



ARLINGTON  
VIRGINIA

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# Internal Audit Report - Contract Compliance Cycle Audit

Department of Environmental Services:  
A&M Concrete Corporation - Contract Agreement No. 17-  
108-ITB

Report Date: July 12, 2018

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# TRANSMITTAL LETTER



July 12, 2018

Mr. Greg Emanuel  
Director, Department of Environmental Services

Ms. Maria Meredith  
Deputy Director, Department of Management and Finance

Arlington County, Virginia  
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Arlington, VA 22201

Pursuant to the contract and related statement of work for Arlington County, Virginia ("the County"), we hereby present the contract compliance cycle audit: Department of Environmental Services ("DES") – A&M Concrete Corporation ("A&M"). Our report is organized in the following sections:

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

As described in our objectives and procedures outlined on pages 6 and 7 of this report, the observations noted are based on our analysis of the processes, documents, records and information provided to us by the County. This cycle audit focused on evaluating the soundness of internal control policies to safeguard assets and on reviewing compliance with County policies. We offer no assurances that schemes or fraudulent activities have not been, or are not currently being perpetrated by any person within the areas reviewed.

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

Respectfully Submitted,

*RSM US LLP*

**RSM US LLP**

## EXECUTIVE SUMMARY

### Background

Contract compliance monitoring is an integral piece of the County’s control environment. Contract compliance encompasses all contractual agreements entered into by the County. The focus of this cycle audit was vendor agreements. Although certain aspects of the purchasing function are centralized within the Department of Management and Finance (“DMF”), and vendor selection is performed in conjunction with Purchasing (for purchases greater than \$5,000), many of the high risk areas like contract compliance and monitoring are the responsibility of the individual departments / divisions / bureaus.

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

#### Contract Selection

The A&M Concrete Corporation (“A&M”) contract that was selected for this cycle audit is primarily managed by the Project Officer in the Water, Sewer and Streets (“WSS”) bureau. Contract Agreement No. 17-108-ITB is a unit priced contract for concrete pouring, primarily used for street maintenance and repairs, with multiple purchase orders (“PO”) associated with this contract, for a total contract amount of \$505,984 as of May 31, 2018. For the purpose of this audit, we examined the two (2) POs associated with this contract, PO #252343 (\$200,000) and PO #255538 (\$450,000). Arlington County has paid thirteen (13) invoices during the audit period (July 1, 2017 to May 31, 2018).

Total dollars spent on the A&M contract during the audit period (July 1, 2017 to May 31, 2018) is \$498,753.

### Objective and Scope

The scope of this cycle audit encompassed one (1) contract from the Department of Water, Street, and Sewer; Agreement No. 17-108-ITB with A&M Concrete Corporation.

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

Thirteen (13) invoices were submitted for payment during the audit period July 1, 2017 to May 31, 2018. We selected all thirteen (13) invoices per RSM sampling methodology for detailed testing.

### Overall Summary / Highlights

We would like to highlight that no observations were identified during our assessment of the design and operating effectiveness of the processes and key controls in place for this contract managed by the County’s Department of Environmental Services – Water, Sewer and Streets Bureau.

### Number of Observations by Risk Rating

(See page 7 for rating definitions)

	High	Moderate	Low
Contract Compliance Cycle Audit – DES – A&M Concrete Corporation	-	-	-

Fieldwork was performed May 2018 through June 2018.

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

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## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observation(s)

No observations were identified during our assessment of the design and operating effectiveness of the processes and key controls in place for this contract managed by the County's Department of Environmental Services – Water, Sewer and Streets Bureau.

## BACKGROUND, OBJECTIVES AND APPROACH

### Background

#### Overview

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

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

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

#### A&M Concrete Corporation

The A&M Concrete Corporation (“A&M”) contract that was selected for this review is primarily managed by the Project Officer in the Water, Sewer and Streets bureau. A&M has had five (5) contracts over the past two (2) years with the County, with a total of nine (9) purchase orders (“POs”). Contract Agreement No. 17-108-ITB is a unit priced contract for concrete pouring, primarily used for street maintenance and repairs, two (2) POs are associated with this contract. For the purpose of this audit, the two (2) POs included in this examination are PO #252343 (\$200,000) and PO #255538 (\$450,000). Arlington County paid thirteen (13) invoices during the audit period (July 1, 2017 to May 31, 2018), which does not include work completed during May 2018, see below for total dollars spent on the contract.

#### Agreement No. 17-108-ITB

Contractor	Contract Title	Execution Date	Total Dollars Spent on Contract <sub>2</sub>	Contract Type	County Division
A&M Concrete Corporation	Arlington County Agreement 17-108-ITB	September 5, 2017	\$ 505,984 <sub>1</sub>	Unit Price	WSS

<sub>1</sub>Total dollars spent since contract execution (September 5, 2017 through 5/31/2018)

<sub>2</sub>Total dollars spent during audit period (July 1, 2017 through May 31, 2018): \$498,753, which does not include work completed during the month of May

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### **Roles and Responsibilities**

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

#### Department of Environmental Services – Water, Sewer and Streets Bureau

DES – WSS, is responsible for management and oversight of projects and services related to the maintenance of the County’s water supply, sewage system, and public streets and roadways. This is generally accomplished by contracting with professional firms for all paving, patching, maintenance and other contract services and monitoring the projects until completion. WSS is also responsible for completing all Project Officer functions as outlined in the contract, overall contract compliance, and reviewing and approving vendor invoices for accuracy prior to payment.

#### Department of Management and Finance (“DMF”)

DMF oversees all financial-related County processes. The Purchasing and Accounts Payable divisions are part of DMF and act as support functions for departments managing vendor contracts. Specifically, Purchasing administers the competitive solicitation process for the purchase of goods and services by the County; executes the contracts and approves purchase orders for the purchases. Accounts Payable is responsible for processing payments to contractors based on invoices approved by the respective departments.

#### **Common Definitions**

Some common definitions for construction terminology used throughout this section of the report are as follows:

- *Contract Owner/Project Officer* – refers to the County representative responsible for general control, review, and approval of all aspects of the contract, once executed. The Project Officer is appointed by the County’s Department of Environmental Services Director or a designee as identified in the contract, who is the primary point of contact for the Contractor in executing the terms of the contract.
- *Change Order* – refers to an approved additional cost for unforeseen work outside of the original work plan considered in the development of the contract price. If the cost is deemed necessary and appropriate, an executed change order is established to allow the Contractor to invoice for the additional work.
- *Unit Price Contract* – refers to a contract with negotiated prices to be paid for each completed unit of work, as defined by the agreement. Unit price contracts are invoiced on a periodic basis with a breakdown of costs by unit and rate for the applicable period.

#### **Timeline**

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

Date	Event Description
September 5, 2017	Arlington County executes Contract Agreement No. 17-108-ITB with A&M Concrete Corporation
September 14, 2017	PO 252343 is issued for \$200,000 until June 30, 2018
January 29, 2018	PO 255538 is issued for \$450,000 until June 30, 2018
December 31, 2018	Contract expires, eligible to continue through four (4) “12 month” subsequent contract terms until December 31, 2022

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach

#### **Objectives**

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

The scope of this internal audit encompassed one (1) contract with A&M Concrete Corporation (Agreement No. 17-108-ITB) and two (2) of nine (9) purchase orders. The audit period was July 1, 2017 to May 31, 2018.

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

#### **Approach**

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

##### Understanding and Documentation of the Process

During the first phase, we performed the following:

- Conducted an entrance conference and met with those involved with the contract compliance and monitoring responsibilities over the selected contract from the respective department and representatives from the Department of Management and Finance (“DMF”) to discuss the scope and objectives of the cycle audit, obtain preliminary data, and establish working arrangements;
- Obtained copies of financial information and other documents deemed necessary;
- Reviewed the applicable State and County policies related to this cycle audit;
- Conducted interviews with responsible personnel from the selected department/division to obtain an understanding of the unique aspects of the process in order to perform walkthroughs and our testing; and
- Developed department/division level flowcharts of the process(es), which are included in this report.

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

The purpose of this phase was to test compliance and internal controls. This phase also consisted of an evaluation of the design and testing of operating effectiveness. We performed walkthroughs and detailed testing, for all thirteen (13) invoices associated with two (2) POs, which occurred during the testing period. Specific procedures performed included:

- Gathered background information on the County’s contract compliance and monitoring procedures and any required controls or documentation, including County Board authorization, if necessary;
- Determined whether the selected department/division had related contract compliance procedures outside of County-level procedures;
- Obtained background information on the selected contract, including a copy of the contract, contract administrator information, and detail of expenditures under each contract during our audit period; and
- Developed flowcharts of the process(es), which are included in this report.

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach (continued)

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

- Tested invoices for the selected contract to determine if the supporting documentation agreed to the payment amount;
- Verified that each invoice was charged appropriately against a purchase order as required by the *Contract Administration Policy*;
- Inspected invoices to confirm that unit costs per invoice supporting documentation tied to the agreed upon contract unit prices;
- Inspected invoices for Project Officer sign-off as required by the *Contract Administration Policy*;
- Determined if payment was made in a timely manner and in accordance with the pricing terms of the contract and the *Contract Administration Policy*, and that payments did not exceed amounts authorized;
- Determined whether goods and services received under the contract were properly verified or monitored prior to payment of the invoice as required by the *Contract Administration Policy*; and
- Assessed the overall contract compliance process and controls to determine effectiveness.

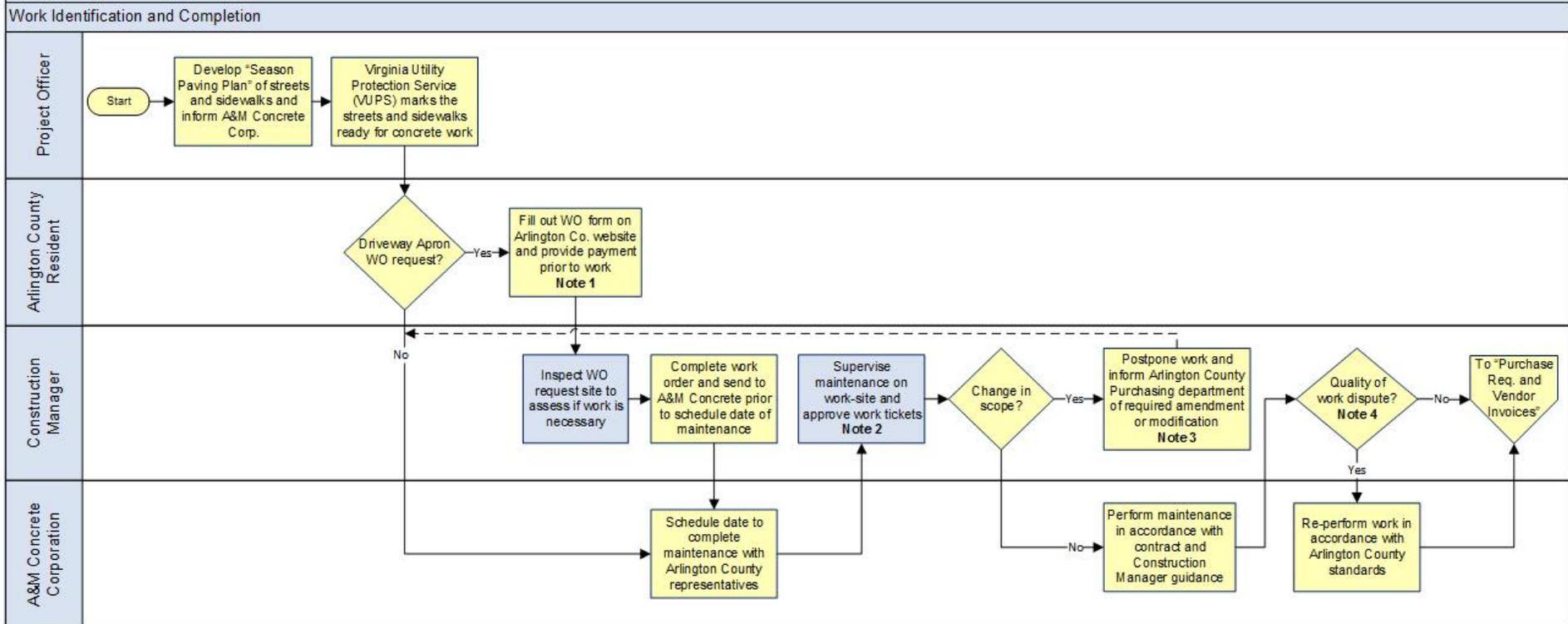
#### Reporting

At the conclusion of this audit, we vetted the facts of this cycle audit with DES. The draft report was submitted to DES and DMF for review. An exit meeting was held with DES and DMF to formally review and discuss the draft report and modify accordingly.

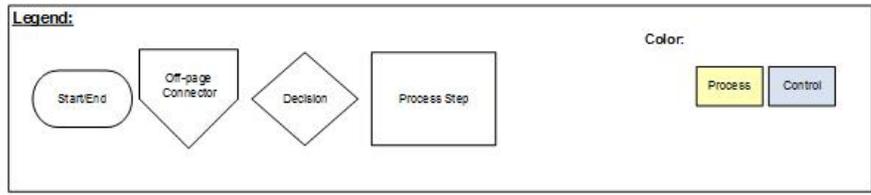
Observation Risk Rating Definitions	
Rating	Explanation
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success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

## PROCESS MAP(S)

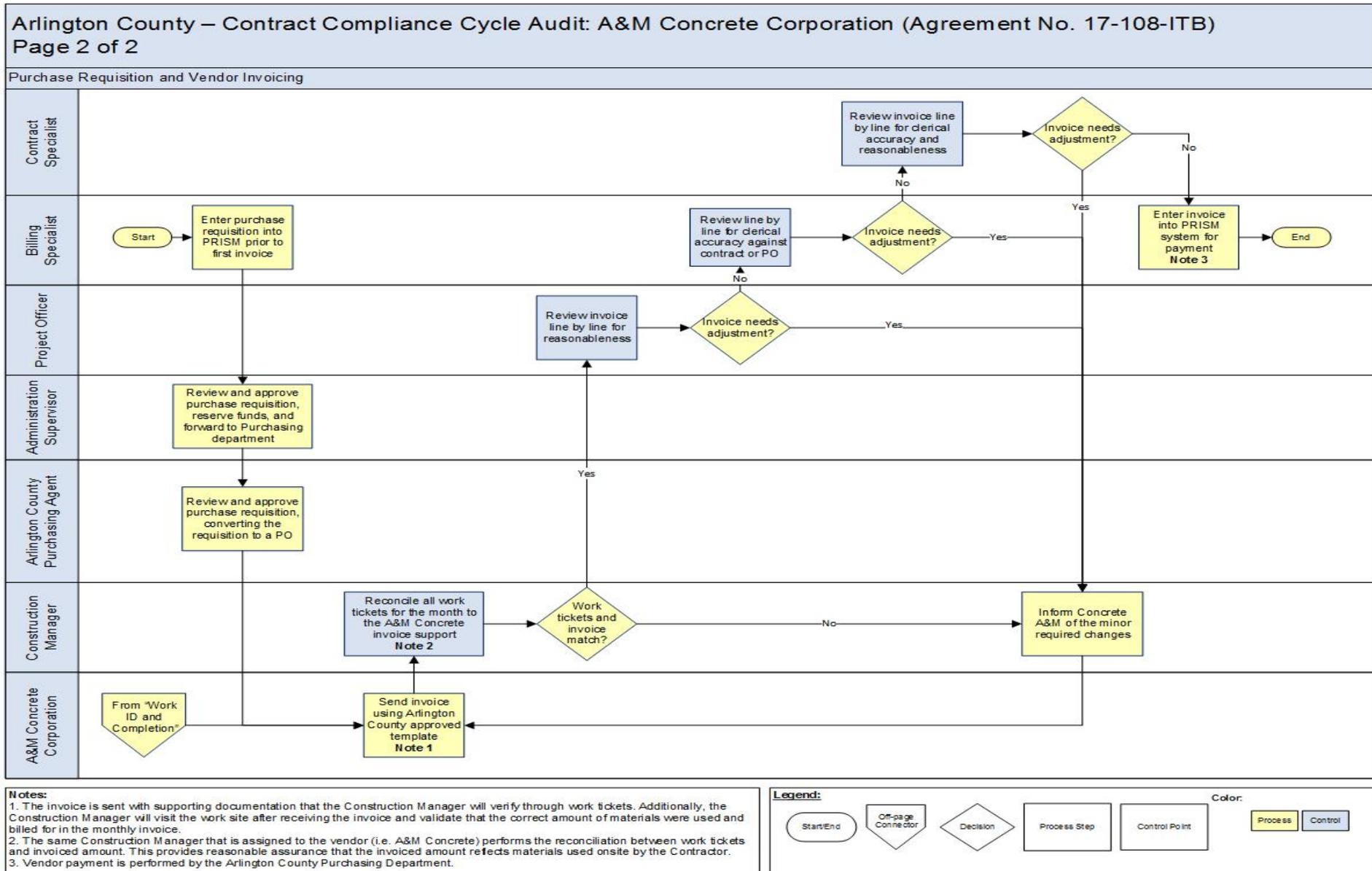
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- Notes:**
1. Arlington County residents can choose to have the county perform work on their sidewalk apron (ramp area between the road and personal property), if there is a valid need. If the resident fills out the appropriate form, found on the Arlington County website, then a Construction Manager will examine the property to ensure that the request is based on a necessity. If it is, then the customer will provide payment (approx. \$750) prior to the work being performed.
  2. A Construction Manager is present during every maintenance project performed. Their role is to ensure that the work is performed in accordance with Arlington County Standards and the vendor contract. Work tickets are documents that are filled out on the work-site, which list all materials that were delivered and used by the Contractor, and their approval is evidenced by the Construction Manager's signature.
  3. Scope changes mainly occur due to the need for differing materials, but could also be implemented due to a desire to modify the working relationship (e.g. reporting requirements, frequency of work orders, etc.). Concrete contracts are designed to allot for certain materials, and their associated prices, but there may be requirements for new or differing materials that would need to be added to the scope of the project. The Arlington County Purchasing department generates the amendment, and it goes through the same contract execution process as would a new contract.
  4. All A&M Concrete work is under warranty for one (1) year after the date of completion. Where if there are any warranty claims, the Contractor must return and complete the repair, no new invoice is issued.



## PROCESS MAP(S) (CONTINUED)





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