



PRINCE WILLIAM COUNTY, VIRGINIA

## **Prince William County, Virginia**

**Contract Administration**

**Cycle Audit**

**Fiscal Year 2014/2015**

**Prepared By:  
Internal Auditors**

**June 30, 2015**



# Table of Contents

---

Transmittal Letter .....	1
Executive Summary .....	2- 3
Background .....	4 - 5
Objectives and Approach .....	6
Department Issues Matrix and Contract Summaries	
Department of Parks and Recreation .....	7 - 8
Department of Information Technology .....	9
Department of Development Services .....	10
Department of Transportation .....	11
Department of Public Works Building and Grounds Division .....	12 - 13
Department of Public Works Fleet Management Division .....	14 - 15
Department of Public Works Solid Waste Management Division .....	16
Process Map .....	17



June 30, 2015

The Audit Committee of  
Prince William County, Virginia  
1 County Complex Court  
Prince William, Virginia 22192

Pursuant to the approved internal audit plan for fiscal year (“FY”) 2014/2015 for Prince William County, Virginia (“the County”), we hereby present the Contract Administration Cycle Audit report for the County. We will be presenting this report to the Audit Committee of Prince William County at the next scheduled meeting on August 4, 2015. Our report is organized in the following sections:

<b>Executive Summary</b>	This provides a summary of the issues and observations related to the contract administration cycle audit.
<b>Background</b>	This provides an overview of the contract administration process.
<b>Objectives and Approach</b>	The section expands on our cycle audit focus and objectives and includes a review of the various phases of our approach.
<b>Department Issues Matrix and Contract Summaries</b>	This section gives a description of the items noted during our cycle audit and recommended actions by department. For each department selected, we have also provided a summary of contracts reviewed and a brief description of the management for each contract.
<b>Process Map</b>	This section illustrates the contract administration process currently in place.

We would like to thank the staff and all those involved in assisting the Internal Auditors in connection with the Contract Administration Cycle Audit.

Respectfully Submitted,

**INTERNAL AUDITORS**

## **Executive Summary**

# Executive Summary

---

Our last report covering Contract Administration was accepted July 2013. Contract Administration involves those activities performed after a contract has been awarded to determine how well the government and the contractor performed to meet the requirements of the contract. It encompasses all dealings between the government and the contractor from the time the contract is awarded until the work has been completed and accepted or the contract terminated, payment has been made, and disputes have been resolved. Although certain aspects of the purchasing function are centralized within the Finance Department, individual departments are responsible for contract administration and monitoring of the contracts they use.

Cycle Audits are narrower in scope than County-wide and Individual Function Audits. The scope is very specific to inherently high-risk, decentralized functions and processes. Generally, the cycle audits provide testing and assurance that policies and procedures are being followed within different departments or that controls continue to be effective once it has been determined that they have been appropriately designed and implemented. This cycle audit was designed to assess whether the system of internal controls is adequate and appropriate, at the department level, for promoting and encouraging the achievement of management's objectives for effective contract monitoring and administration.

The selection of departments and contracts to be tested during this cycle audit was based upon current existing circumstances and conditions and the results of the previous audit. The contracts selected for this cycle audit were from the following departments and divisions:

- Department of Parks and Recreation
- Department of Information Technology (DoIT)
- Department of Development Services
- Department of Transportation
- Department of Public Works
  - Buildings and Grounds Division
  - Fleet Management Division
  - Solid Waste Management Division

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

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

## Executive Summary - continued

The details of these issues are included within the Department Issues and Contract Summaries section of this report.

Issues	Risk Rating
<b>Department of Parks and Recreation</b>	
<b>1. Prompt Payment of Invoices</b>	<b>Low</b>
<p>We noted that one of the invoices in our sample was paid 74 days after the date of the invoice, violating the Virginia Public Procurement Act (§ 2.2-4352) requiring prompt payment within 45 days. Two of the three invoices in our sample did not contain documentation of the date the invoices were actually received. As such, we were unable to determine whether these invoices were paid timely.</p>	
<b>Department of Public Works - Building and Grounds</b>	
<b>2. Payment Amount Varies from Contract Terms</b>	<b>Low</b>
<p>During our testing of the L.T. Services, Inc. contract, we noted the following immaterial discrepancies between the contract and invoice terms:</p> <ul style="list-style-type: none"> <li>• One invoice in our sample included additional services not covered by the contract pricing terms. Although additional services are permitted by the contract, no documentation was on file to document the agreed upon pricing for the additional services. We were therefore unable to verify that the correct price for these services was charged.</li> <li>• The contracted rate and quantity were incorrect on one invoice for additional services. Since the two figures were switched, there was no effect to the total amount charged.</li> </ul> <p>Failure to identify discrepancies between invoice amounts and the supporting agreements could cause the County to make under or overpayments and be out of compliance with the contract terms.</p>	
<b>Department of Public Works - Fleet Management</b>	
<b>3. No Price Validation for Parts Purchased on Contract</b>	<b>Moderate</b>
<p>The Fleet Management Division utilizes a contract with MGB Cycles to procure parts on an as-needed basis. Under the contract terms, the County receives a 21% discount off the retail price for parts purchased. Under the current process, part prices are not validated for accuracy of retail price and discount percentage applied. When previously purchased parts are subsequently ordered, the price is compared to a previous invoice to verify that the pricing is consistent to what was previously charged. Evidence of retail price is not currently provided by the contractor. Due to the large number of parts there is no price listing or schedule included in any contract documentation.</p> <p>We obtained documentation of retail prices and performed testing of a sample of invoices and parts, noting the prices appeared accurate based on the retail price and contract discount. Although no discrepancies were found, failure to validate the accuracy of prices charged by the contractor increases the risk that discrepancies are not identified and the County is overcharged.</p>	

## **Background**

# Background

---

## Overview

Contract Administration involves those activities performed after a contract has been awarded to determine how well the government and the contractor performed to meet the requirements of the contract. It encompasses all dealings between the government and the contractor from the time the contract is awarded until the work has been completed and accepted or the contract terminated, payment has been made, and disputes have been resolved. As such, contract administration constitutes the primary part of the procurement process that assures the government gets what it paid for.

The specific nature and extent of contract administration varies from contract to contract. It can range from the minimum acceptance of a delivery and payment to the contractor to extensive involvement by program, audit and procurement officials throughout the contract term. Factors influencing the degree of contract administration include the nature of the work, the type of contract, and the experience and commitment of the personnel involved. Contract administration starts with developing clear, concise performance based statements of work to the extent possible, and preparing a contract administration plan that cost effectively measures the contractor's performance and provides documentation to pay accordingly. Skill and judgment is often required in order to effectively protect the public interest.

## Prince William County Contract Administration

There are approximately 500 active contracts written by Prince William County across all departments. The County is also riding over 400 contracts written by other jurisdictions. The contract administration process is part of the overall procurement process, but it is decentralized to the user agencies once the contracts have been issued.

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

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

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



## Background - continued

---

### Internal Controls over Contracts

The County's Internal Control Council developed an Internal Control & Ethics Accountability Program in FY 2011-2012, including a standard internal control questionnaire covering pertinent control areas. The internal control questionnaire contains a series of statements about internal controls and County policies, standards, laws and regulations. The statements are used as a guide to help identify areas and activities where there are possible control risks and to improve and strengthen internal controls within the County.

Every two years, each department or division completes the internal control questionnaire to assess their risk in the listed control areas. Responses are compiled County-wide to identify high risk matters requiring attention and departments develop corrective action plans for areas of risk. The Internal Control Questionnaire was most recently updated for fiscal 2014. The below statements are excerpted from the County's most recent Internal Control Questionnaire for Contracts, and represent internal control best practices. The controls shown are expected to be in place at the departments.

#### Contract Payments

- Each invoice is reviewed to ensure what is billed is accurate against services rendered/goods received and what was agreed upon in the contract/purchase order.
- Payments are made in accordance with the Commonwealth of Virginia's Prompt Payment Act.
- Invoices are processed for payment after verifying that the goods and/or services are received, within 30 days of receipt.
- The Department/Division/Unit(s) takes advantage of all available discounts, when practical.
- The accuracy of quantities, prices, and payment amounts are verified as part of the payment initiation and authorization process.

#### Recordkeeping

- Records are maintained for each contract that could contain the following: the contract and any modifications, all contract correspondence, inspections, records, memos and notes of conversations with the contractor, invoices/vouchers, supporting documentation, and travel reports.
- Records are maintained that identify open purchase orders, contracts and agreements.
- All key stakeholders have access to and understand all contract milestones, commitments, and obligations.
- If requested, the department/division can demonstrate that all contract related commitments and obligations are in compliance.
- If problems with a contractor persist after attempts have been made to seek correction, the Purchasing Division is contacted with the complaint to seek formal remediation.
- Appropriately reviewed backup documentation exists with the invoice remitted for payment to clearly show the amount paid towards the contract.

#### Quality Assurances

- Service quality and assessment criteria are defined in all contracts.
- Methods exist to determine that the end users are satisfied with the product or service, and that services provided fulfill the terms of the contract.
- Review of a contractor's performance is conducted to ensure compliance with contract specifications and terms and conditions.
- Services provided fulfill the terms of the contract.
- All vouchers and invoices are reviewed and recommended for approval if the nature, type and quantity of effort or materials being expended are in general accord with the progress of work under the contract.
- For each contract closing, prior to final payment, an inspection and acceptance of all work is performed and documented.
- Those responsible for managing contracts are encouraged to attend training relating to the subject matter of the contracts they manage.

## **Objectives and Approach**

# Objectives and Approach

---

## Objectives

The objective of this cycle audit was designed to assess whether the system of internal controls is adequate and appropriate, at the department level, for promoting and encouraging the achievement of management's objectives for effective contract monitoring and administration. The selection of departments and contracts to be tested during this cycle audit was based upon current existing circumstances and conditions and the results of the previous audit. The contracts selected for this cycle audit were from the following departments and divisions:

- Department of Parks and Recreation
- Department of Information Technology (DoIT)
- Department of Development Services
- Department of Transportation
- Department of Public Works
  - Buildings and Grounds Division
  - Fleet Management Division
  - Solid Waste Management Division

## Approach

Our audit approach consisted of the following three phases:

### Understanding and Documentation of the Process

During this phase we conducted interviews with representatives from the Purchasing Division to discuss the scope and objectives of the audit work, obtained preliminary data, and established working arrangements. We also obtained copies of financial reports and other documents deemed necessary. We reviewed the applicable State and County policies related to this internal audit. We then interviewed each contract administrator for the sampled contracts in order to obtain an understanding of the unique aspects of each in order to perform our testing.

### Detailed Testing

The purpose of this phase was to test compliance and internal controls based on our understanding of the Contract Administration process. Our fieldwork testing was conducted utilizing sampling and other auditing techniques to meet our audit objectives outlined above. Our testing included disbursements made under contracts for the time period of January 1, 2014 through December 31, 2014. Specific procedures performed include:

- Gathering and evaluating background information on the County's contract administration procedures and any required controls or documentation;
- Summarizing expenditures for the selected departments by vendor to identify significant contracts based on expenditures during our audit period;
- Selecting a judgmental sample of contracts for our selected departments and obtaining and reviewing background information on the contract, including contract copy, contract administrator information, and detail of expenditures under each contract during our audit period;
- Testing a sample of invoices for each selected contract to determine that the supporting documentation agreed to the payment amount and was mathematically accurate; payment was made in a timely manner and in accordance with the pricing terms of the contract; and performance under the contract was properly verified or monitored prior to payment of the invoice; and
- Assessing the overall contract administration processes and controls to determine effectiveness.

### Reporting

At the conclusion of this audit, we summarized our findings related to the Contract Administration process. We have reviewed the results of our testing with the Purchasing Division Chief, Director of Finance, and representatives from the selected departments/divisions. We have incorporated management's response into our report.

## **Department Issues Matrix and Contract Summaries**

## **Department of Parks and Recreation**

<p><b>Total Department Expenditures Fiscal Year 2014</b></p>	<p>\$35,893,642</p>
<p><b>Overview of Selected Contracts:</b></p>	
<p><b><i>Turf Equipment and Supply Co., Inc.</i></b>                  Contracted Services: Ground Maintenance Equipment, Parts and Repair Services                  Contract Term: April 16, 2013 through December 30, 2017</p> <p>This is a piggyback contract riding on a Fairfax County, Virginia contract which awarded eight vendors. The contract is utilized by multiple departments to make purchases of grounds maintenance equipment, parts, and repair services. In the context of the Parks and Recreation department’s use, equipment is delivered to the Fleet department and validated as meeting the conditions of the contract by a Parks and Recreation designated individual. Invoice terms are a 1% discount if paid within 10 days, Net 30. Equipment and parts purchased under the contract must be delivered to the County in 30 and 10 days, respectively. The contract calls for discounts off of suggested retail price between 5% and 30% depending on the brand of type of equipment. Service rates are set in the contract as \$97/hour for labor done at the vendor shop, and \$115 for labor done on County premises. The County golf courses managed by a 3<sup>rd</sup> party reference the contract to purchase equipment as authorized and processed through County Purchasing by Parks. Such equipment is delivered directly to the golf course.</p>	
<p><b><i>Newsom Seed, Inc.</i></b>                  Contracted Services: Grass Seed/Turf Seed Mixtures, and Related Ground Materials/Products                  Contract Term: September 28, 2013 through September 28, 2014, with option to renew for two additional one-year periods</p> <p>This contract is primarily utilized by Public Works, Solid Water Landfill Division to purchase, on an as needed basis, “Grass Seed/Turf Seed Mixtures” and “Related Ground Materials/Products.” Other agencies in the County may utilize the contract if necessary, including the Parks &amp; Recreation department. This contract names Newsom Seed, Inc. the primary contractor for several products under contract including special Parks grass seed mixes. A secondary contractor has also been designated and may be utilized in the event that Newsom cannot perform its contractual obligations to the County as the primary contractor. Goods are required to be delivered within ten calendar days after receipt of the County’s order and deliveries are F.O.B. destination. The contract requires that all shipments/deliveries are accompanied by packing slips or delivery tickets which contain detailed information for each load corresponding to the label and product information. Invoice terms are Net 30 with an option for unspecified prompt payment discount. Contract terms require that goods and/or services be subject to inspection and testing by County personnel prior to acceptance. The County may reject goods that do not conform to the County’s requirements, or can require their correction. The detailed product specifications and pricing schedule are attached to the contract, including discounts when applicable. The invoices in our sample were for purchases of multiple types of grass seed.</p>	
<p><b>Conclusion:</b></p>	
<p>Please see Issues Matrix below for department-specific issue and recommendation noted.</p>	

Rating	Issues
Low	<p><b>1. Department of Parks and Recreation – Prompt Payment of Invoices</b></p>
	<p>We noted that one of the invoices in our sample was paid 74 days after the date of the invoice. Two of the three invoices in our sample did not contain documentation of the date the invoices were actually received. As such, we were unable to determine whether these invoices were paid timely.</p> <p>The County has adopted the Virginia Public Procurement Act standard for prompt payment of bills. This standard requires payment by the contract due date, if one is established by contract. If a due date is not established, payment should be made within 45 days after receipt of a proper invoice or receipt of the goods or services, whichever is later (§ 2.2-4352).</p> <p>Failure to pay invoices on time is a violation of the County's adopted prompt payment policy above, and may result in late payment penalties or harm the County's reputation.</p>
	<p style="text-align: center;"><b>Recommendation</b></p>
	<p>We recommend that all invoices be processed for payment within 45 days of receipt, or as otherwise noted on the invoice, in accordance with the Virginia Public Procurement Act. We also recommend that all invoices are stamped, or otherwise noted with the date received. This will ensure documentation of timely payment under the County's adopted prompt payment policy.</p>
	<p style="text-align: center;"><b>Management's Response</b></p>
	<p><b>Response:</b>                  Parks management will communicate the requirement to all Parks staff that all invoices be promptly paid within 30 days, if not sooner, or within 45 days under certain circumstances, as required by the County's adopted prompt payment policy and the Virginia Public Procurement Act. Parks location and program managers will be designated responsible for assuring all invoices received are promptly reviewed, signed, dated, and submitted for payment. This communication will be immediate.</p> <p><b>Responsible Party:</b> Financial Reporting and Control Accountant, Parks &amp; Recreation</p> <p><b>Estimated Completion Date:</b> Immediate</p>

## **Department of Information Technology**



<p><b>Total Department Expenditures Fiscal Year 2014</b></p>	<p>\$ 24,093,004</p>
<p><b>Overview of Selected Contract:</b></p>	
<p><b><i>Software House International Corporation</i></b>                  Contracted Supplies: Microsoft Product and Online Services                  Contract Term: October 17, 2013 through October 16, 2016</p> <p>The "Microsoft Reseller Contract" was a piggyback contract entered into between the Virginia Information Technologies Agency (VITA) and Software House International Corporation. The Contractor provides Microsoft Products and Online Services, including Licenses and Software Assurance to VITA. The contract may be utilized by any 3rd party independent agent of VITA or the Authorized User (Authorized Users include all Virginia public bodies). The contract is mandatory for all executive branch agencies and optional for non-executive branch agencies, including localities, K-12, and higher education. A list of all active agreements for which Contractor is to provide Reseller Services is included as an appendix with the contract. The Contractor must maintain a website specific to Microsoft Products and Online Services under the contract, instructions for obtaining quotes, placing orders, warranty information, and return policies. A link exists between VITA's website and the Contractor's website in order to facilitate access to contract information. If the Contractor collects any data from Authorized Users, it is to be considered confidential. Authorized User pays the retail price less the corresponding discount provided in Exhibit C of the contract. Promotional discounts greater than the contract terms are granted as well. The contractor is required to submit a "Report of Sales" and a "Small Business Subcontracting Report" to VITA. The Authorized User is responsible for installation of Microsoft Products, but the Contractor will provide assistance if the product is being purchased and installed for the first time. Acceptance testing must take place within ten days after installation for products. Contractor must cure any non-conforming products or services identified during acceptance testing within seven calendar days of notice. Payment terms are Net 30 days and delivery terms are 30 days ARO.</p>	
<p><b>Conclusion:</b></p>	
<p>No issues noted in regards to the contract tested for this department.</p>	

## **Department of Development Services**

<p><b>Total Department Expenditures Fiscal Year 2014</b></p>	<p>\$ 11,541,880</p>
<p><b>Overview of Selected Contract:</b></p>	
<p><b><i>Cellco Partnership d/b/a Verizon Wireless</i></b>                  Contracted Services: Wireless broadband services, accessories and equipment                  Contract Term: April 16<sup>th</sup>, 2012 through October 31, 2016, unless sooner terminated by either party</p> <p>This is a piggyback contract between the Western States Contracting Alliance acting through the State of Nevada and Cellco Partnership d/b/a Verizon Wireless. The contract is utilized to provide cellular services to authorized County employees in various departments, including Development Services. The contract provides service to Cell Phones, iPads, and Air Cards to be used for County purposes. The type of service plan depends on the County employee's position and responsibilities. The negotiated prices include discounts off of retail price for service, equipment and accessories. Although the Contract Administrator is reviewing and approving the invoices, the Department of Information Technology (DoIT) is responsible for managing the devices received under contract. Additionally, DoIT monitors the prices charged and usage quantity per device. DoIT provides detailed device activation usage information to the Contract Administrator for review purposes. Payment of Contractor invoice is to be within Net 30, per contract terms, and additional charges may be applied by contractor after 45 days.</p>	
<p><b>Conclusion:</b></p>	
<p>No issues noted in regards to the contract tested for this department.</p>	

## **Department of Transportation**

<p><b>Total Department Expenditures Fiscal Year 2014</b></p>	<p>\$50,422,131</p>
<p><b>Overview of Selected Contract:</b></p>	
<p><b><i>Dewberry Consultants LLC</i></b>                  Contracted Supplies: Engineering Design Services for Federally Funded Projects                  Contract Term: April 10, 2012 through April 10, 2015, which includes a extension</p> <p>The contract between PWC and Dewberry &amp; Davis LLC is to be utilized by authorized individuals for consulting and engineering services. The Engineer generates a "Fee Schedule" to be used in invoicing hours of services provided. Each task (ex. Roadway Design) has an associated contract amount that is located in the original task order. The accumulated amounts charged for each task based on hours and completion reduces the remaining value of the contract amount. Payment of Contractor invoice is to be within Net 30, or in accordance with discount terms. Reimbursable expenses, miscellaneous costs, and all other rates are explicitly stated in the appendix of the contract. For additional Consulting services, the fee shall not exceed a multiple of (1.10) times the amounts billed to the Engineer for such services. During the period of performance, the Engineer shall make no substitutions of key personnel and/or consultants unless in line with reasons described in the Contract. All services, tasks, and reports shall be conducted and completed in accordance with recognized and customarily accepted industry practices, and shall be complete when the deliverables are approved as acceptable by the Contract Administrator.</p>	
<p><b>Conclusion:</b></p>	
<p>No issues noted in regards to the contract tested for this department.</p>	

**Department of Public Works  
Building and Grounds Division**

<p><b>Total Division Expenditures Fiscal Year 2014</b></p>	<p>\$166,897</p>
<p><b>Overview of Selected Contract:</b></p>	
<p><b><i>L.T. Services, Inc.</i></b>                  Contracted Services: Janitorial and custodial services                  Contract Term: January 1, 2012 through December 31, 2012, with option to renew for four additional one-year terms</p> <p>The contract is for the performance of janitorial and custodial services to be provided to County facilities listed in the detailed scope of work included in the contract. General cleaning occurs on a daily basis and specialized cleaning takes place periodically for an assigned price. When necessary, additional services may be negotiated if the services needed are not included in the current scope of work. The contract lists typical tasks required by frequency (daily, weekly, monthly, semi-annual). The Contractor is required to keep a log book at each location, used by the Contractor’s employees to document their nightly inspection of the premises. Revised pricing schedules and special project pricing is included as an appendix. A “Time of Performance” schedule is also included, which explicitly states holiday terms and their limitations on performance. Payment of Contractor invoice is to be within Net 30 days from when it was received. The contract’s terms require that all tasks and reports be conducted and completed in accordance with recognized and customarily accepted industry practices, and are considered complete when the Contract Administrator accepts them in writing. If a report or deliverable is rejected, the County notifies the Contractor in writing and they have ten working days to correct the deficiencies and resubmit the report or deliverable. The contract has been renewed multiple times, with price increases of 1% to 1.7% over the prior year pricing terms. The initial contract was for one year, covering January 1, 2012 through December 31, 2012. The current expiration date is December 31, 2015, and there is one remaining renewal option.</p>	
<p><b>Conclusion:</b></p>	
<p>Please see Issues Matrix below for department-specific issue and recommendation noted.</p>	

Rating	Issues
Low	<p><b>2. Payment Amount Varies from Contract Terms</b></p>
	<p>During our testing of the L.T. Services, Inc. contract, we noted the following immaterial discrepancies between the contract and invoice terms:</p> <ul style="list-style-type: none"> <li>• One invoice in our sample included additional services not covered by the contract pricing terms. Although additional services are permitted by the contract, no documentation was on file to document the agreed upon pricing for the additional services. We were therefore unable to verify that the correct price for these services was charged.</li> <li>• The contracted rate and quantity were incorrect on one invoice for additional services. Since the two figures were switched, there was no effect to the total amount charged.</li> </ul> <p>Failure to identify discrepancies between invoice amounts and the supporting agreements could cause the County to make under or overpayments and be out of compliance with the contract terms.</p>
	<p style="text-align: center;"><b>Recommendation</b></p>
	<p>We recommend that the department reinforce the importance of reviewing invoice pricing for consistency with contract terms and payment schedules. An amendment should be executed to ensure the contract includes all services to be purchased under the contract.</p>
	<p style="text-align: center;"><b>Management's Response</b></p>
	<p><b>Response:</b> Buildings and Grounds concurs with the audit findings. In the case of the rate per hour of \$15 and the number of hours of 16 being switched on the invoice, even though the total amount of the invoice does not change, good accounting practice dictates that we should have requested a corrected invoice from the vendor. Staff who review invoices for compliance with contract terms and pricing have been advised to request corrected invoices that match the contract pricing even though the total amount on the invoice is unchanged.</p> <p>In the second case where the negotiated service for a MRSA spraying in the PSTC was not supported by a contract modification to document the negotiations, a contract modification request has been sent to Purchasing. Any future negotiated recurring services will likewise be supported by a contract modification to document the process.</p> <p><b>Responsible Party:</b> Buildings and Grounds Contract Services Administrator</p> <p><b>Estimated Completion Date:</b> August 31, 2015</p>



**Department of Public Works  
Fleet Management Division**

## Public Works – Fleet Management Contract Administration

<b>Total Division Expenditures Fiscal Year 2014</b>	\$8,265,578
<b>Overview of Selected Contracts:</b>	
<p><b><i>Commonwealth Industrial Supply Co., Inc.</i></b>                      Contracted Supplies: Flares/Fuses for Roadside Emergency Safety                      Contract Term: April 1, 2014 through June 30, 2015, with option to renew for three additional one year terms</p> <p>The contract is for the purchase flares and fuses by PWC on an as needed basis. Product specifications and requirements are included in the contract. Price schedule and structure is included in the contract and as an appendix item. The contract calls for firm fixed pricing through June 30, 2015. Goods may be rejected or required to be corrected if specifications are not met. Payment of Contractor invoice is to be within Net 30 days of when the invoice was received. The contract terms state that prices may be increased based on the increase in the Consumer Price Index, if the Contractor requests.</p>	
<p><b><i>MGB Cycles LLC d/b/a Harley-Davidson of Quantico</i></b>                      Contracted Supplies: Motorcycle OEM Parts and Service                      Contract Term: July 1, 2009 through June 30, 2015</p> <p>The County contracted directly with this vendor in December 2014 for motorcycle purchases. Prior to this date, the County was riding a Fairfax County, Virginia contract for the purchase of parts and services for motorcycle fleets throughout the County. The Primary Contractor is East Coast Harley, Inc. and the Secondary Contractor is Rockville Harley-Davidson. A pricing schedule is included as an attachment in the contract. The County receives a 21% discount off of suggested retail prices. The pricing schedule covers hourly rate for labor (\$66), labor warranty period, parts warranty period, and delivery period. Payment of Contractor invoice is to be within Net 30 days of when the invoice was received.</p>	
<b>Conclusion:</b>	
Please see Issues Matrix below for department-specific issue and recommendation noted.	

## Public Works – Fleet Management Contract Administration

Rating	Issue
Moderate	<p><b>3. No Price Validation for Parts Purchases</b></p>
	<p>The Fleet Management Division utilizes a contract with MGB Cycles to procure parts on an as-needed basis. Under the contract terms, the County receives a 21% discount off the retail price for parts purchased. Under the current process, part prices are not validated for accuracy of retail price and discount percentage applied. When previously purchased parts are subsequently ordered, the price is compared to a previous invoice to verify that the pricing is consistent to what was previously charged. Evidence of retail price is not currently provided by the contractor. Due to the large number of parts there is no price listing or schedule included in any contract documentation.</p> <p>We obtained documentation of retail prices and performed testing of a sample of invoices and parts, noting the prices appeared accurate based on the retail price and contract discount. Although no discrepancies were found, failure to validate the accuracy of prices charged by the contractor increases the risk that discrepancies are not identified and the County is overcharged.</p>
	<p style="text-align: center;"><b>Recommendation</b></p>
	<p>We recommend that the Contract Administrator verify the accuracy of prices charged under this contract on a sample basis. Periodically, the Contract Administrator should select a sample of parts purchased under this contract, obtain documentation of retail price, recalculate the price to be charged under contract discount terms, and agree to the invoice prices. Any discrepancies should be appropriately researched and resolved.</p>
	<p style="text-align: center;"><b>Management's Response</b></p>
	<p><b>Response:</b> Fleet Management Division agrees with the issue and has implemented the following process to be in compliance with the recommendation. The most recent contract with MGB Cycles, LLC, was entered in December 2014. The contract includes stated prices for optional installed equipment and a discount from MSRP for non-listed parts, with rate dependent on the manufacturer of the part. Quarterly, the Inventory manager requests MSRP prices for random selected parts from invoices and confirms that the correct discount has been applied. This process will be incorporated in the Fleet Operations SOP 5.007.1 with the next revision.</p> <p><b>Responsible Party:</b> Fleet Inventory Supervisor is responsible for checking the discount. Findings are noted and saved by the inventory manager.</p> <p><b>Estimated Completion Date:</b> Completed</p>

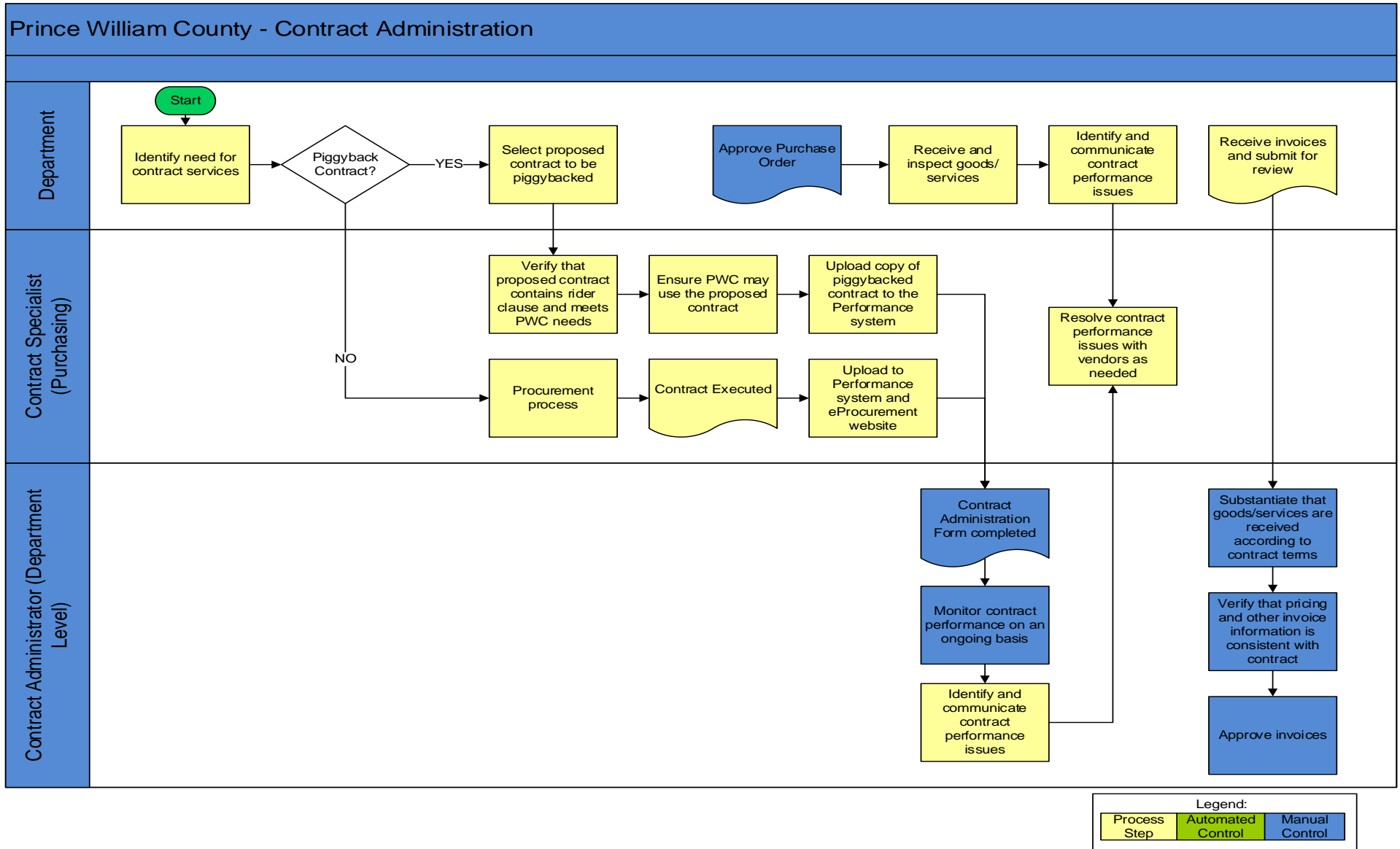
**Department of Public Works  
Solid Waste Management Division**

<p><b>Total Division Expenditures Fiscal Year 2014</b></p>	<p>\$19,573,462</p>
<p><b>Overview of Selected Contract:</b></p>	
<p><b><i>Eastern Clearing, Inc.</i></b>                  Contracted Services: Operation of Composting and Mulching Facilities                  Contract Term: July 1, 2005 through June 30, 2010, with five additional one year renewal periods</p> <p>The contract between Eastern Clearing, Inc. and Prince William County is utilized primarily by the Public Works department’s Solid Waste Management Division. Under this contract, Eastern Clearing serves as the County’s agent to equip, operate and maintain the County’s mulching and yard waste composting facilities. The landfill receives materials that are able to be mulched or composted (brush). The Contractor facilitates the collection of these materials and processes them into mulch and compost. Each month the contractor provides the amount processed by tonnage units with their invoice. Under the contract, if the County’s Contract Administrators note any non-compliance with Contract terms, a written discrepancy notice is issued to the Contractor. Discrepancies must be corrected timely, based on the severity and nature of the issue, and non-crucial discrepancies must be corrected within ten days of written notification. The County’s Contract Administrators also have the authority to issue written “Stop Work Notices” or “Redirect Notices” to the County in the event of crucial or unsafe site conditions, change in site/material conditions, or when special attention is required of a particular contractual plan, process, or schedule. The amount paid to the Contractor each month is \$92,097 (Bellsford Rd) and \$40,079 (landfill), but every six months, in December and June, an adjustment amount is provided to make up for the difference between the amount paid each month and the actual tonnage facilitated and processed. The Contractor sells the now composted material as different classes of fertilizer. The tonnage is tracked by scales owned by the County and operated by County personnel. Scale data is kept and maintained in Weigh Master which provides total tonnage at the end of each period to the Solid Waste Management Division. Payment terms are Net 30 days.</p>	
<p><b>Conclusion:</b></p>	
<p>No issues noted in regards to the contract tested for this department.</p>	

## **Process Map**

# Process Map

# Contract Administration



## Our Promise to YOU

At McGladrey, it's all about understanding our clients -

Your business,  
Your aspirations,  
Your challenges.

And bringing fresh insights and  
tailored expertise to help you succeed.

### [www.mcgladrey.com](http://www.mcgladrey.com)

McGladrey LLP is the leading U.S. provider of assurance, tax and consulting services focused on the middle market, with more than 8,000 people in 80 cities nationwide. McGladrey is a licensed CPA firm and serves clients around the world through RSM International, a global network of independent assurance, tax and consulting firms. McGladrey uses its deep understanding of the needs and aspirations of clients to help them succeed.

For more information, visit [www.mcgladrey.com](http://www.mcgladrey.com), like us on Facebook at [McGladrey News](#), follow us on Twitter [@McGladrey](#) and/or connect with us on [LinkedIn](#).

© 2015 McGladrey LLP. All Rights Reserved.

