



ARLINGTON COUNTY GOVERNMENT

INTERNAL AUDIT REPORT

COUNTY-WIDE: INVOICE REVIEW AND APPROVAL

Report Date: June 15, 2023

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Table of Contents

Transmittal Letter	3
Executive Summary	4
Detailed Findings, Recommendations and Management Actions	7
1. Invoice not Reconciled to Contract/Purchase Order Terms and Conditions	7
2. Lack of Evidence Supporting Receipt of Goods or Services for Purchases	10
3. Improvement Opportunities and Other Matters.....	11



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Our FY 2022 Risk-Based Internal Audit Work Plan identified invoice processing as a potential risk area warranting audit coverage. In August 2020, DMF issued a comprehensive Invoice Review and Approval policy detailing the procedures to follow to ensure invoice payments are processed accurately. The policy implemented the internal controls necessary to safeguard County funds as part of the invoice payment process. The policy requires invoice payments to be properly approved, well supported and compliant with contract terms. This review was performed County-wide and tested County compliance with the policy.

The objective of the audit was to evaluate the design and operating effectiveness of the internal controls and policies and procedures covering invoice authorization, processing, supporting documentation and compliance with contracts/purchase order terms and conditions.

We sampled invoices incurred by the County Manager’s Office, Department of Management and Finance, Department of Human Services, Department of Environmental Services, Department of Technology Services, Department of Parks and Recreation, Department of Community Planning and Housing, Economic Development, Arlington Public Libraries, Human Resources, Emergency Management, Police, and Fire for the period covering July 2021-June 2022.

This report is organized as follows:

Executive Summary	This section provides the scope and objective of the audit and 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.

We would like to express our appreciation to the staff in multiple departments involved with this review.

Respectfully submitted,
Internal Audit
Department of Management and Finance

EXECUTIVE SUMMARY

In accordance with the FY 2022 Arlington County Annual Internal Audit Plan, we performed a County-wide compliance audit of the County's Invoice Review and Approval policy.

Background: The Invoice Review and Approval policy establishes the County policy for the review and approval of invoices across all Departments under the County Manager to ensure payments are proper and accurate. The policy addresses the responsibilities of County personnel for reviewing and approving invoices for payment and the internal controls necessary to safeguard County funds as part of the invoice approval process.

Objective of Audit: Evaluate the design and operating effectiveness of the internal controls, policies and procedures covering invoice authorization, processing, supporting documentation and compliance with contracts/purchase order terms and conditions.

Scope of Audit: We selected a total sample of 38 invoices from the period July 2021-June 2022 and the audit included:

- Evaluating the effectiveness of segregation of duties applicable to invoice payment authorization.
- Evaluating vendor invoices and internal controls to ensure proper authorization and compliance with contract terms/purchase order and overall invoice controls are adequate and effective.
- Evaluating whether vendor invoices are (1) mathematically correct and (2) supported by adequate documentation as required by contract/purchase order terms and evidence of goods received, and/or satisfactory performance of services being billed
- Evaluating that the invoice entry, validation, approval, and payment is completed in PRISM in accordance with policy and within a reasonable timeframe.
- Testing compliance with the Invoice Review and Approval policy and procedures requirements.

Our audit disclosed that Arlington County Departments generally complied with the Invoice Review and Approval policy, however, our review identified instances of Noncompliance with contract/purchase order payment terms and conditions, receipt of goods and dual authorization requirements. 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. There are additional management actions that are needed to comply with the Invoice Review and Approval policy, strengthen internal controls and protect the County's interests as detailed in this report.

Please note the following listing of invoices reviewed with the responsible department where no findings were noted:

- Probolsky Research - County Manager
- Mythics Inc. – Department of Management and Finance
- Aon Consulting Inc. – Human Resources
- Lega Files Software Inc. – County Attorney
- NADASC – Commissioner of Revenue
- Southdata Inc. – Treasurer
- Enterprise RAC Company of Maryland LLC – Police

- Motorola Solutions Inc.– Emergency Management
- Westnet Inc.– Police
- Finley Asphalt & Sealing Inc. – Department of Environmental Services
- Boland Trane Services Inc. – Department of Environmental Services
- JBG Smith Properties LP- Department of Environmental Services
- Colossal Contractors– Department of Environmental Services
- Arlington VA I SGF LLC– Department of Human Services
- Pivot Construction LLC– Department of Parks and Recreation
- Valley Community Services Board – Department of Human Services
- Pathway Homes Inc.– Department of Human Services
- Abacus Corporation- Department of Human Services
- Fox Medical Case Management – County Manager’s Office
- Telnet Inc. – Department of Planning and Housing
- Atlantic Emergency Solutions Inc. – Fire

Executive Summary

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

1. Noncompliance with Contracts/Purchase Order Payment Terms and Conditions. Medium Risk Rating.

Generally, we found the Departments performed the necessary review and approval of contract invoices and complied with the Invoice Review and Approval policies and procedures in ensuring compliance with contract/purchase orders requirements. However, we did note some Noncompliance with contract/purchase order terms and conditions and some weaknesses in internal controls that if corrected would strengthen the controls and protect the County’s interests.

2. Lack of Evidence Supporting Receipt of Goods or Services for Purchases. Medium Risk Rating.

Our review disclosed that for the Department of Environment Sciences (DES) – Equipment invoices sampled, there was no evidence of client receipt of the goods or services purchased on their behalf. A basic internal control includes documentation evidencing the goods and services have been received (e.g., receiving report/packing slip signed by a warehouse technician, certification of services performed by County recipient, etc.)

Risk Factors

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.

DETAILED FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSE

<p>1. Noncompliance with Contracts/Purchase Order Payment Terms and Conditions.</p>	<p>Medium Risk</p>
<p>Generally, we found the Departments performed oversight of contract invoices and complied with the Invoice Review and Approval policy and procedures related to contract/purchase orders requirements. However, we did note the following conditions based on our review of invoices:</p> <p>1. Northern Virginia Supply Contract – Department of Environmental Services(DES) – Equipment Bureau,</p> <p>For the invoice sampled, there were items invoiced, (two 5-gallon oil pails for \$236.44) that were not listed on the contract. The purchase of goods or services not included in the contract may result in nonconforming goods or services being provided to the County at possibly overstated prices. As a follow-up, DES Equipment Bureau management spoke with the vendor and informed the vendor that they should only sell items to the County which are included in the contract. In addition, DES-Equipment Bureau management also spoke with their parts staff to remind them that they must order items only listed in the contracts. We recommend that DES – Equipment Bureau staff review the contract provisions to ensure compliance with contract clauses and re-emphasize policies and procedures to staff through training and discussion at team meetings. Lastly, an unauthorized purchase form should be completed per the Purchasing Policy.</p> <p>2. Brodart and Overdrive Contract – Library</p> <p>For the invoice sampled, Internal Audit could not validate that the pricing listed in the invoice reconciled to the contract pricing because the contract pricing for books is updated on a continuous basis. Failure to maintain appropriate pricing documentation for the point in time of purchase on file is noncompliant with the Invoice Review and Approval policy of verifying pricing terms and conditions. We recommend that all documentation of updated pricing be retained centrally.</p> <p>3. SHI International Corp Contract –Department of Technology Services (DTS)</p> <p>For the invoice sampled, Internal Audit could not validate that the software pricing listed in the invoice reconciled to the contract pricing because the contract pricing for software is updated on a continuous basis. Failure to maintain appropriate pricing documentation on file for the point of time purchased is noncompliant with the Invoice Review and Approval policy of verifying pricing terms and conditions. As a mitigating control, Internal Audit verified that the total aggregate price in the invoice reconciled to the total aggregate price in the Purchase Order. We recommend that all documentation of pricing be retained centrally.</p> <p>4. Temporary Solutions Inc. Contract – Department of Human Services (DHS)</p> <p>For the invoice sampled, overtime rates charged on the invoice were listed at (\$54.90 per hour) for three individuals, which was higher than the contractual rate (\$51.24 per hour). This equated to 5.72 hours across three people and DHS paid a total of \$20.97 in excess overtime charges. DHS Management reached out to the vendor for reimbursement and IA verified reimbursement for the \$20.97 in excess overtime charges. Failure to appropriately verify accurate pricing details from invoice to contract can result in overcharges and monetary loss to the County. We recommend that DHS review the contract provisions to ensure compliance with contract clauses and re-emphasize</p>	

policies and procedures to its staff through training and at management team meetings.

Recommendations

We recommend:

DES – Equipment Bureau, Library, DTS, and DHS review its practices to ensure compliance with the Invoice Review and Approval policies and procedures and re-emphasize policies and procedures to its staff through training or management team meetings.

Management Response

- a. DES- Equipment - The Parts Manager responsible for ordering under this contract had been recently promoted after the previous employee in this position unexpectedly passed away. As such, the Parts Manager was in the process of being trained when this error occurred, and training of this individual continues. The unauthorized purchase form had been submitted. To ensure this did not happen in the future, the Business Manager at the Equipment Bureau had undertaken the following steps:
- Developed contract briefs to aid staff in invoice review.
 - Met with the Parts Manager for a one-on-one training on invoice review and contract documentation in September 2022.
 - Inserted himself in the invoice review process the week of November 7th, 2022 and found no additional errors by this individual.
 - Continued to train and discuss invoice review procedures and policies with the Equipment Bureau staff.

Responsible Party: DES Equipment Bureau Senior Management Analyst

Target Date: Complete

- b. **Library** - Libraries ordered from the listed vendors (along with other book vendors) on a continuous basis throughout the year. For library material vendors, the library paid either via monthly invoice which captured all purchasing activity throughout the calendar month or by an invoice that directly corresponded to a single purchase (often known as a “cart”). Libraries will maintain copies of both the documentation created when a purchase was made and the corresponding invoice, allowing for a reconciliation between the two and a check that the price of the purchase matches the price invoiced. Staff in the Collections and Access Division (CAD) will maintain both the invoices and the contract documentation that outline pricings and discounts for all library material vendors. Staff in CAD will also be responsible for checking invoices to ensure price paid matches the price of the original purchase.

Responsible Party: Division Chief Materials Management

Target Date: Complete

- c. **Department of Technology Service** - This contract is a rider agreement of a VITA contract with SHI International. The pricelist for this contract is based on firm fixed percentage discount of the Microsoft Estimated Retail Price (ERP) List and is adjusted frequently over the life of the contract. VITA’s website is updated with the current pricelist, but they do not offer us access to an archive of documents. Because of this, DTS will attach a copy of the current active pricelist in PRISM along with the quote as supporting documentation for the requisition on rider contracts that have variable or market driven

pricing.

Responsible Party: DTS Management & Budget Manager

Target Date: Complete

- d. Department of Human Services** – DHS' Public Health Division's Finance staff have been re-trained on the requirements of the County's invoice review and approval policy and have incorporated a two-level review comparing invoiced rates to contracted rates into their AP procedure. This procedural update will identify invoicing errors so they may be corrected prior to payment.

Responsible Party: Administrative Officer, Public Health

Target Date: Complete

<p>2. Lack of Evidence Supporting Receipt of Goods or Services for Purchases</p>	<p>Medium Risk</p>
<p>Generally, we found the Departments that we sampled had appropriate documentation supporting receipt of goods or services. However, for DES – Equipment Bureau’s invoices for \$340.20 for equipment parts sampled, we did not see documentation evidencing receipt of goods or services. Documenting the receipt of goods or services is a basic internal control required under the Invoice Review and Approval policy to ensure compliance with the contract terms (e.g., receiving report/packing slip signed by a warehouse technician, certification of services performed by County recipient, copy of legal ads etc.)</p>	
<p>Recommendations</p>	
<p>We recommend DES - Equipment Bureau revise their practices to ensure compliance with the Invoice Review and Approval policies and procedures and re-emphasize policies and procedures to its staff through training or management team meetings. This is a sound basic internal control and supports the vendor payment. This documentation should be included in the documentation supporting the invoice in PRISM.</p>	
<p>Management Response</p>	
<p>a. DES Equipment Bureau- As mentioned above, training the Parts Manager at the Equipment Bureau continues and we have reiterated in that training the requirement that all documentation, (i.e., invoices, packing slips, etc.) are included in PRISM. The Business Manager will continue to review select invoices to ensure documentation is attached and we have requested the Equipment Bureau Accounts Payable person double check that packing slips have been included with invoices uploaded in PRISM. In instances where no packing list or delivery receipt is present, employees who receive goods will notate the goods received, write the date, and initial or sign off on the invoice. The invoice will then go to two other employees for the invoice review process as outlined in the invoice review policy.</p> <p>Responsible Party: DES- Equipment Bureau Senior Management Analyst Target Date: Complete</p>	

IMPROVEMENT OPPORTUNITY (UNRATED)

1. The Invoice Review and Approval Policy requires that the Department Director or designee conduct periodic quality assurance reviews to ensure compliance with the policy. Other than DHS and DES, we found no evidence that these reviews were being conducted by other Departments due to lack of resources. Quality assurance reviews are an integral element for maintaining effective policy and procedures. We recommend a continuous monitoring program to be reviewed centrally by Internal Audit.

Responsible Party: Department of Management and Finance (DMF)

Target Date: April 2023

Response: Paragraph 5.5 of the Invoice Review and Approval Policy states, inter-alia, “Department Directors should establish detective controls, such as quality assurance reviews, to augment the review of internal audits.” Therefore, quality assurance reviews are recommended but are not mandatory and they are suggested as just one example of a larger control mechanism. Even though they are not being performed more widely in the County, they are a best practice which should be retained within the policy. In order to cover the deficiency arising from non-performance of this review, Internal Audit should perform a quality assurance at least annually.

OTHER MATTERS (UNRATED)

1. Invoice Approvals

Although not covered by County policy, a limited cursory review of Constitutional offices’ invoices was performed. DMF has consistently worked collaboratively with these offices to assist them in strengthening their internal controls. Our review disclosed that the County Board Office, Sheriff Office, Commonwealth’s Attorney Office, and Clerk of Circuit Court invoices did not contain dual approvers, which is an internal control contained in the County policy. The current configuration of PRISM for these offices is set up such that the same individual can enter an invoice and select themselves as an approver. We understand the challenge these offices have due to the minimal staff, but we do recommend that to strengthen the internal controls over invoice processing and protect the County’s funds against improper payments, we recommend these offices work with Accounting to implement dual approvals over their invoice processing.

Response:

- a. **County Board Office** - Internal policies have been reviewed such that current and future invoices will be routed through dual approvers – first through originating staff, and then through the Department Head.

Responsible Party: County Board Clerk

Target Date: Complete

- b. **Sheriff Office** - Sheriff Office has made corrections to auditors request for dual approvers. All invoices will go to budget analyst first for approval then routed to a second approval.

Responsible Party: Sheriff’s Office Management and Budget Specialist

Target Date: Completed

- c. **Commonwealth Attorney Office** – The Commonwealth Attorney’s office is in the process

of staffing changes. Part of this is reconfiguring approval roles. The Commonwealth Attorney's office has implemented dual approvals.

Responsible Party: Commonwealth Attorney

Target Date: Completed

- d. **Clerk of Circuit Court** – The Clerk of the Circuit Court has implemented dual approvals for invoice processing as identified by the internal auditor. All invoices will go to the budget specialist first for approval and then to the Clerk for second approval.

Responsible Party: Clerk of Circuit Court Budget and Management Specialist

Target Date: Complete

2. Noncompliance with Contracts/Purchase Order Payment Terms and Conditions.

County Board Office (CBO)

For the Washington Times invoice sampled, the Washington Times contract had expired on October 31, 2020, however, after the contract expired, services from June 23, 2021, through June 30, 2021, for \$3,216 were still being performed. In addition, Internal Audit was unable to verify if the pricing of the invoice reconciled to the expired contract due to the lack of documentation of receipt of goods/ services mentioned in detailed finding #3 below. The documentation of the receipt of goods should have been a copy of what was advertised since that documentation was not maintained, Internal Audit could not verify the cost per agate line per day per the contract clause. Failure to have an updated contract in place may result in the vendor no longer being obligated to comply with the contracts terms and conditions and rates could be charged higher than the contracted rates.

Prior to the completion of the audit, CBO staff have already been meeting with Purchasing to get a contract in place.

We recommend CBO review its practices to ensure compliance with the Invoice Review and Approval policies and procedures and re-emphasize policies and procedures to its staff through training or management team meetings.

Response: A valid contract has been established and is currently in use. Internal policies and procedures have been reviewed, and trainings conducted, to ensure future compliance.

Responsible Party: County Board Clerk

Target Date: Complete

3. Lack of Evidence Supporting Receipt of Goods or Services for Purchases

Generally, we found the Departments that we sampled had appropriate documentation supporting receipt of goods or services. However, for the CBO invoice for \$3,216 for Legal Ad sampled, we did not see documentation evidencing receipt of goods or services. Documenting the receipt of goods or services is a basic internal control required under the Invoice Review and Approval policy to ensure compliance with the contract terms (e.g., receiving report/packing slip signed by a warehouse technician, certification of services performed by County recipient, copy of legal ads etc.)

We recommend CBO revise their practices to ensure compliance with the Invoice Review and Approval policies and procedures and re-emphasize policies and procedures to its staff through training or management team meetings. This is a sound basic internal control and supports the

vendor payment. This documentation should be included in the documentation supporting the invoice in PRISM.

Response: Proofs are sent from the vendor to verify the advertisement language being run, and the dates on which it will run – these proofs will be uploaded to support future invoices.

Responsible Party: County Board Clerk

Target Date: Complete