this internal audit, we reviewed 105 supplier invoices and verified the goods and/or services and rates charged comply with the terms and conditions of the respective contracts.</p> <p>We noted one invoice to the Police department from Enterprise Holdings for \$2,608 for damages to one of their rental cars in FY 2022 (the Police department utilizes rental cars in their undercover operations); however, rental car damages are not addressed in the contract’s scope of work or other terms and conditions. In reviewing all other Police department invoices from Enterprise Holdings for FY 2022, we noted total rental car damages invoiced total \$3,542 (includes the \$2,608 noted above). We reviewed the invoice descriptions generated from PRISM for other (non-Police) departments utilizing this contract and noted no other charges that appear to be for damages in FY 2022.</p> <p>We discussed this issue with the PjO, as well as a Lieutenant from the Police department. Upon discussion, it was noted that while the contract does not specifically address procedures for damages, it is reasonable for the County to pay for damages to vehicles outside of normal wear. The vehicles were long-term rentals, sometimes kept for 8 – 10 months at a time. (It was noted that in 2021, due to significant rate escalations caused by the worldwide automobile production shortage, the Police department discontinued the use of this contract for long-term rental, and currently uses it for short-term needs, as they occur.) If a vehicle incurred damage, the Police department returned it to Enterprise Holdings for a replacement vehicle and then received an itemized bill for the repair of the damages. Since the County is self-insured, all repairs are covered out-of-pocket. Due to the nature of the vehicle use, the County issued two separate purchase orders (“PO”) for this contract: one PO for rental vehicles for the fiscal year in the amount of \$155k, and one PO titled “FY 2022 Funds for organized crime section and tactical operations section damage to rental vehicles” in the amount of \$30k.</p> <p>The Police department representative stated that Enterprise Holdings routinely billed the County for damages they were not responsible for. This routine mis-billing generated significant extra administrative time. Payment for goods or services that are not clearly included and/or defined in the terms and conditions of the contract creates a financial risk to the County.</p>
<p><b>Recommendation</b></p>	<p>We understand that the County is self-insured and is amenable to paying for rental car damages out of pocket. However, we recommend that the County document this understanding with Enterprise Holdings and agree upon the terms and conditions under which rental car damages will be reimbursed by the County, and include this information as part of the contract terms. This should include the required communication and documentation that needs to be submitted by the supplier, how damages are calculated, etc. to avoid potential disputes and overbillings going forward.</p> <p>The other County departments that are utilizing the Enterprise Holdings contract should be alerted to the concerns around mis-billings by the supplier.</p>



## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	2. Payment for Services Not Included in Contract (continued)
<b>Management's Action Plan</b>	<p><b>Management's Response:</b> This Rider agreement number 19-835-R has a renewal expiration of 4/24/2023, which is the final term of the Loudoun County agreement. Additional terms and conditions that are not in the lead agency's original agreement do not have to be accepted by the contractor. As this contract is renewed or resolicited, Purchasing will attempt to add new terms related to payment for rental card damages.</p> <p><b>Responsible Party:</b> Purchasing Agent</p> <p><b>Target Date:</b> TBD – at contract renewal or re-solicitation</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Process Improvement Opportunities

In addition to the observations noted above, we identified potential process enhancements for management's consideration.

#### 1. X10000 Exempt Purchases

During the work performed under this audit, we noted purchases made by the Department of Human Services (“DHS”) from Newray Moving during FY 2022 amounted to \$11,785 under two separate POs both valued at \$10k. These two POs for Newray Moving are sequentially numbered and appear to have been processed by separate DHS purchasing staff on the same day. The County did not competitively bid or enter into a contract with Newray Moving, and classified both purchases as “X10000”, the County’s designation for purchases \$10k or less that are exempt from formal competition/contract.

According to the *Arlington County Purchasing Resolution, Section 4-107 Small Purchases*, purchases for \$10k or less for goods and non-professional services may be made without competitive quotations. The *Purchasing Manual* states that in the case of large Departments (including DHS) the \$10k limit applies to each Division within the Department; as such, these two procurements from the same vendor appear to be compliant with the policy.

However, lack of contractual terms and conditions with suppliers decreases the County’s ability to monitor supplier performance. Failure to consolidate small purchases from the same vendor and seek competitive bids, increases risk of the County overpaying for services and circumvents the procurement process.

It is recommended that going forward, Purchasing promote increase internal communications and/or procurement tracking procedures to coordinate small value purchases from the same vendor to maximize benefit to the County. Purchasing should review these purchases to determine whether a future contract with Newray Moving, or a similar vendor, would provide better pricing and more efficient services going forward

**Management’s Response:** Purchasing receives a weekly report for X10,000 purchases and staff reviews the report in preparation for their specific relationship meetings with departments to discuss any compliance concerns. That said, the X10,000 program exists for a specific reason and that is to help facilitate quick, efficient purchases in support of the business. Providing that tool and then second guessing a department’s proper use of the tool sends mixed messages and can undermine the intended benefit. That said, Purchasing has occasionally performed Countywide analyses of X10,000 purchases in order to identify common trends and use cases that could benefit from a standing contract agreement and would commit to performing such analyses in the future on a periodic basis. The implementation of the new Oracle Cloud ERP should help improve such analytical efforts through the addition of commodity codes within the system of record. Purchasing will remind departments of the findings of this report.

**Responsibility Party:** Purchasing Agent

**Target Date:** June 2023

## EXECUTIVE SUMMARY (CONTINUED)

### Process Improvement Opportunities (continued)

#### 2. Payment for Fees Not in Contract

For supplier JK Moving, we noted DHS was charged and paid for “fuel surcharges,” which is not a service or charge detailed in the contract or amendments 1-3. The rate, quantity, and stated fee of the fuel surcharges differed, even within the same invoice (up to approximately \$15 per fee). During a walkthrough meeting with the DHS representative responsible for final approval of JK Moving invoices, it was stated that Purchasing had authorized the payment of fuel surcharges as part of pandemic-related price increases; however, no documentation (i.e., email, contract amendment) could be provided to support this approval. The DHS representative stated that JK Moving issued credits for the over-billing and there have not been any additional billing issues with the vendor. In discussions with the County Purchasing Agent/Division Chief, she stated that during the COVID pandemic, certain fuel-related fees were approved on a case-by-case basis, but should be supported by documentation of approval which it was not.

Based on the immateriality of the fuel surcharges and representation from DHS that the supplier provided a credit for the charges, there is not a significant financial risk related to this specific supplier. However, it is recommended that the County establish and maintain all pertinent documents related to supplier communications, billing issues/disputes, and other pertinent contract information in a centralized contract administration file that can be accessed and viewed by all departments procuring services with the vendor to increase transparency and real-time access to pertinent information, as well as to reduce the risk of incorrect billings, inefficiencies and redundancies.

**Management’s Response:** Purchasing understands that in this instance a request for approval of a fuel surcharge increase was received and approved by the Purchasing Agent in writing. However, Purchasing acknowledges that documentation of this request and approval was not properly saved in the contract folder as would be the standard business practice. Furthermore, Purchasing acknowledges that the ideal treatment in a case such as this one, even during an emergency declaration, would be to execute an amendment to the contract to formalize the usage of fuel surcharges. A contract amendment would then be viewable by both the vendor as well as departments seeking to use the contract. Purchasing will remind departments of the findings of this report.

**Responsible Party:** Purchasing Agent

**Target Date:** June 2023

## EXECUTIVE SUMMARY (CONTINUED)

### Process Improvement Opportunities (continued)

#### 3. Automated Invoice Approvals in PRISM

In reviewing sample invoices, we noted 22 (out of 105) instances in which at least one of the required approvals was done manually on the invoice, instead of utilizing PRISM's automated approval capabilities.

To increase efficiency and improve record keeping and audit documentation, we recommend that all departments transition to the full automated invoice review and approval process that is available through the PRISM system.

**Management's Response:** In 2020 the County implemented automated approval workflows in the ERP during a system upgrade. The implementation included the introduction of 5 standard workflow templates with the goal of accommodating the many different organizational structures and business needs of the County. While this goal was largely accomplished, the County acknowledges that there are some remaining gaps. These primarily include very small departments (e.g., smaller agencies within the Courts, County Clerk, etc.) that do not have sufficient organizational hierarchies to have fully formed, multi-phase workflows, and very large agencies that have highly complex and variable workflow needs that exceed the ERP's workflow logic abilities. In these instances, the County has tried to compensate by using approvers in other departments (e.g., DMF budget analysts), supplemental workflows in other systems of record (e.g., eBuilder), and in some cases the continued use of manual signatures that are then attached in the ERP. The County is committed to making continued improvements in this area, particularly during the implementation of the Oracle Cloud ERP.

#### 4. Vendor Contracts for Similar Services

We noted two cleaning/janitorial vendors, 1st Lady Janitorial Services and L T Services Inc., that service different restrooms (indoor versus outdoor) at a few of the same County facilities. 1st Lady Janitorial was contracted by DPR in May 2020 to service the outdoor restrooms across the County, such as at parks and recreational areas (i.e., soccer fields). LT Services was contracted by DES under their custodial program to service indoor restrooms at various indoor County facilities (i.e., office buildings and indoor recreational sites). At certain County sites, such as the Long Bridge and Lubber Run recreation sites, these vendors service their respective indoor or outdoor restrooms on the same premises. Although these vendors are performing the same basic service (restroom cleaning) at some of the same general facilities, the reason for this overlap is jurisdictional. DES is responsible for overseeing all cleaning of indoor restrooms, while DPR is responsible for the cleaning of all outdoor restroom facilities.

The two vendors have different pricing structures based on the cumulative facilities serviced under their contracts; as such, we could not determine whether there were any financial efficiencies to be gained by using one vendor versus the two vendors.

It is recommended that the County review these contracts to determine whether cost efficiencies may exist with consolidating the cleaning/janitorial services provided by these vendors.

**Management's Response:** Purchasing did reach out to LT Services prior to issuing the new solicitation and making the award to 1<sup>st</sup> Lady Janitorial Services (woman-owned business). LT Services indicated that they were not interested in providing custodial services for the park's outdoor restrooms. While purchasing did make the request on this particular contract, it is not recommended that purchasing make this request for all goods and services simply for the sake of efficiencies and consolidation. The County has competing priorities that it attempts to balance --- namely the desire to provide realistic opportunities for small, woman-, minority-, or veteran-owned businesses to compete for contracts and the desire to get the absolute best pricing possible. Breaking up contracts into smaller efforts enables smaller vendors to qualify and be awarded County business. Until the County completes a formal purchasing disparity study, which is currently underway, these offsetting priorities will need to be carefully weighed by the Purchasing Agent before selecting a preferred procurement method.

## EXECUTIVE SUMMARY (CONTINUED)

### Process Improvement Opportunities (continued)

#### 5. PO Numbers on Invoices

In reviewing sample invoices, we noted multiple instances in which the supplier entered the incorrect PO number on the invoice or did not include the PO number on the invoice. County personnel entered the invoices under the correct PO in PRISM; as such, there was no financial impact to PO budgets for the suppliers reviewed. We noted that the County's standard PO template states that the PO number must appear on all invoices, and it is the County's policy to provide a copy of the PO to each supplier.

It is recommended as a best practice that when departments become aware of an incorrect or missing PO number on an invoice, they should notify the supplier to correct the issue and avoid any potential misstatements going forward.

**Management's Response:** The request to have the PO number on invoices is in our templates and the County provides vendors the purchase order as a means to begin work. The decision becomes one the department makes on whether to delay payment to vendors or return the invoice asking for the PO number to be added or match the invoice to an outstanding PO and process payment. In most cases, they can match the invoice to an open purchase order and payment is made. While returning the invoice that can be matched up is not practical, management agrees that departments should notify the supplier and ask they provide the purchase order number on invoices in the future to expedite payment. The Purchasing Agent will remind departments of this practice.

**Responsible Party:** Purchasing Agent

**Target Date:** June 2023

## EXECUTIVE SUMMARY (CONTINUED)

### Process Improvement Opportunities (continued)

#### 6. County Contact Information in Vendor Registry

The County's online Vendor Registry portal includes a listing of all open and expired contracts, including copies of contracts and amendments, and the County's administrating personnel. We reviewed the Vendor Registry summary page for each of the selected 28 contracts, and downloaded the applicable contracts and amendments for use in this review. We noted that the Vendor Registry summary page lists County contacts for each contract, which may include fields for: Manager, Administrator – Department, and Additional Manager – Department. Use of these County contact fields is inconsistent and not defined. For example, we noted the following:

- In some instances, the Manager field is populated with Purchasing personnel, while in other instances, it is populated with specific department personnel (such as the PjO), or not populated at all.
- In some instances, the Administrator – Department field is populated by one or more department personnel, which appear to be related to departments that more heavily use the contract and/or the originating department/PjO. However, this field is not always populated, or is populated with the same information as the Manager field.

We recommend defining and standardizing the purpose and use of the County contact fields in the Vendor Registry portal for transparency and ease of use by stakeholders. If one of the fields is meant to track the PjO for the contract and/or significant users of the contract, labels should clearly indicate that information and be reviewed and updated periodically as changes occur.

**Management's Response:** Purchasing acknowledges the shortcomings in this area and generally agrees with the recommendation to standardize utilization of the respective fields. The County does not have the ability to rename fields within the Vendor Registry system to aid in this effort.

Purchasing also wishes to share that it has been challenging to get all the fields aligned on the 800+ contracts that were migrated and tracked in Vendor Registry. The fact that no integrations exist between the various software systems that Purchasing relies on (Vendor Registry, PRISM ERP, SharePoint) makes data quality a persistent challenge. Purchasing has made a concerted effort to proactively identify data quality issues and make corrections during a quarterly review process. The Purchasing Agent commits to continuing efforts to raise awareness with purchasing staff and remind them to consistently check all areas of the posting when posting amendments or renewals to existing contracts.

**Responsible Party:** Purchasing Agent

**Target Date:** June 2023

## EXECUTIVE SUMMARY (CONTINUED)

### Areas of Strength

As part of this internal audit, we noted the following strengths and/or best practices:

- In recent years, the Purchasing Agent/Division Chief implemented new processes and procedures within Purchasing to reduce the number of departments procuring the same type of services from different vendors. Purchasing holds a weekly meeting to collaborate on potential procurement needs and research whether there is already a contract in place for the needed services.
- The County has implemented training opportunities with Purchasing and broader DMF to facilitate training and knowledge sharing related to purchasing and contract management, including vendor invoice review.
- Purchasing policies and procedures (*Purchasing Manual*, and related appendices) are periodically updated, as needed.
- Based on the interviews conducted, interdepartmental relationships between the Purchasing and the respective departments are collegial in nature and results in positive resolutions of identified issues.
- The contract managers/PjOs in the departments interviewed are knowledgeable of services provided by the respective vendors to their own departments.
- DTS has implemented a SharePoint site to track its contracts, PjOs, and use by other departments. When other departments wish to leverage a DTS contract, DTS works directly with that department to determine whether the current contract covers their need, and assists in coordinating the PO and communication with the vendor and periodically monitors invoices and overall contract compliance.

## BACKGROUND, OBJECTIVES AND APPROACH

### Background

#### Overview

Arlington County serves over 230,000 residents providing various services, public safety, infrastructure, social programs, and community support. Every year, the County purchases hundreds of millions of dollars in goods and services to maintain these resources, all of which is supported by Purchasing within DMF. The mission of Purchasing is to provide and administer procurement solutions that support the community through County operations.

The purchasing function at the County is partially centralized, as Purchasing and County departments work collaboratively to develop, negotiate, and execute purchases and contractual agreements. The *Arlington County Purchasing Manual* (“*Purchasing Manual*,” most recently updated in March 2020) provides guidance for users to follow the requirements in the *Appendix A: Arlington County Purchasing Resolution* (most recently updated in July 2022) as well as federal and state legislations.

#### Purchasing process

Each County department requires goods and services to operate, achieve their mission, and serve the citizens of the County. The purchasing process typically begins with a department identifying a need. Purchasing works with the department to understand the need and evaluate whether there is already a vendor contracted with the County to provide the goods or services, or if a new vendor needs to be identified and procured. A new contract may be awarded by the County for the department (“originating department,” for the purpose of this report) to cover the needs specific to that department. However, any County department may use the resulting contract (“using department,” for the purpose of this report) if it meets their need. The *Purchasing Manual* (*Term Contracts* section) states that the using department should notify the originating department that the contract is being used, and if there is a regular need to use a contract over various departments, the needs of all applicable departments should be considered when new bids are solicited for the contract. If a solicitation has been issued and a contract awarded to a vendor, it is recommended, but not required, that departments use the contracted vendor. Other factors, such as scope of work and price, may impact a department’s decision to utilize a contracted vendor, and departments should work with Purchasing to determine the appropriate actions.

In FY 2022, the County made approximately \$367M in payments to contracted suppliers. See table below for spend by department.

FY 2022 invoices paid to suppliers, by department	
County Department	\$ Invoices Paid
22 Environmental Services	165,106,646
28 Non-Departmental	89,058,894
27 Parks and Recreation	29,507,935
23 Human Services	25,550,624
06 Technology Services	21,843,129
26 Planning and Housing	7,560,674
25 Economic Development	7,385,809
18 Sheriff	4,979,537
20 Emergency Management	4,306,634
19 Police	4,123,984
21 Fire	3,865,671
24 Libraries	1,122,258
All other departments	2,588,990
<b>Total FY 2022 spend</b>	<b>\$ 367,000,785</b>



## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### Contract administration

Per the National Association of State Procurement Officials (NASPO)<sup>1</sup>, effective contract management and processes lead to lower operational costs, increased user agency satisfaction, and efficiency in delivering services. Risks surrounding contract administration include under- or overspending approved funds, not receiving contracted goods/services as needed, unsatisfactory delivery of services to residents, noncompliance with contractual terms and agreements, and more.

The County implemented *Contract Administration Guidelines* (Appendix E of the *Purchasing Manual*, updated in August 2020 and February 2022) 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 to assure that the suppliers' and the County's performance is in accordance with the terms and conditions of the contract. Specifically, the policy establishes PjO oversight responsibilities, defines internal controls surrounding contract payment, quality assurance and recordkeeping, and outlines all applicable regulations to which the contract administration process must adhere.

The *Contract Administration Guidelines* state:

*“The PjO is generally the County employee (end user) that has a vested interest in the outcome of the project, goods or services, and will be responsible for confirming proper adherence to all contract specifications by the Contractor. In some cases, the PjO will assume responsibility for the entirety of a contract. In these cases, the PjO by title or name will be specified in the Notices section of the contract.*

*In other cases where contract utilization is more dispersed across multiple divisions or departments, the designated PjO's roles and responsibilities will differ based on the nature of the contract. Effective coordination will be required between the departments using the contract and the designated PjO, however, the level of coordination will be decided on a case-by-case basis to ensure effective contract management. The designated PjO will determine the level of coordination needed at the time of contract award and drafting of the agreement. This will be communicated to the using Departments and the lead department will provide the necessary direction and oversight to support proper contract management.<sup>2</sup>*

*All contracts must have an assigned PjO. The PjO will generally be assigned during solicitation preparation, prior to Contractor selection and contract award. Individuals assigned by operational Departments as PjOs are responsible for actively managing the contract on a day-to-day basis.”*

PjO oversight responsibilities listed in the policy include:

- Understanding the scope of work and terms and conditions of the contract;
- Managing contract billings to avoid cost over payments;
- Validating complete and satisfactory performance of work through physical walkthroughs and site visits, when appropriate;
- Ensuring timely performance of contracted work;
- Maintaining appropriate documentation, in compliance with the County level document retention policy and respective contract; and
- Reviewing and approving invoices for payment to the Contractor in line with the payment terms and conditions outlined in the agreement.

<sup>1</sup> NASPO is a non-profit association dedicated to advancing public procurement through leadership, excellence, and integrity. It is made up of the directors of the central purchasing offices in each of the 50 states, the District of Columbia, and the territories of the United States. [www.naspo.org/contract-administration-best-practices](http://www.naspo.org/contract-administration-best-practices)

<sup>2</sup> We noted that this language from the February 2022 Contract Administration Guidelines was an update from the August 2020 version, which stated that: “In some cases, the PjO will assume responsibility for the entirety of a contract. In these cases, the PjO by title or name will be specified in the Notices section of the contract. In other cases where contract utilization is more dispersed across multiple divisions or departments, such as with many task order contracts or agency wide contracts, **the PjO roles and responsibilities will relate to more specific projects, tasks, or individual purchase orders [emphasis added]**. For this type of contract, the Purchasing Division will assume responsibility for controlling overall contract dollar limits as applicable.” This audit team notes that the August 2020 policy was effective for the majority of FY 2022, but has since been updated.

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach

#### **Objectives**

There were two major objectives of this audit. The first was to evaluate the contract management and effectiveness of the County's interdepartmental contracting process, when multiple departments utilize the same contract. Interdepartmental contracts include contracts that are issued by one department and used by others. The second objective was to evaluate the procurement processes when more than one department procures the same goods and services, but from different vendors. This internal audit included evaluation whether unnecessary additional costs and/or other process inefficiencies were incurred by the County in instances where departments used more than one vendor for the same goods and services, if applicable. The audit period was July 1, 2021 through June 30, 2022, as agreed upon by the County. For clarity, the corresponding contracts may have been effective prior to July 1, 2021.

DMF Internal Audit provided PO descriptions and invoice data for FY 2022 that we utilized in our sample selections and testing. In coordination with DMF Internal Audit, we judgmentally selected a sample of 20 suppliers (both goods and services) for detailed testing. Of those 20 suppliers, 18 were evaluated as part of Objective 1 and 12 were evaluated as part of Objective 2. As part of the review, we requested additional supporting documentation, as needed.

#### **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 an understanding of the key personnel, risks, processes, and controls relevant to the objectives outlined above. The following were 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 established working arrangements;
- Conducted interviews with key personnel (i.e., procurement, 6 contract owners from selected contracts) and obtained a detailed understanding of the applicable process(es);
- Reviewed the applicable policies, procedures, and agreements related to the County's interdepartmental contract process;
- Performed walkthroughs to gain an understanding of the identification, distribution, use and oversight of interdepartmental contracts, and assessed 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 related to interdepartmental contracts, 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. We reviewed supplier data from both the requisition data and the contract invoice data files to determine sample selections. In coordination with DMF Internal Audit, we selected a sample of 20 suppliers for detailed testing, based on various factors, including the type of goods/services contracted for and use across multiple departments. For each of the 20 suppliers sampled, we reviewed the contract listing and selected a sample of contracts and associated POs and invoices (one invoice from each selected PO was obtained and reviewed). In total, 105 POs and invoices covering 28 contracts were obtained and reviewed. The following were performed as a part of this phase:

- Obtained the population of interdepartmental contracts to assess the number of contracts and the types of services/commodities being purchased. From the population, we selected a sample of 28 contracts, as agreed upon by RSM and the County, on a judgmental basis for more detailed testing, below;
- Obtained background information on the selected sample of contracts, including contract copies, procurement and contract administration information, and detail of expenditures under each contract during our audit period;

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach (continued)

#### Evaluation of the Process and Controls Design and Testing of Operating Effectiveness (continued)


- Performed tests of key controls mitigating risks, such as:
  - Assessed that invoices received and paid were properly reviewed and approved, and were in accordance with the terms and conditions of the contract.
  - Reviewed that usage of the contract by the other Departments met the terms and conditions of the contract award (e.g., procured items align with the scope of the contract and associated rates/pricing, as appropriate).
  - Determined whether appropriate coordination, as detailed in the County’s policies and procedures, took place between the primary contract PjO and the other Department personnel procuring goods and/or services from the contract and related contract management.
- Utilized a sample of the services/commodities procured in the sampled interdepartmental contracts, performed analysis of expenditure download of procurement of similar services/commodities from other vendors to assess whether additional procurements were made for similar services/commodities outside of the interdepartmental contract. Our work in this area included reviewing descriptions of services, commodity codes, and general ledger account codes to try to identify additional contracts for similar services;
- Reviewed similar expenditures under different contracts to determine if multiple contracts were issued for the same general scope of work or goods and services; and
- Assessed the key processes and controls to determine cost and overall effectiveness of process controls.

#### Reporting

At the conclusion of this audit, we vetted the facts of this contract compliance audit with the County Purchasing Agent/Division Chief. The draft report was submitted to DMF and Purchasing for review. An exit meeting was held with Purchasing and DMF to formally review and discuss the draft report and modify accordingly.

### Risk Ratings

Observation Risk Rating Definitions	
Rating	Explanation
<b>Low</b>	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.
<b>Moderate</b>	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.
<b>High</b>	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.



RSM US LLP  
1861 International Drive  
Suite 400  
McLean, VA 22102  
(321) 751-6200  
[www.rsmus.com](http://www.rsmus.com)

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party.

For more information, visit [rsmus.com/aboutus](http://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International.

© 2023 RSM US LLP. All Rights Reserved.

