



PRINCE WILLIAM COUNTY

Prince William County, Virginia Internal Audit Report: Procurement

September 1, 2023



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TRANSMITTAL LETTER



September 1, 2023

The Board Audit Committee of
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Pursuant to the internal audit plan for calendar year ("CY") 2023 for Prince William County, Virginia ("County" / "PWC"), approved by the Board of County Supervisors ("BOCS"), we hereby submit the internal audit of the procurement process. We will be presenting this report to the Board Audit Committee of Prince William County at the next scheduled meeting on October 24, 2023.

Our report is organized into the following sections:

Executive Summary	This provides a high-level overview and summary of the observations noted in our internal audit over procurement process(es).
Background	This provides an overview of the function, as well as relevant background information.
Objectives and Approach	The internal audit objectives are expanded upon in this section, as well as a review of the various phases of our approach.
Observations Matrix	This section includes a description of the observations noted during our internal audit and recommended actions, as well as Management response, including responsible party, and estimated completion date.
Process Maps	This section provides a visual depiction of the workflow of key processes.

We would like to thank the staff and all those involved in assisting our firm with this internal audit.

Respectfully Submitted,

RSM US LLP

Internal Audit

EXECUTIVE SUMMARY

Background

Procurement Services (“Procurement”) is responsible for managing cost-effective and efficient procurement of goods and services throughout the County. This involves contracting for all supplies, contractual services, capital goods, commodities, and professional services. The Procurement team procures commodities and services as competitive or noncompetitive purchases in various ways. Competitive solicitations are procured through competitive sealed bidding or competitive negotiation; noncompetitive solicitations are procured through sole source, emergency, and cooperative agreements.

The County procures various products and services essential for its continued operations. The procurement process must comply with the Commonwealth of Virginia statutes and regulations. Proper accountability and controls are necessary for the proper use of resources and the prevention of abuses.

Procurement oversees all purchases made from the County's budgeted funds. Procurement employees must adhere to high ethical standards and meet certification requirements. For fiscal year ending June 30, 2022 (“FY”), the approved County budget allocated fourteen full-time equivalents (“FTEs”) to Procurement Services to support the County's purchasing needs. However, two of these positions remained vacant. Per the General Government Staffing Levels Assessment Internal Audit Report accepted by the BOCS in May of 2023, PWC Procurement appeared understaffed compared to other jurisdictions. Also, Procurement exhibited 0% FTE growth from FY2020 to FY2022 despite increases in budgeted expenditures. In calendar year (“CY”) 2022, Procurement handled 157,144 transactions across 3,808 vendors, totaling \$490,118,110.

Overall Summary / Highlights

The observations identified during our assessment are detailed in the pages that follow. 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.

Objectives and Scope

The objective of this internal audit was designed to assess whether the system of internal controls is adequate and appropriate, at the department (or division) level, for promoting and encouraging the achievement of management’s objectives in the categories of compliance with applicable laws, administrative rules, and other guidelines as it relates to each step within the procure to pay business process. The scope of our work included the following:

- Assessed the design of critical processes and controls based on best practices and comparable client experience;
- Reviewed adherence to policies and procedures in the design and control structure;
- Determined the adequacy of controls designed to prevent/detect related party transactions;
- Evaluated the sufficiency of records and documentation for both competitive and noncompetitive bid contracts to establish an audit trail, validating compliance with policies and procedures;
- Reviewed and tested source documents related to a sample of recently procured goods/services for compliance with County policies (including procurement types, evaluation and scoring, contracting, and involvement of Using Departments); and
- Developed recommendations for modifying, adding, or deleting processes and controls based on identified design gaps or non-compliance issues.

Our internal audit specifically examined completed County purchases and solicitations during the period from January 1, 2022, through December 31, 2022.

Internal audit last reviewed the procurement process in FY2017.

Fieldwork was performed during March 2023 through July 2023.

Summary of Observation Ratings

(See page 3 for definitions)

	High	Moderate	Low
Procurement	-	-	1

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

EXECUTIVE SUMMARY (CONTINUED)

Observations Summary

Below is a summary listing of the observations that were identified during this internal audit. Detailed observations are included in the observations matrix section of the report.

Summary of Observations	
Observations	Rating
1. Annual Independence Forms for Procurement Officers	Low

Provided below are the observation risk rating definitions for the detailed observations.

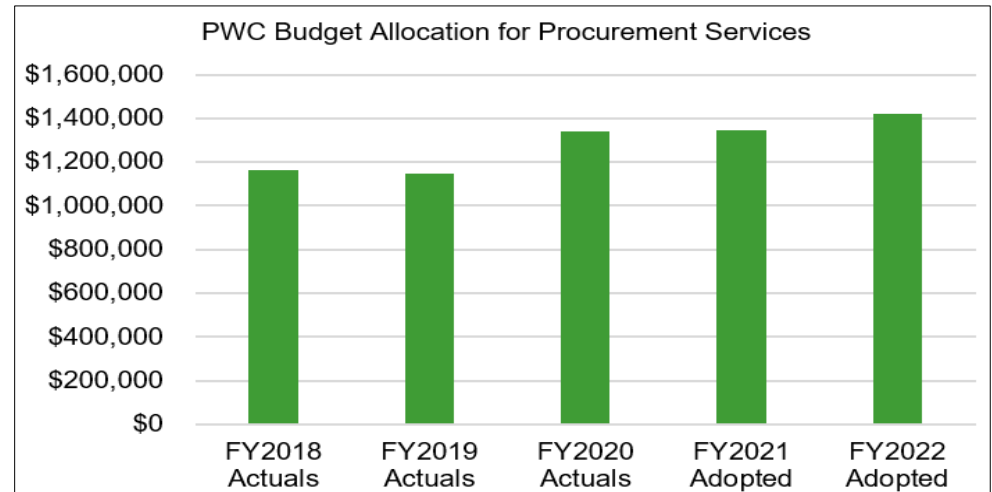
Observation Risk Rating Definitions	
Rating	Definition
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals. Action should be taken within 12 months (if related to external financial reporting, must mitigate financial risk within two months unless otherwise agreed upon).
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Action should be taken within nine months (if related to external financial reporting, must mitigate financial risk within two months).
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. Action should be taken immediately, but in no case should implementation exceed six months (if related to external financial reporting, must mitigate financial risk within two months).

BACKGROUND

Overview

The County bears the responsibility of ensuring resources are managed appropriately and used in compliance with laws and regulations. Additionally, it must ensure that programs meet their objectives and that services are provided efficiently, effectively, and economically. Procurement Services ("Procurement"), is tasked with facilitating and managing the procurement of goods and services for the County. Procurement is responsible for developing procurement procedures, inventory control management, and disposal of surplus supplies and services.

In FY2022, the adopted budget allocated \$1,421,310 for Procurement, accounting for approximately 6% of the Finance Department's budget. The following chart provides historical budgetary allocations to Procurement over the past five fiscal years. It illustrates the extent of funding the County has committed to operating Procurement.



Procurement Staffing

In FY2022, Procurement had a team of 14 employees, five of whom were responsible for all capital procurement throughout the County. From the interview process onward, a high ethical standard is expected of all Procurement employees. Staff members must obtain certifications that emphasize ethical decision-making and demonstrate in-depth knowledge of procurement processes. In particular, all staff must hold a Virginia Contracting Associate ("VCA") certification, verified upon hiring and renewed every five years.

For FY2022, the budget allocated 14 Full-Time Equivalent ("FTEs") to Procurement, representing approximately 8% of the total FTEs in the Finance Department. The table below illustrates the historical staffing levels in Procurement over the past five fiscal years.

Procurement Services FTE				
FY2018 Actuals	FY2019 Actuals	FY2020 Actuals	FY2021 Adopted	FY2022 Adopted
12	12	14	14	14

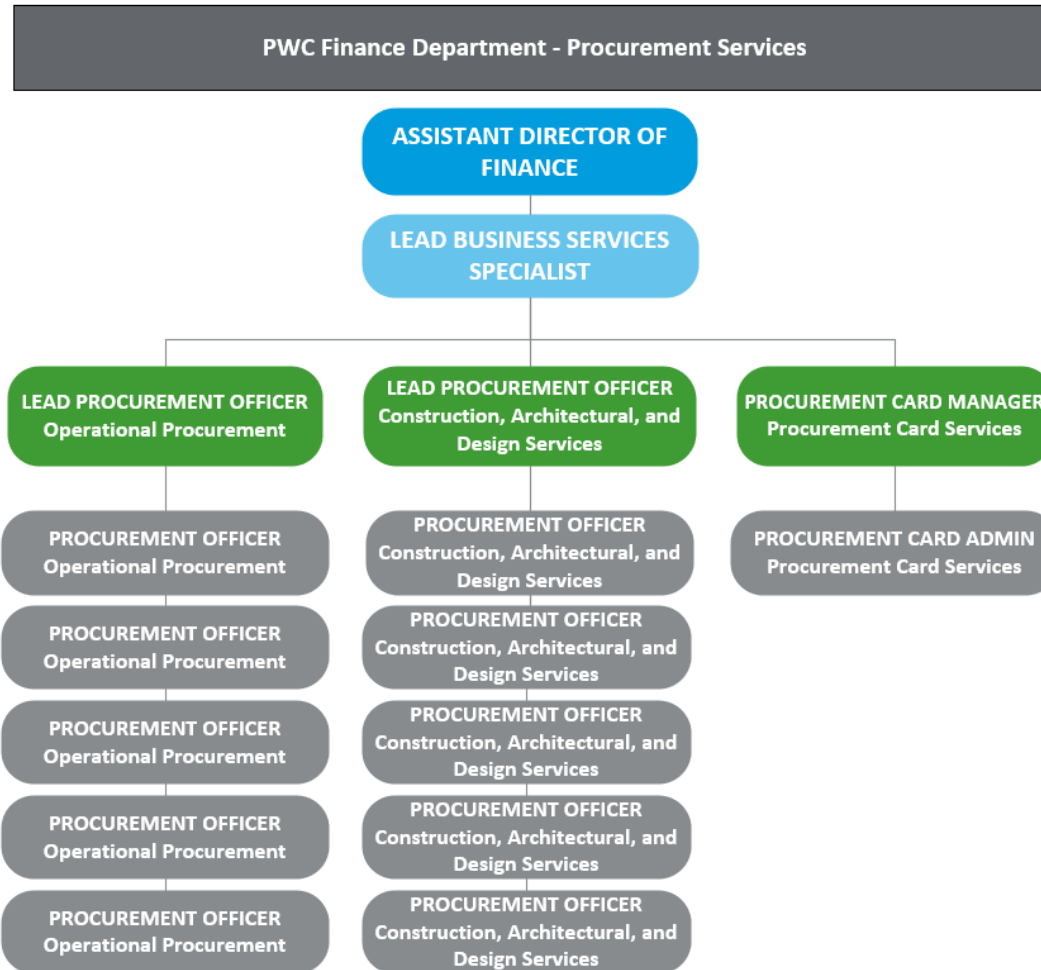
Per the General Government Staffing Levels Assessment presented to and approved by the BOCS in May of 2023, PWC Procurement is understaffed compared to other local and state comparable jurisdictions. Specifically, Procurement exhibited 0% FTE growth from FY2020 to FY2022 despite increases in budgeted expenditures, total County staffing levels, and total County population. Procurement also had the lowest ratio of department FTEs per 100 county FTEs among all compared jurisdictions.

BACKGROUND (CONTINUED)

Overview (Continued)

Procurement Staffing (Continued)

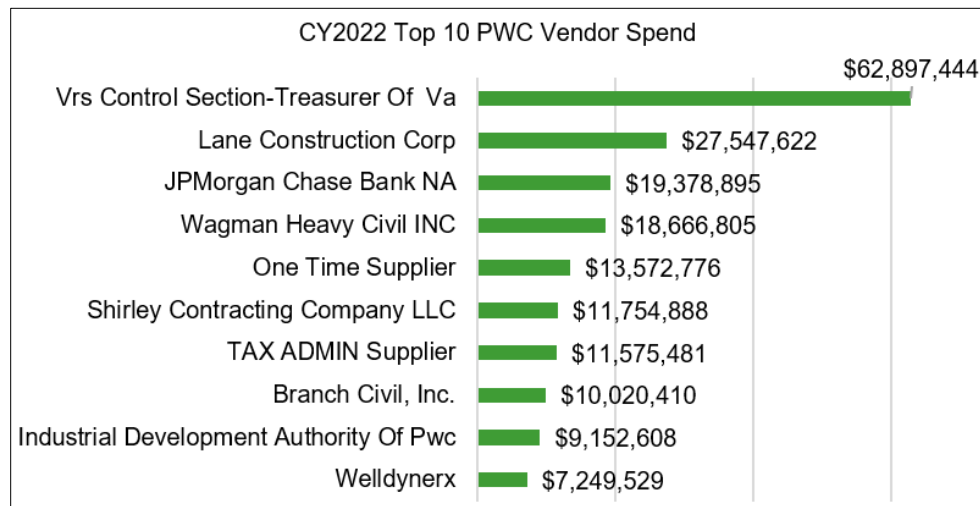
Procurement includes the Assistant Director of Finance for Procurement, a Lead Business Services Specialist, Lead Procurement Officers, and Procurement Officers. The graphic below depicts the County's Procurement organizational structure.



BACKGROUND (CONTINUED)

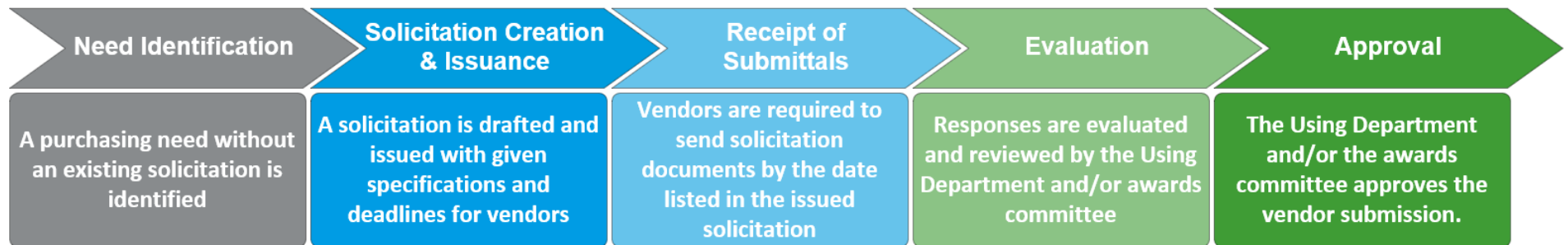
Overview (Continued)

In calendar year ("CY") 2022, Procurement handled 157,144 transactions across 3,808 vendors, totaling \$490,118,110. The graph below displays the top ten vendors based on transaction value.



Procurement Process

Different organizations adopt varying approaches to the procurement process based on factors such as cost, availability, and sustainability. In general, the procurement process begins with the identification of a need. Stakeholders review business needs and determine the required goods or services. They assess whether an outside vendor must fulfill these needs and which departments will benefit from them. Once needs are identified, vendor(s) for goods or services are selected through solicitation. Typically, a formal purchase requisition is initiated, specifying the product, service, and preferred vendor. This triggers the vetting process, which involves placing the correct order, choosing the best vendor, and exploring potential cost discounts. The graphic below provides an overview of the procurement process.



BACKGROUND (CONTINUED)

Procurement Policy

The County's procurement policy is enacted via resolution of the Board of County Supervisors ("BOCS"). It serves to enact the Virginia statutes concerning the procurement of goods, services, insurance, and construction for the County and the disposition of surplus property. The County must also adhere to the regulations described in the current Virginia Public Procurement Act ("VPPA"). The VPPA is set forth within §§2.2-4300 et seq. of the Code of Virginia and defines Virginia's public policy relating to the purchase of goods and services by public bodies. The County's procurement regulations undergo an annual review to identify necessary amendments, including those mandated by updates from the Virginia legislature, confirming the County's procurement process complies with state regulations. Any changes to the policy are presented to the BOCS in an open session, typically held in June or September.

When a need is identified in the County, the procurement process adheres to established thresholds based on the required goods or services. These thresholds are documented in the County's procurement policy. The graphic below illustrates the purchase thresholds and associated requirements outlined in the County's procurement policy. The procurement regulations dated July 1, 2022 were applied to audit testing procedures and report content. It is important to note that since this audit was performed, subsequent updates were made to the procurement regulations which should be taken into consideration when interpreting this report.

GOODS/SERVICES PURCHASE THRESHOLD	PROCUREMENT TYPE	COMPETITION REQUIREMENTS	APPROVAL REQUIREMENTS
< \$5,000	Procurement Card	None	Payroll and Disbursement Services
\$5,000 - \$29,999	Informal Solicitation	3 Written Quotes	Using Department
\$30,000 - \$199,999	Informal Solicitation	4 Written Quotes	Using Department
>200,000	Formal Solicitation	RFP or IFB	Selection Committee

BACKGROUND (CONTINUED)

Competitive Procurements

Competitive solicitations pertain to procuring goods through an open and competitive process. The County requires competition for all goods, services, insurance, and construction with a cumulative fiscal year cost of \$5,000 or more. Depending on the purchasing threshold defined in the County's procurement policy, a request for quotation ("RFQ"), invitation for bid ("IFB"), or request for proposal ("RFP") will be issued to procure the goods/services. The distribution of competitive procurement types conducted by Procurement in CY2022 is depicted in the adjacent graph.

Informal Solicitations

The procurement of goods and services estimated to cost between \$5,000 and \$30,000 (either for a single procurement or cumulative of similar commodities in a fiscal year) is conducted directly by the Using Department via written RFQs in the open market. It is mandatory to solicit at least three likely sources electronically, with all sources receiving the same information and specifications or scope of work. Public records of all sources solicited and quotes received are posted on the County website.

Formal Solicitations

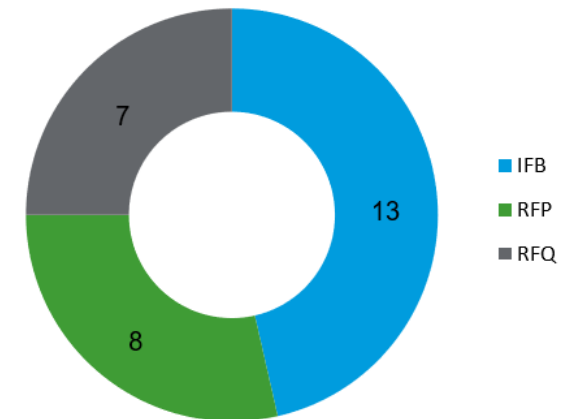
Procurement of goods and services with an estimated cost between \$30,000 and \$200,000 are handled directly by Procurement via written RFQs in the open market. The Using Department completes a Scope of Work form, which the Procurement Officer reviews, then contacts vendors directly for quotes before the solicitation due date. At least four likely sources are solicited, with the awarded vendor considered the most responsive and responsible bidder. Procurements of \$30,000 or more are posted on the County's website. Public records of all solicited sources, received and accepted quotes are maintained.

The procurement of goods and services estimated at \$200,000 or more is conducted directly by Procurement using competitive sealed bidding or competitive negotiation methods. The IFB or RFP is made publicly available at least ten calendar days prior to the due date for receipt of bids and proposals. The award criteria depend on the solicitation method; IFB awards are based solely on the lowest dollar value, while RFPs involve a Selection Committee evaluating proposals on factors such as vendor performance, cost, previous experience, compatibility, etc.

Selection Committees

Before issuing an RFP, the approving authority appoints a Selection Committee to review and evaluate proposals. The Selection Committee is comprised of members appointed by the Assistant Director of Finance or County Executive. These members are required to complete a Conflict of Interest ("COI") form to affirm their impartiality. The committee ranks offerors based on the adequacy of their professional qualifications and proposed services in meeting contract requirements as stated in the RFP.

Competitive Procurements CY2022



BACKGROUND (CONTINUED)

Noncompetitive Procurements

Noncompetitive solicitations pertain to the procurement of goods or services where contract awards are infeasible under sealed bids or competitive proposals, and one of the following circumstances applies:

- There is a public emergency or urgent situation such that the urgency does not permit a delay beyond the time needed for the other procurement methods.
- The item is only available from a single source.
- A cooperative agreement increases efficiency, reduces the cost of goods or services, or decreases County administrative costs.

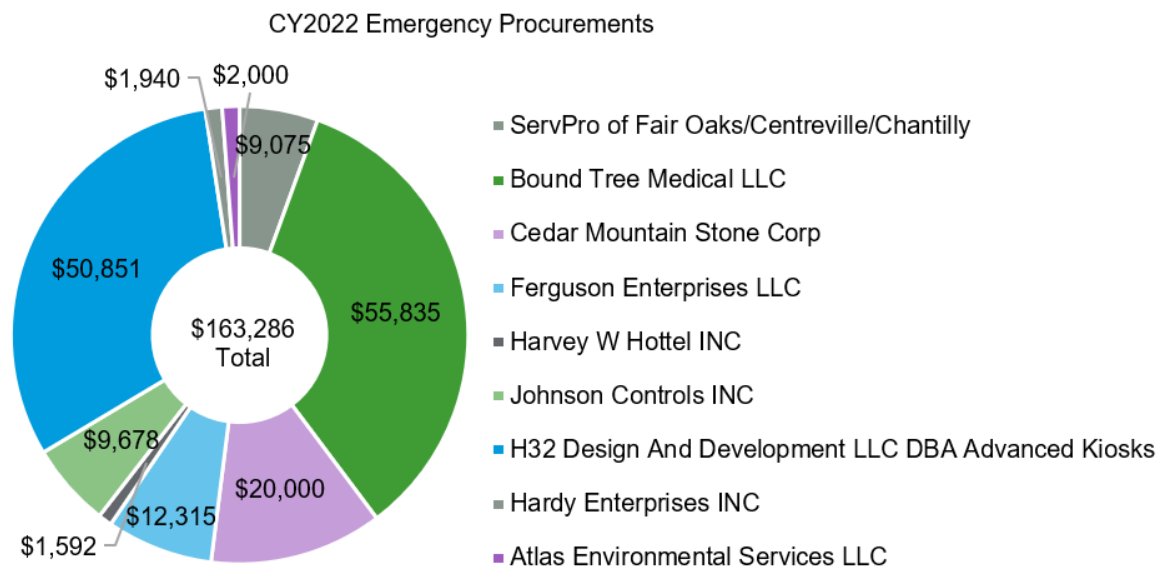
Emergency Procurements

As allowed by Virginia Statutes, emergency procurements may be initiated when the County, its customers, or tenants face an emergency condition. To qualify as an emergency procurement, the situation must meet at least one of the following conditions:

- There is a breakdown in any County service;
- Goods and/or services are needed immediately for work that could affect the public health, safety, or general welfare of the County and its inhabitants.
- Work is undertaken pursuant to a court order or in anticipation of a court order.

In the event of an emergency, the Using Department submits an emergency-type purchase order to Procurement, accompanied by a written justification for the procurement. Authorization of an emergency procurement comes from the Assistant Director of Finance for Procurement, who reviews and signs off on the purchase order.

During CY022, the County procured \$163,286 worth of goods and services from nine different vendors through emergency procurements, as illustrated in the graph below.



BACKGROUND (CONTINUED)

Noncompetitive Procurements (Continued)

Sole Source Procurements

In cases where there is a written determination that only one source is practicably available for the procurement, a contract may be negotiated and awarded to that source, bypassing competitive sealed bidding or competitive negotiation. The Using Department is required to provide a written justification for a sole source procurement. Justification may be due to legal requirements, specific patents or copyrights, unique qualifications and skills, technical specifications, or other reasons that serve the County's best interest. The Assistant Director of Finance for Procurement is authorized to negotiate directly with the sole source supplier to agree on terms and conditions. For sole-source procurements exceeding \$100,000, a written notice must be posted on the County's website. This notice should detail the items procured, the contractor selected, and the date the contract was awarded.

Cooperative Procurements

The County is authorized to participate in or administer a cooperative procurement agreement alongside one or more public bodies. The aim is to combine requirements to enhance efficiency, reduce the cost of goods and services, or decrease County administrative costs. As per the Virginia Code, the County may purchase from another public body's contract, even without participation in the solicitation process, if the solicitation specified that the procurement was being conducted on behalf of other public bodies.

Procurement Card Purchases

For procurements of goods and services estimated to cost less than \$5,000 (either for a single purchase or accumulative of similar commodities within a fiscal year), the Using Department makes purchases in the open market, with vendors paid via a procurement card. Approval authority for procurement card transactions resides within the Payroll and Disbursement Services under the Finance Department.

Restricted Transactions

The vendor transaction reporting provided by Procurement includes records with restricted fields to safeguard potentially sensitive user data. These restricted fields in the reporting are the invoice number, supplier, and description. Restricted transactions refer to payments processed by Social Services for programs including Special Education, Refugees, and Adoption Services. The payment source of the restricted transactions can be direct pay, purchase order, or procurement card. Procurement is not tasked with creating, reviewing, or approving any restricted transactions. During CY2022, there were 4,571 restricted transactions totaling \$36,045,317.

Mobius

Mobius serves as the County's comprehensive Finance, Budget, Human Capital Management ("HCM"), and Payroll system. It was implemented in July 2021. The system houses all procurement-related documentation, such as solicitations, purchase orders, and contracts. Procurement Officers rely on Mobius for their daily operations, including managing solicitations. Essential information such as due dates, received bids, award selections, and vendor details are all effectively managed within the Mobius system.

OBJECTIVES AND APPROACH

Objectives

The objective of this internal audit was designed to assess whether the system of internal controls is adequate and appropriate, at the department (or division) level, for promoting and encouraging the achievement of management's objectives in the categories of compliance with applicable laws, administrative rules, and other guidelines as it relates to each step within the procure to pay business process. The audit period was January 2022 through December 2022

Approach

Our approach consisted of the following phases:

Understanding and Documentation of the Process

This phase consisted primarily of inquiry and walkthroughs in an effort to obtain an understanding of the current operating policies and procedures, monitoring functions, and control structures as they relate to the processes within our scope. The following was performed as part of this phase:

- Obtained and reviewed any documented policies and procedures related to the procurement function, as well as relevant state and County regulations, reporting, and any other relevant information.
- Conducted interviews and walkthroughs with key personnel to obtain a detailed understanding of operating policies and procedures, roles, and responsibilities within Procurement.
- Gained an understanding of procedures as they relate to the processes within scope.
- Developed a work plan for the evaluation of the operating effectiveness of procedures and controls based on the information obtained through interviews, walkthroughs, and preliminary review of documentation.

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

The purpose of this phase was to evaluate the design of key processes and controls and test compliance and internal controls for operating effectiveness based on our understanding of the processes obtained during the first phase. We utilized sampling and other auditing techniques to meet our audit objectives outlined above. Our testing procedures included, but were not limited to:

- Competitive procurement: We examined the processes employed for various procurement types (RFPs, RFQs, ITBs), development, bidding, review and ranking, selection, selection committees, and contract execution for vendors.
- Noncompetitive procurement: We assessed procedures related to emergency and sole source procurements.
- Segregation of duties: We assessed the organizational structure of the department and its areas of collaboration with purchasing entities, with a particular focus on conflicts of interest and segregation of essential functions related to purchasing.

Procedures included, but were not limited to, the following:

- Assessed the design of critical processes and controls;
- Reviewed adherence to policies and procedures in the design and control structure;
- Determined the adequacy of controls designed to prevent/detect related third-party transactions;
- Evaluated the sufficiency of records and documentation for both competitive and noncompetitive bid contracts to establish an audit trail, validating compliance with policies and procedures;
- Reviewed source documents related to a sample of recently procured goods/services for compliance with County policies; and
- Developed recommendations for processes and controls based on identified design gaps or non-compliance issues.

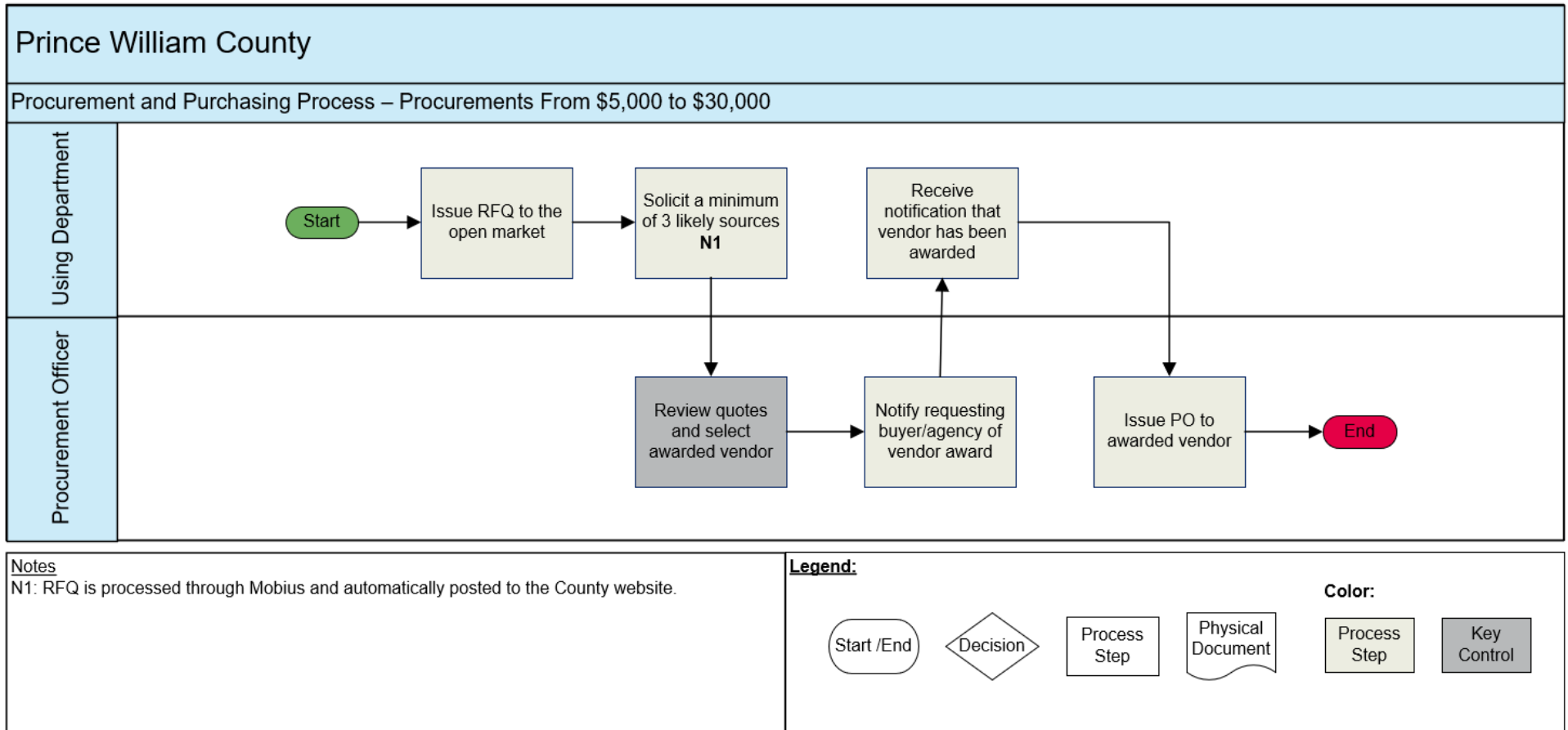
Reporting

At the conclusion of this internal audit, we summarized our findings into this report. We have reviewed the results with the appropriate Management personnel and have incorporated Management responses into this report.

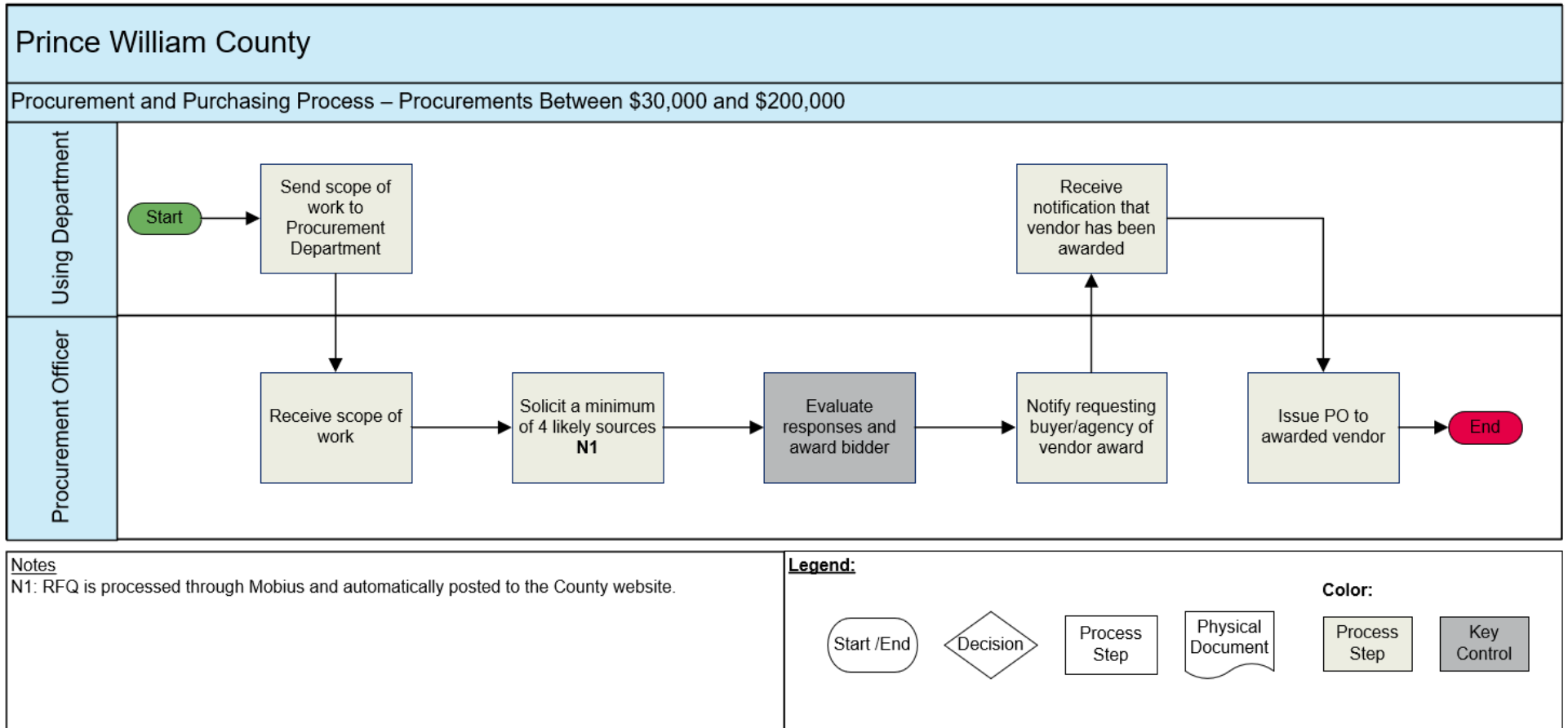
OBSERVATIONS MATRIX

Observation	1. Annual Independence Forms for Procurement Officers
<p>Low</p>	<p>Per County policy, all procurement officers must maintain a Virginia Contracting Associate ("VCA") certification, underscoring their competence and commitment to secure maximum value for taxpayer funds. Procurement Officers are also subject to rigorous moral competency vetting to uphold high ethical standards during their hiring process. Additionally, all County employees, including Procurement Officers, are subject to the Virginia Conflict of Interests Act (COIA), including a personal interest in a transaction (2.2-3112, VA Code Ann.) and a prohibited conduct statute.</p> <p>However, our review of the onboarding processes noted that Procurement Officers are not currently required to complete an independence form documenting their understanding of procurement restrictions and potential impairments of independence. This requirement is neither part of their initial induction nor mandated as a periodic review or re-certification process. It's important to clarify that in the course of this audit, we did not identify instances where independence was impaired due to this gap in the process.</p> <p>While Finance staff, including Procurement Officers, must complete a 'confidentiality non-disclosure form' as part of the onboarding process, this form does not explicitly address potential conflicts of interest that may be unique to Procurement staff.</p> <p>In the absence of completed independence forms, there is a heightened risk of Procurement Officers inadvertently participating in a procurement process that compromises their independence. This could lead to potential misuse of taxpayer funding and harm public perception of the County's procurement processes. Procurement Officers' completion of independence forms as part of the onboarding process and periodically thereafter can further reinforce the County's commitment to transparency and accountability, thus reducing these risks. This step would strengthen the controls and enhance the public trust in the County's procurement processes.</p>
<p>Recommendation</p>	<p>All Procurement Officers should be required to complete an independence form during onboarding. Additionally, these independence forms should be re-certified regularly, such as annually. These measures would strengthen ethical standards and public trust in procurement activities.</p>
<p>Management Action Plan</p>	<p>Response: Management agrees with the audit finding and will create an independence form that will be signed by all staff and be recertified on a yearly basis. Management will add this form to its onboarding process for all new employees.</p> <p>Responsible Party: Acting Deputy Director</p> <p>Estimated Completion Date: October 31, 2023</p>

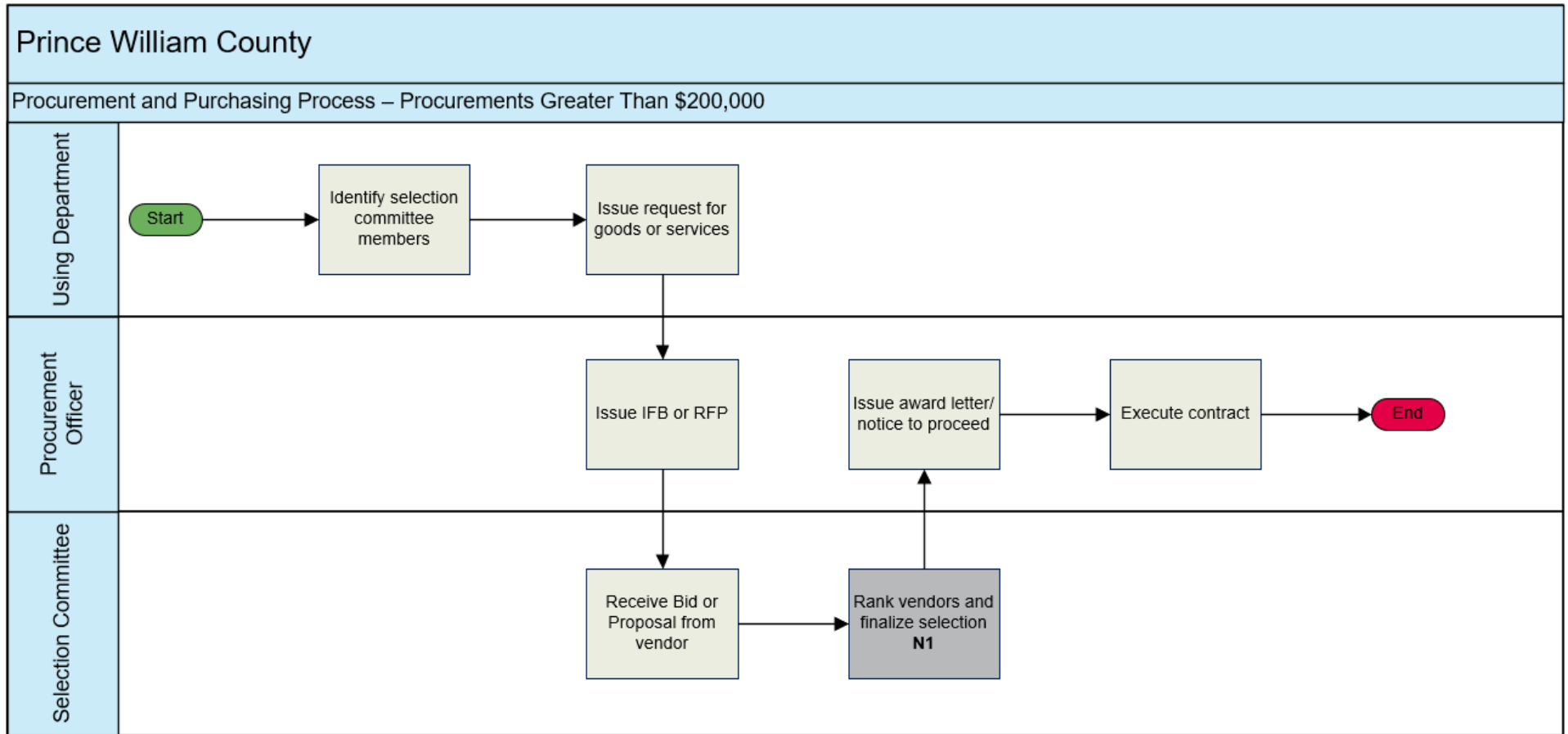
PROCESS MAPS



PROCESS MAPS (CONTINUED)



PROCESS MAPS (CONTINUED)

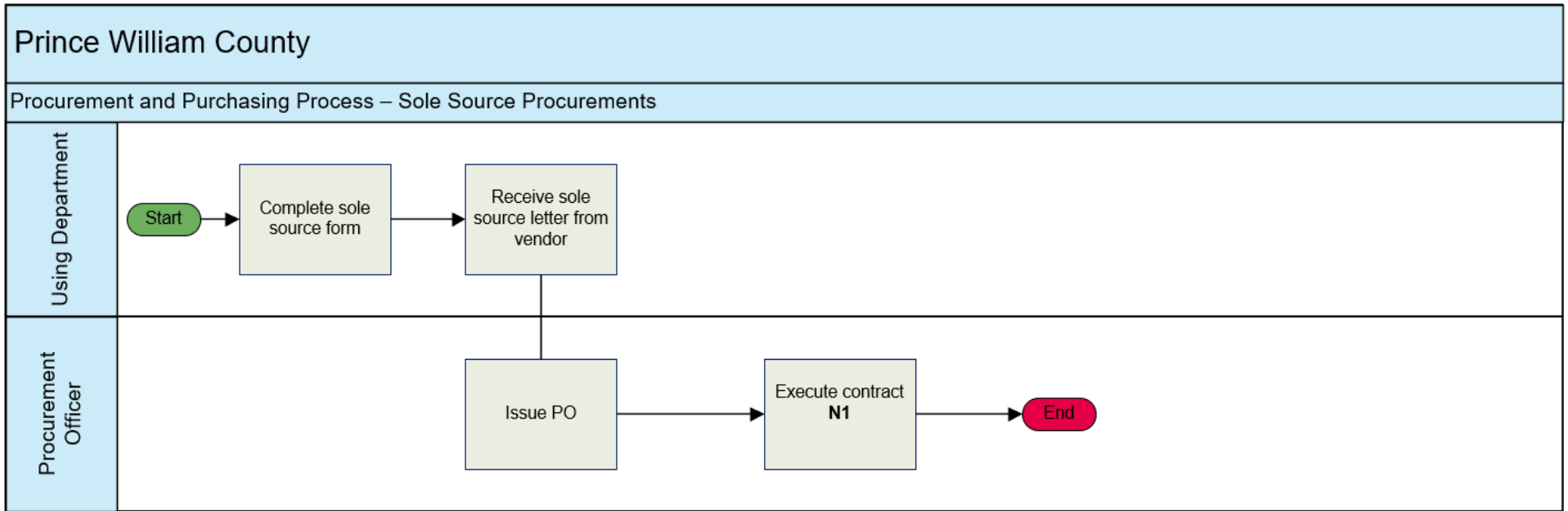


Notes
 N1: Per procurement regulations, the least costly responsive and responsible offeror shall be awarded the contract.

Legend:



PROCESS MAPS (CONTINUED)



Notes
 N1: The Procurement Officer will only issue a contract if the sole source procurement is considered a recurring purchase and greater than \$100,000.

Legend:





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